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GMKN.MZ - Conference call with investors dedicated to the full year 2013 financial results of MMC Norilsk Nickel

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PRESENTATION

Vladimir Zhukov - ***MMC Norilsk Nickel - Director of IR***

Good morning, and on behalf of Norilsk Nickel, I would like to welcome you to the conference call. My name is Vladimir Zhukov. I am the Investor Relations Director. And now I would like to give the floor to our Finance, Chief Finance Officer, Sergey Malyshev.

Sergey Malyshev - ***MMC Norilsk Nickel - Deputy CEO, Head of Economy and Finance Unit***

Good morning and welcome to our teleconference call and thank you for the interest in MMC Norilsk Nickel.

A couple of hours ago we published our financial results for 2013. We would like to give you more data. Could you please open your presentation on slide two.

The situation in the global economy in 2013 was unstable. The market is expected to slow down in China, tapering in the US, a recession in Europe and it all had a negative impact on the commodities market and it also had an impact on our financial results. But despite that, Norilsk Nickel demonstrated strong performance. Although our revenue decreased by 7%, we still have a great EBITDA which was $4.2 billion and an EBITDA margin of 37% for the year. And net cash flow from operating activities rose 20% and totaled $4.1 billion.

CapEx decreased by 27% to $2 billion reflecting our new disciplined approach to investments. We also paid $1.1 billion in interim dividends over nine months and it is over $9 billion over all dividend.

We remain committed to an industry-leading dividend payment and our net debt divided by EBITDA coefficient was 1.1. And we also improved disclosure and transparency and we have introduced more items in the year, investment in CapEx, and we have added a new item into our press release all dedicated to the safety -- health, safety and the -- and we would like to show that we are focused on minimizing the harm and of course, our goal is zero now reviewing our practices and we hope to get a final result by the year end. And based on that analysis, we will adopt some new practices.

And before we move on to a more detailed analysis, I would like to give the floor to Anton Berlin, who will -- who is Head of the Strategic Marketing Department.

Anton Berlin - ***MMC Norilsk Nickel - Head of Strategic Marketing***

I will start with our main metal, with nickel. That is slide number four. In 2013 nickel consumption was growing and China is the main consumer. As you can see, it is an increase of 22% and China consumes half of the world's production. And the bulk of interest was in stainless steel, it was 72% of total consumption. So the main focus was facilitating the growth of stainless steel. We do expect that in 2014 this growth will continue and the main factors will remain the same.

Nickel production also grew -- you can move on to slide number five -- the main reasons was the growth of nickel production in Indonesia and the Philippines, they were exported to China and turned into NPI and that drove the surplus on the market. And there were a lot of mines operating at the same time with -- and everyone wanted to maximize their revenues and so that was -- could be described as exploitation of natural resources.

But everyone expected that Indonesia would impose a ban on the export of nickel and that was -- that decree was signed and of course, there is still some inventories left in the warehouses of traders. Now Indonesia still retains this ban and so we do expect a growing deficit, starting from 2015.

To date, we do have some inventories that will be sold off within this year. We are seeing a trend of that. They are decreasing here, our estimates of these inventories on slide six, so we have nickel on the London Metals Exchange and warehouses around the world and China also has some nickel stored in ports. And we believe that by the year-end, these inventories will be sold off.

Some of the inventories in China has been stored for more than a year and we believe that some of them are not fit for further processing for refining.

So if you look at slide seven, the Indonesia supplies were most critical to driving the surplus in the market and once the ban was imposed, the market would go back to balance.

So the market consensus is that high-quality ore, high-grade ore will be enough for a three month's needs quality or it will be enough for half a year. So basically it will only last for three quarters.

The production of the NPI, which enabled to -- which was the main factor to drive the nickel price down, this NPI is growing. The cheap technology that was still possible in 2011 and 2012 has been exhausted because cheap raw materials are running out and the costs for the production of NPI will grow. So we believe that the nickel markets will move back to a healthy economy to the fundamentals. More than three-quarters of all nickel producers were below the margin, profitability margin.

So moving on we see that the market is almost in balance. There is a slight surplus, which is not significant for this market. And we see growing support from [state] investments and sovereign reserves. This country has -- is always keeping an eye on the price. If the price goes too high, they start to sell metals from their reserve. If the price goes down, they keep their reserves. So at the moment we believe that copper bodes to quite a good price. This is real close to balance and there will be no extraordinary situation from the future.

Well AGM grew -- is more exciting that slide number 10, we see growing assumption for palladium and platinum, the main industry of course is the automobile industry. It consumes over 75% of all of the output. The automotive industries are going along a different trend. The platinum consumption has been stagnating while palladium consumption has been growing. The catalysts increasingly use palladium instead of platinum.

In diesel engines, catalytic converters are still a mixture of palladium and platinum, but the share of palladium is growing. The output is decreasing despite good prospects and many companies have -- many companies are in South Africa, for example, and mining is on the decrease.

Another factor that spurs the demand for these metals is bigger investments by investment funds in different countries. Well unlike gold where we see an outflow of capital, we see an inflow investment into the palladium and platinum markets. And we see a growing number of funds that buy these metals. So we believe that the market structure is changing.

You can look at slide number 12. Here is the comparison of prices for palladium and platinum, the fundamentals have changed. Compared to 10 years ago, their qualities were high in the automotive industry, now they have the same price for car brands for car manufacturers. So we see that the price gap is narrowing and we believe that the gap will close in the future.

Thank you. I give the floor back to Sergey Malyshev, our Chief Financial Officer.

Sergey Malyshev *- MMC Norilsk Nickel - Deputy CEO, Head of Economy and Finance Unit*

Slide 14. Let me start with a brief analysis of our metals revenue which was the key driver of financial performance. In 2013, prices for the majority of our metals declined with palladium being an exception. Our sales volumes remained largely flat with 1% to 2% declines in nickel and PGMs which was somewhat upset by 3% increase in the sales of copper.

The majority of our revenue came from developed markets in Europe while the role of Asian consumers increased significantly. And the metal revenue was down by $1 billion while EBITDA -- while other sales were flat. The structure of sales was changing, the share of nickel dropped to 42% although the PGM rose from 40% to 45%. And we saw a decrease in EBITDA. It dropped 15% but if we see -- look in absolute terms, the EBITDA decrease was lower than the revenue decrease.

The costs of the metals sold rose slightly. As for expenses, we tried to decrease them and we will show it to you later. So our general administrative costs were down and we also saw some decrease in expenses thanks to the weakening ruble and the decline in the exports tariffs.

So as for the expenses, we can see that we decreased most of them and it is an overall decrease of 6%. Labor was up and one-third of it was due to the facts of consolidation of Norilskgazprom Company. The tax burden is up because a change in methodology due to a ruling by the Supreme Court. Other items were under control so the cost of metals was down. The devaluation of ruble also had an impact on the decrease of expenses.

Slide 18, so you can look what is below EBITDA. We have recorded significant losses from financial assets mainly from Inter RAO shares and some other investment which was driven by changes in market prices for these assets. As part of our strategy implementation, we undertook a stringent approach and carried out a review of profitability of all business lines. As a result, we've identified $307 million impairment at Kola MMC's upstream operations, which are only marginally profitable at current Norilsk prices. At the same, time Kola's downstream refining operations as well as our Kola Polar Division assets showed good profitability going forward.

And according to the IFRS standards we reflect the asset value as is. We also did some of the write-offs for our foreign assets; that was expected. In 2013, we reduced our working capital by more than $1 billion which provided a strong contribution to our cash flow. We have targeted all our major working capital items and implemented a number of quick initiatives including streamlining tax receivables, renegotiating permit terms with suppliers and customers, and a fair analysis of our inventories.

We have identified potential for a further optimization of working capital across a majority of lines and hope to deliver additional working capital release in 2014.

In 2013, our capital expenditures came under additional scrutiny following a newly adopted strategy with prioritized higher return upstream projects such as Skalisty mine and Talnakh concentrator while staying in business or maintenance CapEx has been reduced. And notably as a result, our CapEx was comfortably covered by operating cash flow.

Slide 21, as you can see declining EBITDA has been more than compensated by a set of other factors at cash flow level. Most notably, we streamlined our CapEx and optimized working capital. Interest paid was little changed even as we increased our debt position. Income tax declined in line with lower pretax profits. As a result, as you can see, our free cash flow available to shareholders increased more than fourfold in 2013.

And our year-end leverage of 1.1 net EBITDA by EBITDA -- net debt by EBITDA was slightly elevated because of the dividend for nine months of 2014. Without this factor we would have seen leverage at lower levels compared to that of the end of 2012.

We have further improved our debt structure in the second half and we have extended maturity of our debt portfolio. As you can see, we have ample liquidity and available credit lines which allow us to more than cover short-term refinancing needs that provides a strong cushion in case of market turbulence.

And a few words on the outlook for 2014, we believe that both nickel and copper market will be balanced. We believe that there is going to be a deficit, a significant deficit if Indonesia retains its ban on exports. So the nickel price will continue to rebound.

As for copper, we don't expect any significant changes. On the other hand, continued labor issues at most South African producers as well as operation losses by some of the mines are [likely] to support PGM markets. And the discount for palladium to (technical difficulty) will decrease so we do not expect CapEx for 2014 to exceed $2 billion. We do not expect our leverage to increase.

And in May we will hold a strategy day and we will be happy to see all of you.

Thank you. That is it. And now we are ready to move into the Q&A session.

QUESTION AND ANSWER

Operator

(Operator Instructions). (inaudible)

Unidentified Participant

I have a question on CapEx. Let me go back to the slides because I have a question there. Can you explain in a greater detail, please?

Unidentified Company Representative

On page 12 of the press release that we have issued on our official website, there is a breakdown CapEx and you can have a look. You can go asset by asset. We have got Kola MMC, you have got our Polar Division. If you have the time you can take a look at the CapEx displayed by the region.

Unidentified Participant

What about other divisions, that was the question. And another question as for the leverage and tax, do you have any additional information? So we have other production assets or other nonproduction assets. Do we have any tax burden, any tax liabilities arising from those (inaudible).

Unidentified Company Representative

Sorry, do you mean allocated liabilities for a specific segment?

Unidentified Participant

Yes. Are there any other tax liabilities arising? So you just have the EBITDA there so do you have any taxes to pay? So I would like to know what would be the cash flow. Do I need to extract some tax liabilities from EBITDA?

Unidentified Company Representative

Well, here is my answer. You don't need to make any assumptions on -- till you get these data. We are not prepared to give you any additional information at the moment.

Unidentified Participant

Okay, as for headquarters expenses, did they decrease from $577 million? Do we -- can we expect the same trend in 2014? Or is $300 million the expected expenses?

Unidentified Company Representative

We have long-term plans and short-term plans. It is hard to project the impact of our long-term plans but we do have a cost-cutting program and we are trying to make sure that these expenses will be down and we do expect the same kind of trend to continue in 2014. Thank you.

Operator

Next question from Alexander Levinskiy, Sherbank.

Alexander Levinskiy *- Sherbank - Analyst*

We've got two questions. First on the breakdown, the EBITDA breakdown minus 350 were generated by other production assets. Can you give us more information as to the share of international assets and domestic assets? So if you dispose of these assets, what kind of expenses can you decrease?

Unidentified Company Representative

Well we don't want to do a breakdown on specific assets in order not to undermine our financial conditions in case we further sell. But the majority of these expenses of production assets do go for international assets.

Alexander Levinskiy - ***Sherbank - Analyst***

So what about labor costs? Will you have any optimization programs, any streamlining operations? So what can we expect in the second half?

Unidentified Company Representative

So do you want specific figures?

Alexander Levinskiy - ***Sherbank - Analyst***

Well either a rough figure or some percentage points, as you wish.

Unidentified Company Representative

Well, we need to get the report on the first half and you can see the management has seen strong changes so we have rotated the management and as for headquarters, the mid-level management has also been reshuffled and this was one of the key factors which drove the increase in expenses for the second half. I don't want to give you any specific figures.

Alexander Levinskiy - ***Sherbank - Analyst***

Thank you very much.

Operator

Dmitriy Kolomytsyn, Morgan Stanley.

Dmitriy Kolomytsyn - ***Morgan Stanley - Analyst***

Hello, thank you very much for an opportunity to ask questions. The first question I have is the breakdown on working capital release, which is on page 19. How did you get those figures? So you have all the receivables, trade and other receivables and other taxes payable. That is $602 million, that is a big figure. So you said you've streamlined your (inaudible) tier terms but can you please expand on that?

Unidentified Company Representative

Yes, it is (inaudible) from the economic department. As for the receivables, well, we have seen a decrease of receivables and we also had some of the contracts closed in 2013. As for the taxes, we saw a big decrease because we've covered the (inaudible) and we also paid in full the income tax.

Dmitriy Kolomytsyn *- Morgan Stanley - Analyst*

Another question. What kind of CapEx will be allocated for environmental projects or do we need to wait for May to get more information?

Unidentified Company Representative

Yes, at the end of May we will announce the plan -- we will announce the plans. We will have investor day and you are welcome.

Unidentified Participant

Thank you.

Operator

Sergey Donskoy, Societe Generale.

Sergey Donskoy *- Societe Generale - Analyst*

Thank you. I have got two questions. So big investment in two the Chita Project. What kind of CapEx is still missing to build these plants? When will it be commissioned -- when will the Chita plant be operational?

Sergey Dyachenko *- MMC Norilsk Nickel - COO*

Good afternoon or good morning. It is Mr. Dyachenko. The question was on the Chita Project on its infrastructure. So the cost was $1.2 billion and we will need to invest into a private public partnership to complete the construction of the infrastructure, that's roads, the railroad. As for becoming operational, according to the schedule we plan to launch the first phase in 2016 and the second in 2013. So this $1.2 billion I think almost $400 million have been invested.

So Norilsk -- does Norilsk Nickel need to invest $800 million now?

Unidentified Company Representative

A bit but this is a rough figure. But that overall figure will be slightly higher.

As for production issues, you know we have published the figures that you are requesting. As for nickel, it is going to be 225,000 tonnes and for copper, it is 340,000 tonnes. As for palladium, it is 250 ounces and for platinum, it is roughly 630 ounces.

Sergey Donskoy *- Societe Generale - Analyst*

I'll ask another question. So last time we met in London you said that you were going to use some of the revenue of the disposals to pay as dividend. Have you changed your plans?

Unidentified Company Representative

No, we have not changed our plans, we have still a comfortable period to find the best time for the disposals, so in terms boosting the Company's shares, the share prices so I think we still have enough time to find the most suitable time period.

Sergey Donskoy - ***Societe Generale - Analyst***

So can you give us any timeframe when will you dispose all of your assets that you don't need?

Unidentified Company Representative

Again, we still have some flexibility. I don't want to give a framework. We don't want to reveal this to the market, we still want to be -- have a strong hand at the negotiations.

Sergey Donskoy - ***Societe Generale - Analyst***

Thank you.

Alexander Rozhetskin - ***UniCredit Group - Analyst***

Alexander Rozhetskin, UniCredit.

Alexander Rozhetskin - ***UniCredit Group - Analyst***

Good afternoon, thank you very much for the presentation. I have two questions for you. First, what are your expectations of the mandatory CapEx for 2012? And the second question is if you are comfortable with your current cash and cash equivalent balance if you have any plans for deleveraging or possibly increasing your cash to lower net leverage? Thanks.

Unidentified Company Representative

If you talk about the management CapEx, it is going to stay around $1 billion. Okay?

Unidentified Company Representative

(speaking in Russian). And we can always issue these bonds if we need. So our market is quite -- our situation is quite comfortable. We have enough liquidity, we can use it for our plans. So any new borrowings will be next year. So we now have more than $2 billion and our leverage is less than 0.85.

(Call ends abruptly)

Editor

Statements in English on this transcript were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.