

"I have never liked to confront the wounded opponents"

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Vladimir Potanin, head of Nor Nickel, spoke about the shareholder conflict, Belousov list and cryptocurrency.

The long-running dispute between MMC Norilsk Nickel's shareholders suddenly flared up once again this year only to come to a grinding halt after the introduction of sanctions against Oleg Deripaska, a co-owner of the company, and his victory in a case heard at London's High Court. Why did Interros, the company's largest shareholder, give up the fight? How is the company protecting itself from the sanctions? What will be the group's next big investment projects? To get answers to those questions, Kommersant talked to Vladimir Potanin, President of Nor Nickel.

When did you last meet Oleg Deripaska in person?

In spring.

During the court hearings in London?

No, we did not meet in court, but we had met before trying to work out a compromise. We spent half a night looking for an acceptable solution. I wanted to talk Oleg out of taking this case to court and tried to discuss his position.

What was his position?

There is no point in talking about this anymore, as nothing really worked out. We met once again after that. It was during the court hearings and I think that he was already under the sanctions. At some point, I felt that it would make sense to talk again. But, in his typical manner, Oleg just wiggled out of the discussion without providing any explanation. We had a phone talk this summer and considered another meeting. But we never really brought up this topic again. I understand that he has a lot of other things to handle with all those sanctions in place. So I act to the best of my business ethics and try not to bother him for trifles. We still see the company's strategy differently, but at least there is no urgent reason for further discussions so far.

Do you mean to say that the sanctions against Oleg Deripaska helped defuse the conflict and improved your relationship?

To be more exact, our relationship went through a stormy period first – a legal case hardly facilitates the dialogue. But there was no radical change in the way we treat each other. All we have to do is realise that our relationship has a new aspect to it now. I believe that, in the given circumstances, it would only be fair to refrain from playing hardball with a businessman who happened to be your partner, regardless of whether you like him or not. Because a hardball approach can and will be seen as an attempt to finish off the wounded opponent. Let's get back to this when Oleg recovers.

There is no reason to believe that Oleg Deripaska will recover from the sanctions any time soon. Are you not afraid that you will have to continue with your soft approach for quite some time?

I will stick to this approach as long as it remains obvious to me that Oleg and his assets are in trouble. But this is little more than a qualitative assessment, a matter of personal perspective, I would say. In sports terms, I have never liked to confront the wounded opponents. A victory over them brings no joy. So we need to wait until everything settles down. The only matters that might need to be tackled urgently are those related to Nor Nickel's development. And they would have to be discussed straight away. But there has been none so far. So we can postpone our conversation over a cup of tea, as Oleg has many other people to talk to now.

Are you referring personally to you and Mr Deripaska? Is there an ongoing dialogue between your two teams?

There is no dialogue at the moment. We have a shareholder agreement in place and it gives a wide range of powers as the company's President. Oleg's team is highly considerate and fully complies with the agreement.

Does this mean that Oleg Deripaska was right to decline the compromise? After all, he won the case in court.

Indeed. He won the case and condemned Roman Abramovich to stay invested in Nor Nickel for good.

But Mr Abramovich can still sell approximately 2% of shares from his portfolio. Are you willing to buy them?

We estimate that the court's decision unequivocally forbids it. The shares can be freely sold to anyone, excluding me, Oleg Deripaska and our affiliates.

Have you appealed the court decision?

No, our lawyers are still analysing the decision's reasoning. There was no procedural hearing. I am not a big fan of settling disputes in court, so we need to understand to which extent this decision affects our fundamental interests. After all, it was simply intended to interpret our shareholder agreement.

Does this mean that you have returned the shares and are not planning to increase your stake in Nornickel from now on?

We are just looking for other ways to increase our stake. Currently, we are buying shares in the open market. Time and again, we made known our interest in increasing the stake. This is a good investment. At the moment, I spend almost all of my time working with the company as its president and have a much better understanding of Nornickel's processes. For me, it makes perfect sense to reinvest the fairly high dividend incomes back in Nornickel.

I am still not sure why Oleg is so concerned with the increase of our share. If a major shareholder with managing rights seeks to increase its stake, it means that such shareholder believes in the company and will do its best to work better. I do not know why Oleg views things differently. You would be better off asking him in person. I did not expect such a sharp response on his part. This reaction was especially surprising given that he also had an opportunity to buy the shares. Personally, I do not see a better investment opportunity for myself.

Do you have other strategic investment interests?

The only areas I look into just as closely are those related to the so-called digital economy.

Do minority shareholders agree with you? What are the priority investment areas for Nornickel?

Minority shareholders are unlikely to seek the company's impoverishment. We are currently informing the markets that Nornickel is kick-starting a new investment cycle. The production maintenance and efficiency improvement programme is our first priority, with a transition to growth programme scheduled for 2023–2024. An increase in production volumes is the best way to address a drop in inventories and declining ore grades. Environmental issues are another priority. Many funds do not invest in Nornickel because of its poor performance in the environmental ratings. We are about to change that. Our third priority is digitisation, including implementation of new approaches and technologies. Those are the three pillars of Nornickel's policies for the next five years. All of them require significant investments.

The alternative to those policies is high dividends, and all shareholders are genuinely fond of them. Since the beginning of the year, all metals included in Nornickel's basket have either remained flat or lost in value, with weaker rouble failing to fully offset the losses. Despite that, Nornickel remains a very attractive blue chip primarily thanks to its high dividend yields. But how high can it possibly get? For some, for example, RUSAL, the higher it gets, the better. Most other investors, though, seek balance. Some are just not ready to keep increasing the dividend payments at the expense of the investment programme.

If RUSAL chose to divest from Nornickel and you could buy its stake, how much would you cut the dividend payments?

I have a really hard time imagining this situation. All we wanted was a slight increase in our stake, while RUSAL holds a huge block of shares. Even hypothetically, I cannot give you a direct and precise answer as it would be viewed as an attempt at market manipulation. Let me put it this way. When I see that Oleg has got his temper back under control (you know, bad temper can become some sort of a habit), the first thing I will do will be to convince him to sit down and strike the right balance between the dividend payment and investment programme schedules for the next few years. The current formula is a bit rigid and allows for sharp fluctuations. My proposal will be to minimise them by offsetting low dividends in certain periods with higher payments once the investment peaks are over. Currently, the dividend and investment peaks coincide in time.

Are you trying to say that the integrated dividend yield will not drop?

This will depend on the prices. According to the consensus forecasts for our metal prices (and they are rather optimistic), in the long run, dividend payments should be fairly stable. If prices fall, the decrease in dividends will need to correspond to the extent of revenue decline.

How many shares have you bought from the market?

At the moment, we have a stake of approximately 34%.

Why is this 1-2% gain or loss important for you?

The shareholder agreement will remain effective for more than four years from now. It does not matter if I have 20% or 50% – the rights under the agreement will be unchanged and the acquisition of an additional stake will not give me some sort of advantage. All the voting rights attached to the shares we have purchased are exercised in line with the agreement anyway. Hence, this is more a matter of securing higher yields as we are driven primarily by financial and economic considerations. I work a lot for Nornickel and I want to make significant profits.

How much are you willing to invest? How many more shares are you going to buy?

It will depend on a number of factors, including the availability of alternative projects and the metals market developments.

Are you referring to digital economy by mentioning the alternative projects? What exactly do you mean?

Nornickel is already implementing a variety of advanced digital technologies. For example, use of big data during the analysis of source materials supplied to a concentrator, a processing facility, a crushing machine or a mill enables us to compare the initial equipment parameters at the time of feed with the characteristics of generated tailings and wastes. The simple statistical comparison and data analysis can help retrospectively identify the optimal parameters.

While running such tests in a lab would be a daunting task, modern technologies and use of big data make the statistical analysis and choice of suitable parameters relatively easy. It seems pretty straightforward, but the implementation of such technologies at only one of the processing stages would save us USD 25 m annually. We currently have several dozens of such projects in the pipeline, with calculations and implementation plans available for 21 of them.

But, once again, you are talking about Nornickel's investment programme...

This data is valuable not only for Nornickel, as the processes could be replicated all over the place. Other companies operating in similar sectors and under similar conditions are also looking into it. The problem is that there is no dedicated service integrator in the market so far. So we are testing new solutions at Nornickel and consider creating a company that would roll out our processes by offering them to other market players.

Would that be your own company or rather a part of Nornickel?

Nornickel will mainly act as a customer. It will just take what the business needs without investing much effort. Moreover, Nornickel can actually benefit from sourcing the required solutions from other companies through an integrator.

Does that mean that you are developing the solutions using Nornickel's funds, but your integrator will eventually be the one to reap the rewards?

I use Nornickel's money to develop technologies for Nornickel. At the same time, as President of Interros, I consider investments in integrators. In line with this way of thinking, we might as well create our own integrator to source solutions from various companies in the market. In that context, Nornickel could either sell its research findings or exchange them to ensure monetisation at fair value. We are not going to act against the interests of Nornickel. Anyway, it makes no sense for the company to invest heavily in this line of business – the process should be taken up by others, and I feel like being a part of this larger project.

Such technologies can be easily rolled out across a wide spectrum of sectors. For example, we could integrate solutions from various industries in, say, quality control and build a big cloud based on them. While customer-related, social and other marketing data is already well studied (there is a great number of big companies doing this kind of research), the industry-wide application framework is still pending. There are no outright leaders among the integrators, while the marketing of more advanced technologies (from data science to cryptoassets and AI solutions) has an even longer way to go.

Those are some pretty long-term goals. Are you seriously considering them?

That is how we see our strategic course. It may look overly optimistic to some, but any business starts with a fancy idea, a dream which can undergo significant transformations further along the way. It is clear now that the entire world is moving in that direction. The analysts and economists I have talked to over the past two years share the view that the focus of value distribution is shifting from products and services to information about them, with traditional manufacturers and service providers now losing ground to high-tech companies linking customers to the desired services and goods. The market capitalisation of Amazon,

Facebook or Google is several times higher than that of the global industrial giants and can hardly be compared to the capitalisation of Russian companies working in the real economy.

Does the Dotcom Crash not make you take such ideas with a grain of salt?

We can speculate about the possible crash of any given company, but the general trend is obvious and acknowledged by many reputable scientists and analysts. Retrospective analysis confirms that similar qualitative changes occur on a regular basis at every new stage of economic development. In some 10 to 15 years, those who are making strides in that direction today will look more attractive and have more going for them than the players sticking to the old ways. Traditional companies and their owners will stop being viewed as large and will be relegated to the league of medium-sized businesses.

No matter how ambitious our plans are, I cannot even start to think about doubling Nornickel's production volumes. But I do know how to get a share exceeding 1.5% of the GDP in the digital economy.

That is why I want the things we have at Nornickel to go digital in the first place. This will help the company remain relevant in the future economy which will assess businesses and products based on comprehensive digitised data rather than their quality certificates. However, no matter how efficient we will get, a mining and metals business will always only be a mining and metals business. Its valuation will inevitably drag behind the companies that collect and analyse data, use intellectual products and work with industrial clouds. Hence, as the head of Interros, I am keen to invest in such a cloud in the second place.

Have you already set up a dedicated company for that?

No, but I intend to invest in one. Currently, I am negotiating with several market players to figure out if there are any ready-made solutions or well-advanced projects. At the same time, I am working on my own fragmented solutions. Things should get clear over the next 12 to 18 months. I do not nurture an ambition to create something from scratch – if there is an existing project, I will be happy to join it.

Are you looking for a project abroad?

I would rather have it in Russia. Being part of the digital future is not only important for entrepreneurs and companies, but for the entire country. The catch is that businesses need relevant regulation in order to work in the Russian jurisdiction. This area presents itself as an unoccupied niche. Effective regulation in the field of cryptoassets, tokens and other rights associated with distributed ledgers and digital technologies is hard to be found anywhere in the world today.

Essentially, there are two legislative approaches. First, the US one where all the processes are over-regulated. Second, a less restrictive approach where regulators (for example, in Singapore and Switzerland) give general guidance instead of imposing strict regulations and resort to micromanagement when it is required by a specific project. We call this approach a sandbox, as it evaluates possible social hazards based on the potential impact the token may have on the investment environment. Depending on the evaluation results, the regulators can give the businesses a free rein, put them in a sandbox or impose strict regulations.

At which point did we switch from industrial data processing, clouds and big data to the subject of cryptocurrencies?

There is a direct link between them and capital raising initiatives. Taking a company from the service industry to the realm of big data, industrial clouds, data science and, further on, to algorithm building (algorithms are a marketable intellectual product in their own right) and artificial intelligence is a very capital-intensive process. Capex and risks here increase exponentially. Raising money for such venture projects using traditional tools is a really tough task. That is where ICO comes in particularly handy.

People are ready to invest in such developments or projects when they have reasons to expect benefits in the future. Such benefits may come in the form of profit sharing, in which case the instrument can be reasonably viewed as a security of sorts. But they could also include an obligation to sell products at a discount or provide a guaranteed supply of goods. In this case, stakeholders can choose to invest in the project by purchasing tokens secured by the developer's commitment to produce and supply certain goods. The risks here are of a completely different order as investors realise what is at stake and have direct motivation. That is why creation of favourable conditions for such projects in our country is of utmost importance for me as an investor, as well as for Nornickel and other industrial companies.

Russia is obviously not a country of first choice for such projects, as digital legislation here is at an early stage of development and the very basic principles are still being debated..

That is why RSPP (the Russian Union of Industrialists and Entrepreneurs) set up a working group a few weeks ago to coordinate efforts aimed at improving Russia's digital legislation and regulatory framework.

On 18 October, you made a speech at RSPP. Your approach is fundamentally different from the one set out in the bills passed by the State Duma in the first reading in late May. Why do you think the adopted documents are irrelevant?

Because we do not need a revolutionary overhaul of our civil legislation at this point. Current approach introduces a new concept of *digital law*, which is really hard to identify using the existing legal notions. We need to continue our work and observation to find appropriate identifiers to that end. For the time being, new phenomena (such as tokenisation of various processes and their electronic representation as distributed ledgers, i.e. shift from traditional centralised sales of products and services to distributed registry systems) should be described using the existing civil law terms. Instead of trying to describe abstract notions, we should identify the existing phenomena and define them through the widely recognised terms. That was for starters.

Next. Definitions of tokens and civil law relations arising from the spread of cryptoassets are far from being accurate and complete in the adopted bills. This poses significant challenges to the market: some aspects escape regulation, while others are subject to excessive legislative restrictions. Strict regulations apply to all cryptoassets, and it is not quite clear how to deal with that. Such instruments are now treated as traditional securities, whereas the market of cryptoassets lives by different, more liberal rules. There are tokens that have attributes of a security, means of payment, barter, etc. A discount card from your store is also a token as it entitles you to claim goods in the future.

We cannot simply go and break the consistent civil law system – no country has ever taken this path. We are the only ones inventing an unidentifiable digital law, while all civil lawyers are going nuts about it. The experts I hired for our working group also believe that such radical changes are unwarranted, as notions can be easily described through the existing terms which perfectly fit into the legal framework all investors are accustomed with. If you create an alternative legal universe where things get fuzzy (including the notions of administrative and criminal liability), you might face a problem – there will be nobody to live in that universe.

How can we change that?

First, we need to return to the framework of the effective civil law. Second, we should define tokens more precisely, so that nothing is missing. Third, we need to clearly delineate spheres of responsibility. Defining the scope of responsibilities for the Bank of Russia is essential. Let the Bank choose the things it needs to keep under full control, the matters that require further clarification (e.g. via sandboxes), and the phenomena that do not require particular regulation and can be described in the context of the existing civil law relations. It may look as follows: we do not regulate those things, they are more of candy wrappers – do as you please; the others, on the contrary, look like hybrid securities – you are going to the sandbox for a year or so with several prescriptions; finally, this one is a true security – you will need a licence, etc. That would be a process of ongoing regulation through feedback where, for example, self-regulating organisations can be engaged to assess the quality of electronic platforms, operators or stock exchanges. This will help create a comfortable environment and protect the state from unpleasant surprises or hazards, with the Bank of Russia choosing how strict the regulations should actually be. At the same time, this will leave some wiggle room to loosen the controls when required.

How long have you been working on the subject?

That is the thing! Not long enough, apparently. So it all looks like a last-minute call: the first reading has passed, and the second one is coming soon. The government officials my experts and I talked to understand our concerns and share our views. But they have to find the right balance between fulfilling presidential decrees on time (with deadlines approaching fast) and ensuring the quality of adopted legislation. I am going to stand my ground – execution of the President's decrees is not about ticking all the right boxes on time but building a favourable environment for digital businesses. Let's be frank here. The President asked to develop a solid regulatory framework for cryptoassets, and the current bills are just not up to the task.

Who were the people you discussed your concept with?

To give you just one example, I talked to Maxim Akimov, Deputy Prime Minister of Russia overseeing the relevant areas. He is open to suggestions from the business community, including on the regulatory matters. I also think that the government is open to ideas on how to refine the bills passed in the first reading.

This debate has been ongoing for quite some time. Why have you decided to get involved now?

There are very few people who can actually understand this topic, offer valuable insights and critically discuss it. Current legislators are not experts in this area, either. In addition, it takes time to dig deep into the topic. Finally, the business community should also be allowed to have its say. It all started off with an in-house project: Nornickel will shortly launch a stablecoin backed by the company's metals. This project comes as an attempt to offer the market a cryptoasset that has lower volatility compared to other widely known cryptocurrencies and is pegged to the value of real commodities. This will help Nornickel find new sources of cheap funding.

As Nornickel is not a venture project, it can obtain traditional financing using its metals as a financial guarantee. What is the point of using cryptocurrencies?

Traditional project-based financing is a challenging and costly undertaking which is only effective at an advanced stage of project implementation. Offtake agreements that are commonly used in greenfield projects will be way too expensive even for Nornickel, with the effective rate exceeding 10–12%. Stablecoin will provide cheap financing and introduce Nornickel to a whole new range of investors with substantial aggregate financial resources.

A project similar to Nornickel's stablecoin (brillcoins backed by ALROSA's products) failed due to the legislative restrictions. Are you planning to launch your project in Russia or abroad?

Stablecoin projects can be implemented in a variety of jurisdictions, including those of Switzerland and the British Virgin Islands, or even the UK. In contrast, it will be impossible to succeed with them in Russia, as Russian laws drastically limit the pool of investors. So we do have a vested interest in making legislative proposals. The same goes for the use of tokens in the realm of intellectual products. We also have many ideas on a cryptocurrency exchange, derivatives, etc.

Are you planning to develop all those projects as part of Nornickel?

No. Stablecoins are Nornickel's initiative, while the exchange and derivatives projects are spearheaded by Interros. Nornickel can launch its own token, but it still needs a platform to list this token among other companies' cryptoassets (as long as such companies wish to list them).

When are you planning to launch the stablecoin?

It may sound lame, but there are no ready answers to certain questions. First, this is commercially sensitive information. Second, there are many factors that influence the project deadlines. Our indicative date is 2019.

Does the success of your cryptocurrency projects depend on the adoption of proposed legislative changes? How important is it for you to be able to launch those projects in Russia?

Obviously, it would be more convenient for me to launch the projects in Russia. However, if this does not work, I will have no problem starting the projects elsewhere. This will give me some first-hand experience to provide valuable input during the future discussions of legislative changes.

Are you concerned about sanctions potentially interfering with your plans?

All the digital projects that we have discussed so far can also be viewed as a protection tool against sanctions, as they provide extra room for manoeuvre.

Sanctions are not always applicable in the cryptospace. The digital environment is much more flexible and less sensitive to external pressure.

To which extent have you been affected by the sanctions, and how do you mitigate the risks?

As regards traditional sanctions, we try not to give reasons for them. Limiting our interactions with Mr Deripaska and RUSAL is a good example of that. We approach these issues very seriously: special procedures have been put in place at Nornickel to assess the risk of secondary sanctions being imposed as a result of any given actions on our part. In other words, the best way to avoid sanctions is not to provoke them.

That is to stay away from Mr Deripaska?

I would not oversimplify the matter. We are talking about a complex legal mechanism that requires a high level of competence and is very labour intensive. Averting the risk of secondary sanctions is akin to complying with safety rules. These procedures were put in place as soon as the threat of sanctions materialised. They were further enhanced after Mr Deripaska was targeted personally.

What if you face primary sanctions?

Naturally, we have a plan B. It involves settlements in different currencies and supplying goods to the markets that are potentially less exposed to sanctions.

How would Nor Nickel do under direct sanctions?

I am not going to answer this question, as this scenario is highly hypothetical and sounds more like a horror movie. Clearly, sanctions could put any company under serious strain, forcing it to adapt, search for new markets, and offer discounts. For example, paradoxically enough, in China nickel trades at a discount to the LME price. I cannot tell for sure why this is happening. Our sales team believes that the Chinese still practice lending against metals. Moreover, exports face various financial challenges on their way from Hong Kong to China. Presumably, if Nor Nickel is to enter this market directly, China will absorb all the shipments, but at a discount and with potential settlement problems. Naturally, this is not something that will make us happy, but I do not see a point in discussing this scenario at this stage. Everything is more or less clear. No matter how hard you try to stay dry in the rain, you will still get soaked because of the wind.

Are you doing anything to protect your personal assets from potential sanctions?

Surprisingly enough, 90% of my personal assets are in Russia. I have some investments in the United States (a few hundred million US dollars, mainly in digital projects), which help me keep up with the latest market trends. These are not significant sums for Interros, but still it would be unfortunate to lose them. There are also some small projects abroad, including commercial real estate funds. For me, sanctions are more of a moral issue, a feeling similar to the one you get after being kicked out of the classroom. On the one hand, you are happy that you no longer have to sit in the class, but it is also rather frustrating to be punished for nothing. This moral and psychological aspect of the sanctions is the most disappointing thing.

Some Russian businessmen are re-registering property to nominally relinquish their ownership. Are you planning anything of that sort?

It will not help if you do it on paper. And if you really want to give up control, I do not see the point, as you would be better off selling the business altogether. Here is how I approach it: you should keep tackling challenges while you can, and when this is no longer possible – just retire, even if retirement seems unfair to you. I do not like it when people try to catch the leaving train or jump on a galloping horse only to be dragged along the ground. If you can sit firmly in the saddle, go ahead and ride the horse. If you can't, just step aside.

When you ask me what I am planning to do, I take it as a philosophical rather than technical question. What will I do, if I am not allowed to run my business? I will fight for it as long as I can with all the cunning people of my type are capable of. If the people around me or circumstances make it impossible for me to win, I will change my attitude and find a different occupation. Hopefully, this is not going to happen any time soon.

How is your partnership with Musa Bazhaev's Russian Platinum unfolding? Do you have plans for taking over the company?

So far we have discussed plans to jointly develop the project on an equal basis and attract project-based financing while this is still possible. In the future, a third partner may join in, but we have yet to decide part of whose stake they will take. We intend to maintain the equal footing arrangement for as long as it suits our interests. The joint venture is really big (I can even say it is comparable to Nor Nickel) and, in theory, it could have a life of its own with a potential IPO and other things of that sort. It is still too early to talk about this, though. For now, Mr Bazhaev and I are waiting for a detailed business concept report that should be ready by the year's end.

Both of us did extensive research on how to develop the field on our own, and now we need to learn working together. Strictly speaking, there is still not much to discuss, as there are too many potential development options. For example, the project could focus exclusively on concentration with the subsequent sales of concentrate products. If we choose to include smelting in the production process, we will have to deal with the sulphur capture and recovery issues. We can try using the hydrometallurgy technology.

This is a potentially interesting solution given the large-scale sulphur capture project which is currently underway in the Norilsk Industrial District. We have achieved a lot in this direction, pledging to capture 100% of sulphur emissions by 2023. The project will help produce up to 2 mt of sulphuric acid and we need to figure out what to do with this new supply. There is a complex technology involving mixing sulphuric acid with limestone to produce 10 mt of gypsum per annum. However, gypsum also needs to be stored somewhere. Transporting sulphuric acid from such a remote region would be close to impossible, whereas hydrometallurgical facilities could benefit from a constant supply of cheap sulphuric acid and boost the

overall project efficiency. That is why I am going to offer Russian Platinum to seriously consider the hydrometallurgical technology, even if this will lead to delays in the project implementation. We will need to focus on that option later on.

That is not to say that we are not looking into other ways of sulphur recycling. Reconfiguration of production facilities could also help reduce sulphur emissions. Those are highly sophisticated and costly projects and we have already asked the Government and the Presidential Executive Office for state support.

Do you want these expenses to be credited as investment projects under Mr Belousov's initiative?

I believe that the initial reaction to Mr Belousov's plan was excessively negative. Now this initiative has successfully evolved into a mechanism encouraging businesses to invest more actively. There is a great number of projects which could count on government support as they are fully in line with the presidential priorities. Hopefully, our sulphur project will be one of them.

When you say that the initial reaction was excessively negative, does it mean that you were not concerned about the initiative when it was first unveiled?

It was not the initiative per se that worried me most. My concerns were largely caused by the harsh reaction and the heated debates it gave rise to. Of course, such ideas are sure to create serious disturbance. However, the initial perception has changed. Next time I talk to Oleg Deripaska, I will make the point that my call for more investments is supported by the government and we should discuss it in more detail. But let's leave our interactions with Mr Deripaska for later. Today, businesses are urged to invest more actively. We have a large number of investment projects that are currently underway or will be launched in the near future. Even more projects could be rolled out with government assistance. For example, we laid a 1,000 km-long fibre optic communication line to Norilsk. In theory, this should have been done by the government. What we need to do is review our strategy for compliance with the national priorities and submit several projects that could qualify for government benefits in line with Mr Belousov's initiative.

What kind of benefits are you hoping to get for your sulphur project?

Our proposals mainly focus on the property tax, the mineral extraction tax, and a number of smaller scale measures. We are currently working on this with the Russian Ministry of Finance and the Government of the Krasnoyarsk Territory.

It looks like Mr Belousov's initiative has caused the government to take on additional obligations that could have been avoided?

This is your interpretation, not mine. For me the sulphur project has always been an onerous social obligation.

Do you think that the sulphur project is sufficient to take you off Mr Belousov's superprofit list?

The existence of superprofit lists is very detrimental to the economy. I was pleasantly surprised by the government's resolve to protect the investment climate. They acted promptly to reformulate the initiative so that it encouraged investments and ended up taking on additional state support commitments. As a result, the initiative has a completely different meaning. It is also true that we are now better positioned to receive government support for major projects that are in line with the goals of the President's May decrees.

It worked out well for your sulphur project, but what about others who do not have suitable projects in place and may be required to invest in unprofitable mega projects like the Sakhalin Bridge?

I will not speak for others, as it is a thankless job. I do believe, however, that people should be encouraged to invest. At the same time, I do not think that either the Ministry of Finance or the Ministry of Economic Development has any intention to engage in arm twisting. They may try to offer various incentives or exert moral or psychological pressure, but not outright coercion. Excesses are certainly possible, but I hope that their actions will take a different course.

After all, the excesses that we expected after Mr Belousov's list was first unveiled are nowhere to be found today.

Previously you talked about the possibility of launching a large copper project based on Norilsk's Bystrinsky GOK and Roman Abramovich's Baimsky Project with a potential IPO in the future. However, the Baimsky Project was bought by KAZ Minerals in summer. Have your plans for Bystrinsky GOK changed? Are you still planning an IPO and a spin-off?

From the outset, our plan for the Bystrinsky Project was to share the risks by inviting the Chinese and other investors to join the project. An IPO is one of the potential options. Spin-off of Bystrinsky GOK from Nor Nickel is the next step, which may be considered after the company goes public.

For Nor Nickel's shareholders, this echoes the outcome of the Polyus Gold spin-off. In other words, we will have to deal with a company holding a brand new portfolio that does not include nickel and palladium assets. Its sales will be focused on China, which means we will need to develop a different marketing strategy and identify new macro parameters to manage the project. It makes sense to give Nor Nickel's shareholders direct access to these shares. The setback with the Baimsky Project does not preclude the development of Bystrinskoye Field. In fact, a new partnership focusing on the resources of Baimsky Field cannot be excluded either. It is a vast deposit, while KAZ Minerals is an aggressive and efficient but relatively small company. They might be interested in such partnership.

Are you working on the IPO now?

Yes, of course. We are in active talks with our Chinese partners trying to decide how and where to hold the IPO. They favour Hong Kong or Shanghai as listing locations, while we would prefer Moscow and London. We are having normal business discussions and putting in place the required corporate procedures. It is still too early to talk about this, as the project has yet to reach its design capacity, with pre-commissioning now underway. The target capacity will be reached in 1H 2019, and autumn will be the right time to decide whether the 2020 EBITDA will be good enough to sell it at an IPO or if we should wait a bit longer.

Do you see how large businesses could benefit from the special administrative regions (SAR) that are currently being created in Russia?

There seems to be a general consensus that they are useful. These regions could potentially be viewed as effective protection against sanctions. But if registering in those regions automatically triggers the sanctions, I do not see the point in them. The offered conditions are also highly debatable. I have always been opposed to tax exemptions and other similar perks. All sorts of experiments and sandboxes are only acceptable when they are designed to fit into the national regulatory environment. Providing clearly defined wide-sweeping incentives in certain areas is a common practice worldwide, while the establishment of special institutions is only warranted when they deal with specific problems.

Are you not worried by the government's dedollarisation plans?

It depends on what this concept actually means. Some people view it as a ban on the circulation of the US dollar with ensuing mandatory exchange of foreign currency deposits into roubles and so on. That is exactly how privatisation came to be a dirty word. I believe that decreasing the share of dollar-denominated transactions will have a positive impact as this will help diversify the FX and regulatory risks, including those related to sanctions.

Sanctions are just another reminder of the fact that heavy dependence on just one currency of any given country is highly undesirable in general. Dedollarisation is long overdue. There were efforts to reduce reliance on the US dollar before the sanctions, too. The sanctions simply made this need more urgent. What was an ongoing exercise has become a priority. This is a normal process, but we have turned it into something terrible, as is often the case. The media have also contributed to this. I believe that this is a positive process by and large. Excesses are certainly possible, but so far I have not seen them coming.

Are you planning to fully move your your businesses to Russia?

The structure of Interros has not undergone fundamental changes since the company's foundation in 1998. It was incorporated in Cyprus and used the British law. From the outset, the company conformed to the highest legal and transparency standards, duly changing in time to meet the new legal requirements. When the new disclosure rules were introduced, we made the decision to establish tax residency in Russia. As a matter of fact, it took us six months to register. There were some issues and we even had to provide some company reports to the tax office via a notary. Since then, nothing has changed. Our structure is transparent for the authorities and regulators. We pay our taxes in Russia. At the same time, I do not see any technical reason to move the companies from Cyprus to Russia, considering that we still need to use the British law.

Winter Capital Partners, a private equity fund controlled by you, has investments in Iran. Are you following those projects? Have they been affected by the renewed US sanctions against Iran?

The fund has its own management team. This was done on purpose to ensure that it takes business decisions independently of me or Interros and to avoid excessive risk taking. I let part of my business work independently to help people earn money and gain the necessary experience. This will help them feel more

confident when they are needed for larger scale projects. Plus, they are working on field to collect unbiased information. By investing in a small business, I get feedback as to which companies are doing well and which are less efficient. This helps a lot in decision-making. It would be very difficult for me to obtain information without those people. I would have to run around asking my employees for dry numbers without any hope to get the straight answer.

How much is Winter Capital worth?

About USD 300 m, it is comparable to our US investments.

Are you holding talks with Vnesheconombank on the restructuring of Rosa Khutor loans?

Yes, we are. There was a government decision on the next stage of restructuring to bring the project in line with the resort's actual economic performance. We are currently filing the paperwork and waiting for the Credit Committee's decisions to properly document and finalise the deal. As far as I can tell from talking to the project managers, Vnesheconombank is very forthcoming, but their turnaround is somewhat slow.

Have you seen any changes after Igor Shuvalov was appointed Vnesheconombank's head?

I have not discussed this with Mr Shuvalov proper, but from my conversations with some of the bank's employees, I take it that he was wise enough to focus on the promising and strategically important projects without trying to revise the ones that had been approved prior to his appointment. I have always thought of him as a strategic thinker and someone who can see the crux of the matter, to rephrase Vladimir Lenin.

Has the government reshuffle affected you in any way?

Not really. The key officials we have been working with have remained in place, including those from the Ministry of Finance, the Bank of Russia, the Ministry of Economic Development, the Ministry of Energy and the Ministry of Industry and Trade. Succession in the Ministry of Natural Resources and Environment has also been rather smooth.

The new governor appointments did not include the Krasnoyarsk Territory, your key region of operation. Still, the current Governor Alexander Uss has been in office for only about a year and was officially elected not long ago. Are you getting along well?

We have known the governor for a long time. He is a native of the region and used to be head of the regional Duma. We have met on many occasions and had many discussions. I think that he is more demanding than many of his predecessors, probably because he knows the region and its problems better. As a result, the scope of our cooperation and the number of issues for discussion have increased. On the other hand, there is a better understanding of certain matters and priorities now, with the quality of our interactions constantly improving. Our cooperation with Mr Uss is very intensive. The quality of the dialogue and his understanding of details are truly impressive.

He is viewed by many as Mr Deripaska's man. Is it a problem for you?

I do not see it as a problem. For me, the important thing is that he has been working in the region for quite some time and takes his responsibilities very seriously. It is better to have a governor with his own perspective and vision than officials who ask few questions and bear even less responsibility. Even if there are certain shortcomings, I do not mind that.

The interview was taken by Anatoly Dzhumaylo and Renata Yambayeva.

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