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Mining: Corporate governance is ticket to the international stage

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Siberia is home to the bulk of Russia's nickel, platinum and diamond deposits. The mining industry has a strong presence in the region, with companies overcoming the harsh locations in order to take advantage of geological opportunities.

Nickel mining started in Norilsk, now the northernmost city in Siberia, in the 1930s. Norilsk Nickel, the company that controls these assets, has since become the largest nickel producer in the world, it also holds a significant role in the palladium, platinum and copper markets. The group, controlled by billionaire Vladimir Potanin, is increasingly looking outside of Russia for expansion opportunities, and is currently involved in a battle for control of Canadian nickel miner LionOre.

Russia's diamond industry was born in Siberia in 1954 with the discovery of the Zarnitsa – or "Lightning" – pipe, the first kimberlitic diamond deposit to be found in the country. More kimberlite discoveries followed in 1955, and by the end of the decade the town of Mirny in the Yakutia region had been established as the centre of the new diamond mining industry. State-owned Alrosa, which owns the Yakutia mines, now accounts for 97 per cent of Russia's diamond production and a quarter of global rough diamond supply.

Gold and silver mining are also important for Siberia. Polyus, Russia's largest gold producer, was formed in March 2006 as a result of the spin-off of Norilsk Nickel's gold mining assets. The group owns mines and exploration projects in the Yakutia and Irkutsk regions, as well as in the far eastern areas of Magadan and Amur, but its most valuable assets are in Krasnoyarsk. Three-quarters of Polyus's 1.2m ounce annual gold output comes from its Olympiada and Tyrada mines in Krasnoyarsk.

Polyus holds licences to exploit most of Russia's large undeveloped gold deposits, and the company is in a prime position to win control of Sukhoi Log in eastern Siberia, thought to be Russia's largest gold deposit, when the government decides to sell the right.

St Petersburg-based Polymetal is the main player in Russia's silver industry, but also produces large amounts of gold from its mines in Siberia and the far east. The group, owned by billionaire Suleiman Kerimov, has forecast that it will produce between 230,000 and 250,000 ounces of gold this year and 16 to 18m ounces of silver. Last year, Polymetal signed an exploration joint venture with AngloGold Ashanti, the South African gold producer, to look for precious metals in certain parts of Siberia and the far east, including the Yamal-Nenetsky and Khanty-Mansiysk autonomous districts, and the Tyumen and Kurgan regions.

These mining companies have plans to expand rapidly to take advantage of high commodity prices and to build Russian national champions that can compete internationally. Russia is introducing new technology and upgrading its mining methods to meet western standards, but safety remains a concern. This was graphically illustrated in March by a gas explosion at the Ulyanovskaya coal mine in south-western Siberia, which killed 110 people. Industrial watchdog Rostekhnadzor said last month that the blast, Russia's worst mining disaster in more than a decade, was caused by a deliberate blockage of safety equipment, which allowed methane to build.

As well as raising safety and environmental standards, a major challenge for Russian mining companies is raising enough capital to fund their ambitious expansion plans. For many of the companies, this means broadening their investor base and obtaining a stock market listing. In December, Polyus listed its American Depositary Receipts on the London Stock Exchange, having already listed in New York and Moscow.

Polymetal raised \$600m in February when it floated in London and Moscow, but its shares were priced at the low end of the expected range, reflecting a drop in investor demand for Russian company listings.

According to reports last month, even state-controlled Alrosa is looking at an initial public offering. The group's new president, Sergei Vybornov, was quoted saying that he wanted Alrosa to become a public company "in the nearest future", and investment bankers said they were in talks with the company that could lead to an IPO in the second half of this year.

The desire to go public is forcing Russian mining companies to address issues of transparency and corporate governance. Polyus and Polymetal now regularly report their earnings and prepare their accounts according to international standards. But some commentators say there is still much to do, such as having independent directors on company boards and improving the transparency of related-party transactions.

Alex Gorbansky, managing director at Frontier Strategy Group, a political risk consultancy, says: "A lot of these companies have improved the optics of their corporate governance to enable themselves to be listed in London and New York. They are making progress, but they are still many steps behind western companies. As they get more investment from the west, there will be more incentives to improve transparency."

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