

BRIAN GILBERTSON: SUAL HAS POTENTIAL TO BECOME A GLOBAL PLAYER



Russian companies are becoming more and more internationalised. This year has been a remarkable one, in terms of strengthening the potential of major Russian companies with big, international growth ambitions. SUAL, Russia's second largest aluminium company and the seventh biggest aluminium producer in the world, has recruited Brian Gilbertson, the architect of the successful BHP Billiton merger, to lead the company into the next phase of its development. This appointment, which has captured the attention of the international business community, is further evidence of SUAL's ambition to become a globally competitive mining and metallurgical business. The company's strategy is now focused on expansion, both in terms of product range and geography, while retaining its Russian domicile. The Russian Investment Review talks to Brian Gilbertson, CEO of SUAL.

BRIAN GILBERTSON'S BIOGRAPHY

Brian Patrick Gilbertson grew up in South Africa. He obtained a BSc degree, majoring in Mathematics and Physics, at Rhodes University. Following further study, he was awarded an MSc in Physics by Rhodes University and an MBL by the University of South Africa. He worked at Johannesburg Consolidated Investment Company and Rustenburg Platinum Mines. In 1988, Mr Gilbertson joined Gencor Limited in the capacity of Executive Director. In 1992, Mr Gilbertson became Executive Chairman of Gencor. In 1997, after the merger of the gold operations of Gencor and Gold Fields of South Africa Ltd, Gold Fields Limited was created and Mr Gilbertson was its first Chairman. In July 1997 Gencor sold its assets to Billiton, and Mr Gilbertson became Executive Chairman at Billiton. In July 2002, he was appointed President of BHP-Billiton. Between the second half of 2003 and July 2004 Mr Gilbertson was a non-executive director with Vedanta Resources.

Mr Gilbertson, it's been two months since you became CEO of SUAL. Why have you chosen this company?

SUAL is a very interesting company and in fact, is similar to the companies that I worked with in South Africa. I was born in South Africa and I chaired the Board at Gencor, a South African business. So I have worked with aluminium businesses operating with old technology before: Gencor had a Soderberg smelter. The technology came to South Africa from Japan. At that time, the technology was outdated, and it did not yield high profits however, after number of successful investments, we succeeded in building upon this base and established two of the most modern aluminium smelters in the world. That business now accounts for as much as 7-8% of the global aluminium output.

When I look at SUAL, I see some similarities. But fortunately, SUAL makes money and delivers real profits and is a genuinely integrated

company: it has its own bauxite mines and provides its smelters with its own alumina. Things were different in South Africa: we did not have our own resources. Russia also enjoys low production costs in aluminium, which has been a pleasant surprise to me. In other words, SUAL has a good base to be built upon and I am pleased to be taking up an executive position in this company.

Obviously, before accepting SUAL's proposal, you studied the company. What is your impression of it and in what ways do you envisage it developing further?

Russia is at an exciting stage in its development and Russian mining and metals businesses are changing their role in the world market. For the aggressive ones, their strategy is to turn their businesses into global competition. We know that the best companies are global international businesses, offering

STORY BEHIND THE INTERVIEW

In early 2003, Victor Vekselberg, a co-owner of SUAL, decided to let the recruited management team lead the business. He relinquished his position as President of SUAL Holding to Chris Norval, a South African, who, until 2001, had been involved in strategic planning at one of the world's largest mining companies, BHP Billiton.

Mr Norval was tasked with preparing SUAL for an IPO. Norval carried out the preparations well, but early in 2004 the Company's owners decided that it was not the appropriate time for the company to enter the IPO market.

In August this year, Brian Gilbertson, former CEO of BHP Billiton, was recruited to achieve new, ambitious goals for SUAL.

Mr Gilbertson is expected to lead SUAL into a new growth phase, building and expanding its Russian assets, and seeking opportunities to internationalise and diverting its business from the Russian base by acquiring new assets which are not directly related to the aluminium business. He is the most well-known international executive to work in a Russian company, although it is not the first time that this 60 year old South African has headed a large mining and smelting business. One of his major achievements is the merger of Australian BHP Ltd and Billiton Plc, which resulted in the creation of the largest global mining and metals company, with a current capitalisation of over \$54b.

BHP Billiton was initially positioned as an aluminium business, but later it significantly broadened its profile. Up until recently, public opinion was that Mr Vekselberg recruited Brian Gilbertson to lead the flotation of SUAL International on the international markets. Indeed, the founder of BHP Billiton gained international prominence when he floated Billiton on the London Stock Exchange in 1997, and has been regarded as one of the best experts in this area ever since. Although SUAL has discussed an IPO as a future option, its focus is now to grow and compete internationally from its Russian base.



the best product mix and enjoying the best opportunities. I have always been supportive of diversification by product and geography. I believe you can make a lot out of this company. In the long run, however, it does need to have access and be competitive at the international level. SUAL, obviously, will be interested in considering options to engage in other sectors of the mining industry and may choose to construct new facilities. I've been at the company for two months, can see that the Russian assets are managed well as the company reports low aluminium production costs. We will continue this trend and reduce costs even more.

SUAL is also fortunate in that there is considerable potential for further growth. We are now considering opportunities to increase the base output of SUAL's operations by 60-100%. We have a development programme for our plants for the next two to three years which is focused on the implementation of several key projects. The IrkAZ-5 project foresees an annual increase of 157,000 tonnes of aluminium at Irkutsk Aluminium. SUAL is also

planning to increase the annual output at Kandalaksha Aluminium by 230,000 tonnes by 2008. The cost per tonne of aluminium at Kandalaksha is low, since the plants there operate on nuclear power, a cheap source of electricity, and furthermore, the smelter is located in direct proximity to large seaports. And, of course, the most prominent project is Komi Aluminium [construction of an alumina-aluminium complex near the Middle Timan Bauxite Mine]. When completed to full potential, the complex will have the capacity to produce 6 million tonnes of bauxite, 1.4 million tonnes of alumina and 300-500 thousand tonnes of primary aluminium.

How should the company expand in the near future?

SUAL Group has tremendous potential to develop its production base, both domestically and abroad, and to expand its presence in international markets. On a longer-term basis, SUAL is considering an option to acquire new aluminium assets, including foreign ones - for example Zaporozhsky Aluminium smelter in Ukraine and Kombinat





Alumijuma Podgorica in Montenegro. It is also looking at the opportunity of buying non-aluminium assets. Increasing capitalisation and the revenues of the company is one of my primary tasks.

There are several advantages that may well form the basis for the company's future expansion. The first advantage is SUAL's complete integration: SUAL enjoys sufficient own resources to produce aluminium which is relatively rare in the industry - especially in light of the overall deficit of bauxite in Russia. Other advantages are the low level of costs (relatively low tariffs and experienced workforce) and significant sales proceeds generated by the company (over the previous year they grew by \$400m to \$1.7b). I am positive that SUAL can become one of the large global players.

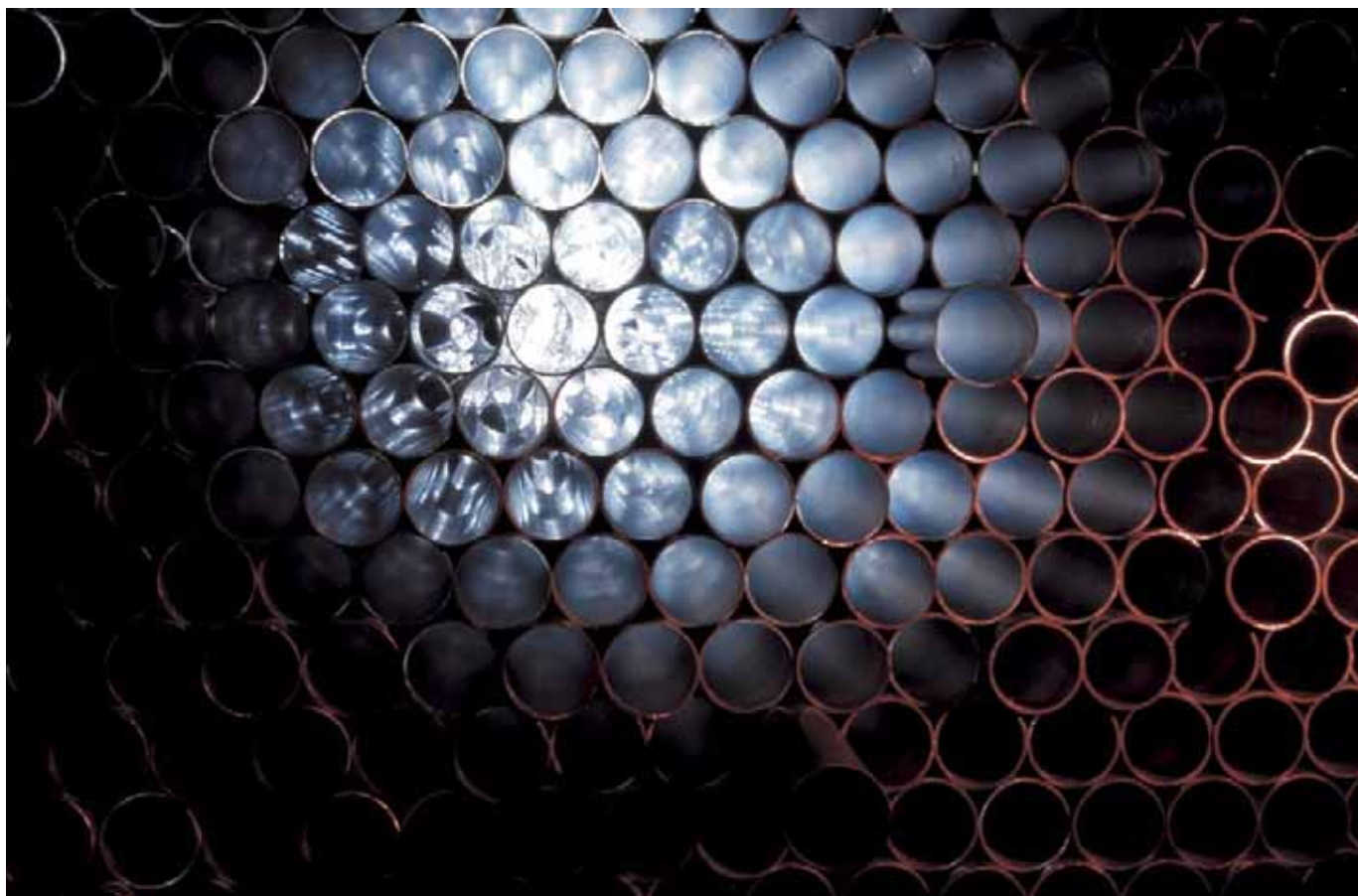
You are known to be a high calibre specialist in successfully leading mining and metal groups through to international public offerings (IPOs). In your opinion, how realistic is it for SUAL to consider an IPO at this time?

Conducting the IPO is not an end goal in itself for the company, and can only make sense as part of a broader strategic plan. In any event, I do not think that conditions are now favourable for an IPO in international markets. The company needs to develop its current opportunities, and if at some point in the future, the IPO is needed, and it is a sensible option, then SUAL will go for it. However, it is not part of SUAL's current plans, and not a priority.

When you were going to Russia, weren't you afraid that in Russia, political risks for businesses are often rather high? Look at Yukos: the company is also low cost, highly capitalised and efficient. And now it is bulging at the seams.....

- As a foreigner, I don't think that I am able to comment definitively on the YUKOS issue. I don't understand this situation sufficiently well because I am not





ABOUT THE COMPANY

The SUAL Group is the second largest aluminium producer in Russia. It accounts for more than 90 per cent of all bauxite mined in Russia, 60 per cent of alumina and 25 per cent of primary aluminium. The company incorporates 19 businesses located in nine regions of Russia. In 2003, the Group produced 890.000 tonnes of primary aluminium. The Group's IAS revenues in 2003 are reported as USD 1.7 billion. The Group's businesses are managed by SUAL Holding management company. This year the Group has completed the process of contributing its assets to SUAL International. Approximately five per cent in the new venture are owned by the British Fleming Family & Partners, which has an option to increase its share in the company to 23 per cent. Viktor Vekselberg's and his partner Len Blavatnik are the major shareholders in the company.

Russian. On the other hand, many successful mining businesses are located in countries with high political risks, and I am not talking about Russia now. For example, Billiton implemented a project in Mozambique (construction of an aluminium smelter), and at that time the civil war had just finished, and the situation was still unstable. There was nothing there - neither the appropriate technologies, nor the skilled people. However, we managed to build a very modern, effective, low-cost smelter. Its cost structure is even better than SUAL's average cost across its plants. I believe it to be one of the most successful projects in the industry. Another example: BHP and RIO Tinto launched its copper project in Chile in the days of General Pinochet, while no other foreigners entered there at that time. The project was also successful. And vice versa, a project in trouble-free countries can fail. In addition, each country has limitations introduced by the society and the Government. Many people believe that South Africa is also a risky place for

business, but it boasts one of the most successful mining industries in the world.

So it turns out that nothing frightened you in coming to Russia, and you were happy about the proposal from SUAL's shareholders? Everything can not go well all the time. Something must be wrong? Of course. Most of all I fear the Russian winter. I am from South Africa where the sun is always shining. Speaking seriously, I believe that the difficulties for SUAL will be absolutely the same as you could face with any other metal group. These include sustaining low costs, sustaining performance efficiency, compliance with environmental standards etc. Of course, I felt comfortable in London and coming to Russia is a great change in my life. I hope that in one or two months I will become accustomed to local life. Moscow seems a rather comfortable city to me, but I need to get settled in here. I feel confident that SUAL is the right company for my next big challenge. 