January 9, 2013

ACTION

Removed from Pan-Europe Sell List
Norilsk Nickel (NKELyq.L)

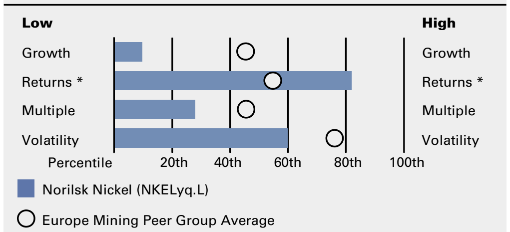
Equity Research

Fundamental challenges unchanged, dividends cover lack of growth

What happened

In December 2012 the conflict between the largest shareholders of Norilsk Nickel was settled. As a result we upgrade the stock from Sell to Neutral reflecting an incrementally more positive stance on corporate developments at Norilsk and an attractive dividend yield offered by a miner (2013E 6.7%) which in our view are balanced by our still cautious outlook for its metals basket (specifically Ni and PGMs) and the stock's valuation (at 5.9x/6.2x 2013/14E EV/EBITDA vs. its average of 6.1x since 2010). Since we added the stock to our Sell List on October 24, 2011, the share price has fallen 11.7% vs. MSCI Russia up 2.0%.

Investment Profile



* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Current view

We believe that the shareholder conflict resolution should bring greater stability to the corporate situation at Norilsk and allow management to concentrate on business development. The stock performance thus should be driven by the performance of its commodities basket and potential updates of its development strategy, where will be looking specifically at the capital allocations decisions from the company and their impact on the growth/returns profile.

Our 12-month price target increases to US$20.3 (up from US$15.0) per GDR, which is based on a target EV/EBITDA of 6.0x applied to our 2013/14 estimates. We revised our target multiple up from 4.5x to 6.0x to reflect a stock re-rating on the back of improving corporate developments and to better capture its PGMs business component (PGMs miners historically trade at a premium to other miners). Our updated valuation implies upside potential of 7%, and we rate the shares Neutral.

Risks to our view and price target include: volatility of commodity prices and FX rates moves, cost performance, adjustments to the capex budget, as well as regulatory/fiscal requirements of further investments into social/environmental projects which in turn may cap dividends. Upside risks are represented by extraordinary dividends possible on the back of assets divestments.

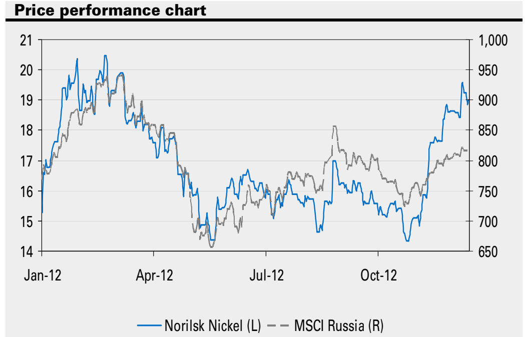
INVESTMENT LIST MEMBERSHIP

Neutral

Key data				Current
Price ($)				19.00
12 month price target ($)				20.30
Upside/(downside) (%)				7
Market cap ($ mn)				30,064.7
Enterprise value ($ mn)				33,451.5

	12/11	12/12E	12/13E	12/14E
Revenue ($ mn) New	**14,122.0**	**11,799.0**	**12,280.3**	**12,305.1**
Revenue revision (%)	0.0	0.0	0.0	0.0
EBIT ($ mn) New	**6,235.0**	**4,401.2**	**4,561.8**	**4,479.2**
EBIT revision (%)	0.0	2.5	0.1	0.1
EPS ($) New	**2.08**	**2.00**	**2.11**	**2.07**
EPS ($) Old	2.08	1.95	2.10	2.07
EV/EBITDA (X)	6.1	6.1	5.9	6.2
P/E (X)	11.2	9.5	9.0	9.2
Dividend yield (%)	2.9	3.2	6.7	10.0
FCF yield (%)	6.2	7.1	5.6	4.3
CROCI (%)	20.1	14.7	13.9	12.9

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	18.9	16.5	25.4
Rel. to MSCI Russia	17.7	4.2	17.4

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/08/2013 close.

Coverage View: Attractive

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Norilsk Nickel: Summary Financials

Profit model ($ mn)	12/11	12/12E	12/13E	12/14E
Total revenue	14,122.0	11,799.0	12,280.3	12,305.1
Operating costs	(6,742.0)	(6,496.5)	(6,760.3)	(6,777.3)
R&D	--	--	--	--
Lease payments	0.0	0.0	0.0	0.0
Other operating profit/(expense)	(418.0)	(161.3)	(151.2)	(151.5)
EBITDA	**6,962.0**	**5,141.2**	**5,368.8**	**5,376.3**
Depreciation & amortisation	(727.0)	(740.0)	(807.0)	(897.1)
EBIT	**6,235.0**	**4,401.2**	**4,561.8**	**4,479.2**
Net interest income/(expense)	(151.0)	(245.3)	(174.9)	(191.9)
Associates	(33.0)	(17.0)	0.0	0.0
Profit/(loss) on disposals	0.0	0.0	0.0	0.0
Others (recurring)	(405.0)	90.9	25.8	25.8
Pretax profits	**5,646.0**	**4,229.8**	**4,412.7**	**4,313.1**
Income tax	(1,460.0)	(1,085.6)	(1,068.7)	(1,044.6)
Tax rate (%)	25.9	25.7	24.2	24.2
Minorities	(22.0)	23.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**4,164.0**	**3,167.2**	**3,344.0**	**3,268.5**
Other non-recurring items post tax	(560.0)	0.0	0.0	0.0
Net income	**3,604.0**	**3,167.2**	**3,344.0**	**3,268.5**
EPS (underlying) ($)	**2.40**	**2.00**	**2.11**	**2.07**
EPS (basic, reported) ($)	2.08	2.00	2.11	2.07
Weighted shares outstanding (mn)	1,731.7	1,582.4	1,582.4	1,582.4
Common dividends declared	1,152.4	958.0	2,000.0	3,000.0
DPS ($)	0.66	0.61	1.26	1.90
Dividend payout ratio (%)	27.6	30.2	59.8	91.8
Dividend cover (X)	3.6	3.3	1.7	1.1

Growth & margins (%)	12/11	12/12E	12/13E	12/14E
Revenue growth	10.5	(16.4)	4.1	0.2
EBITDA growth	(2.8)	(26.2)	4.4	0.1
EBIT growth	(4.8)	(29.4)	3.6	(1.8)
Net income growth	9.3	(12.1)	5.6	(2.3)
EPS growth	(22.5)	(16.8)	5.6	(2.3)
DPS growth	(4.2)	(8.9)	108.8	50.0
EBITDA margin	49.3	43.6	43.7	43.7
EBIT margin	44.2	37.3	37.1	36.4

Cash flow statement ($ mn)	12/11	12/12E	12/13E	12/14E
Net income	4,164.0	3,167.2	3,344.0	3,268.5
D&A add-back (incl. ESO)	1,005.0	739.0	807.0	897.1
Minority interest add-back	22.0	(23.0)	0.0	0.0
Net (inc)/dec working capital	(631.0)	415.0	(115.5)	(25.0)
Other operating cash flow	142.0	202.0	0.0	0.0
Cash flow from operations	**4,702.0**	**4,500.2**	**4,035.5**	**4,140.6**
Capital expenditures	(2,201.0)	(2,355.0)	(2,342.7)	(2,846.4)
Acquisitions	(806.0)	(71.0)	0.0	0.0
Divestitures	738.0	24.0	0.0	0.0
Others	393.0	(123.0)	0.0	0.0
Cash flow from investing	**(1,876.0)**	**(2,525.0)**	**(2,342.7)**	**(2,846.4)**
Dividends paid (common & pref)	(1,238.0)	(958.0)	(2,000.0)	(3,000.0)
Inc/(dec) in debt	2,343.0	(1,655.2)	307.2	1,705.7
Other financing cash flows	(7,749.0)	0.0	0.0	0.0
Cash flow from financing	**(6,644.0)**	**(2,613.2)**	**(1,692.8)**	**(1,294.3)**
Total cash flow	**(3,778.0)**	**(632.0)**	**0.0**	**0.0**
Capex/D&A (%)	219.0	318.7	290.3	317.3
Reinvestment rate (%)	41.3	57.6	56.4	68.3
Cash flow cover of dividends (X)	4.6	4.3	2.1	1.4
Free cash flow cover of dividends (X)	2.2	2.2	0.8	0.4

Balance sheet ($ mn)	12/11	12/12E	12/13E	12/14E
Cash & equivalents	1,627.0	995.0	995.0	995.0
Accounts receivable	1,032.0	1,097.0	1,145.1	1,155.6
Inventory	2,623.0	2,180.6	2,276.3	2,297.0
Other current assets	1,287.0	1,286.0	1,286.0	1,286.0
Total current assets	**6,569.0**	**5,558.5**	**5,702.5**	**5,733.6**
Net PP&E	9,585.0	11,017.0	12,552.7	14,501.9
Net intangibles	92.0	89.0	89.0	89.0
Total investments	2,425.0	1,942.0	1,942.0	1,942.0
Other long-term assets	241.0	281.0	281.0	281.0
Total assets	**18,912.0**	**18,887.5**	**20,567.1**	**22,547.5**
Accounts payable	543.0	647.5	675.9	682.1
Short-term debt	2,741.0	1,617.0	1,617.0	1,617.0
Other current liabilities	546.0	641.0	641.0	641.0
Total current liabilities	**3,830.0**	**2,905.5**	**2,933.9**	**2,940.1**
Long-term debt	2,400.0	1,873.8	2,181.0	3,886.7
Other long-term liabilities	1,460.0	1,379.0	1,379.0	1,379.0
Total long-term liabilities	**3,860.0**	**3,252.8**	**3,560.0**	**5,265.7**
Total liabilities	**7,690.0**	**6,158.3**	**6,493.9**	**8,205.8**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**11,102.0**	**12,622.2**	**13,966.2**	**14,234.7**
Minority interest	**120.0**	**107.0**	**107.0**	**107.0**
Total liabilities & equity	**18,912.0**	**18,887.5**	**20,567.1**	**22,547.5**
Capitalised leases	0.0	0.0	0.0	0.0
Capital employed	**16,363.0**	**16,220.0**	**17,871.2**	**19,845.4**
Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Adj capital employed	**16,363.0**	**16,220.0**	**17,871.2**	**19,845.4**
Gross cash invested	**28,576.0**	**29,558.0**	**32,016.2**	**34,887.6**

Ratios	12/11	12/12E	12/13E	12/14E
CROCI (%)	20.1	14.7	13.9	12.9
CROCI/WACC (X)	--	--	--	--
ROIC (%)	28.0	23.3	23.0	20.2
ROIC/WACC (X)	--	--	--	--
ROA (%)	20.1	17.6	17.6	15.8
WACC (%)	--	--	--	--
Inventory days	62.9	74.3	66.2	67.8
Asset turnover (X)	1.5	1.1	1.0	0.9
Net debt/equity (%)	31.3	19.6	19.9	31.4
EBITDA interest cover (X)	46.1	21.0	30.7	28.0

Valuation	12/11	12/12E	12/13E	12/14E
EV/sales (X)	3.0	2.7	2.6	2.7
EV/EBITDAR (X)	6.1	6.1	5.9	6.2
EV/EBITDA (X)	6.1	6.1	5.9	6.2
EV/EBIT (X)	6.8	7.2	7.0	7.5
P/E (X)	9.7	9.5	9.0	9.2
Dividend yield (%)	2.9	3.2	6.7	10.0
FCF yield (%)	6.2	7.1	5.6	4.3
EV/GCI (X)	1.6	1.1	1.1	1.0
EV/adj. capital employed (X)	3.0	2.2	2.0	1.9
Price/book (X)	2.4	2.3	2.2	2.1

Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Prices in this report are as of the close on January 7, 2013 unless otherwise noted.

Dividends/capex covered at minor leverage uplift, up to Neutral

We updated our estimates for the latest announcements from Norilsk Nickel shareholders with respect to potential dividend distributions from the company and currently estimate the dividend yield at 6.7% for 2013. We also performed capex program review for the company and currently expect that capex will amount to US$8.7 bn over 2013-15. We find that although Norilsk remains one of the miners demonstrating robust free-cash flow generation (average FCF yield of 5% over 2013-15E) this won't cover both capex and dividends, and as a result the company may have to raise additional debt. We are not concerned regarding credit however as net debt/EBITDA under our base case assumption would rise to 1.0x (at spot prices to 1.8x) in 2015, thus the company would retain one of the strongest balance sheets in our coverage. We have increased our 12-month target to US$20.3 (from US$15.0) on the back of an increase in our target multiple. Our 12-month price target currently implies 7% upside potential, and we rate the shares Neutral.

Shareholder agreements should result in higher dividends …

Shareholder agreements reached in December 2012 closed the long-lasting dispute between Interros and Rusal with the intermediation of Millhouse Group. Post the agreement Rusal issued a statement stating that dividend payments should amount to US$2.0 bn in 2013 and US$3.0 in 2014 and 2015. From 2016 dividends should amount to 50% of Norilsk Nickel's EBITDA reported for the previous year (in line with statements made by Mr. Potanin). The implied dividend yield for Norilsk is 6.7%/10%/10.2% for 2013/14/15, which means Norilsk Nickel is at the top of dividend payers in terms of yield both in Goldman Sachs' global metals and mining coverage and the overall covered CEEMEA universe. The average payout ratio over 2013-17 is forecast to be 82% of net income. Our dividend discount model implies an equity value per GDR of US$19.8/share vs. last close of US$19, suggesting that the dividends are mostly priced in and going forward the stock price will be moved by either commodities prices, and/or strategy-related announcements addressing operational efficiency (opex) or capital allocation decisions.

... that compensates for lower near-term growth vs. peers

The analysis performed by our GS SUSTAIN team (based on our estimates) earlier last year (for more details refer to GS SUSTAIN: *Growing pains*, May 7, 2012) highlights that Norilsk Nickel isn't expected to offer volume growth over 2010-15 in Cu equivalent terms vs. its diversified and base metals mining peers. We expect the company's portfolio of projects (Maslovskoye, Chita, etc.) to result in volume uplift from 2016-18, however given overall commodities volatility, we believe that the market is currently unlikely to assign high value to forecasted long-dated volume growth and thinks that the company may miss an attractive commodities pricing environment. We therefore believe that high dividend payments could compensate for the lack of near-term volume growth.

Fundamental challenges remain unchanged: Capex, opex

Our analysis indicates that over 2004-11 Norilsk's operations were affected by declining grades, however we expect the grades will normalize and currently expect only minor further deterioration. Also miners globally invested significant amounts in asset developments and our analysis suggests that when we benchmark Norilsk vs. its peers in two groups (diversified miners and pure base metals miners), it has massively underinvested. We further believe that the challenging environmental situation in the city of Norilsk will put pressure on the company to invest further in reduction of SO2 emissions. As a result of this analysis we expect that total capex for Norilsk from 2013-15E will amount to US$8.7 bn and its annual investment budget will grow from US$2.3 bn in 2012 to US$3.5 bn in 2015.

We find the company is fairly valued

Our updated 12-month price target is US$20.3 (up from US$15.0) per GDR, implying upside potential of 7%. We revised our target multiple up from 4.5x to 6.0x to better capture its PGMs business component and expect the re-rating post improvements in corporate developments to be sustained and do not expect the stock to de-rate to its median multiple of 4.5x since 2005.The stock currently trades at 2013/14E EV/EBITDA of 5.9x/6.2x vs. our target multiple of 6.0x and vs. diversified peers average of 5.7x/5.6x. Therefore we now find it fairly valued, hence our Neutral rating.

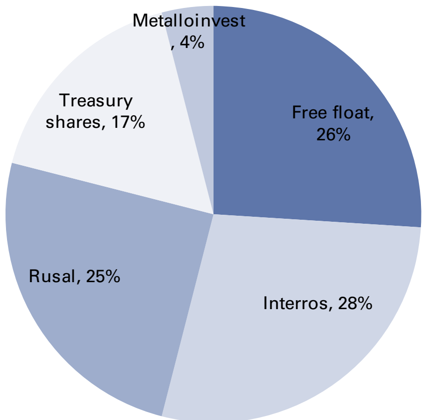
Shareholder agreements should result in higher dividends …

Millhouse facilitated Rusal/Interros conflict resolution

In December 2012 an important milestone was achieved for Norilsk Nickel. The two largest shareholders of the company, Interros Holding (beneficial owner Vladimir Potanin) and UC Rusal (Oleg Deripaska) closed the long-lasting dispute with the intermediation of Millhouse Group (Roman Abramovich). According to the joint press-release of Rusal, Interros and Millhouse, they signed an agreement aimed at settling the shareholder conflict in Norilsk Nickel on December 11, 2012. The key highlights of the agreement are:

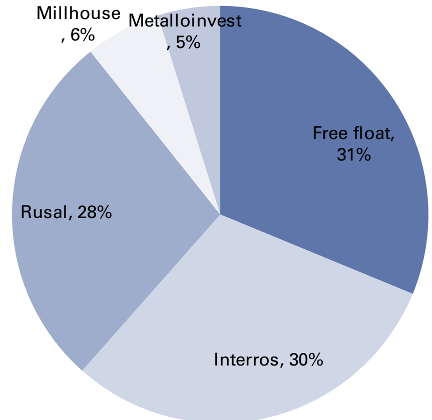
- All of the treasury shares held by Norilsk Nickel are to be redeemed by the company.
- Rusal and Interros will sell to Millhouse 3,873,537 and 5,420,464 shares of Norilsk Nickel owned by them, respectively, at US$160 per share in cash. Post the transaction and redemption of 16.99% of treasury shares, Rusal, Interros and Millhouse will hold 27.8%, 30.3% and 5.87%, respectively, in Norilsk Nickel. The other large shareholder Metalloinvest will continue to maintain its stake of 4.8% as a result of the changes in the capital structure and shares cancellation.
- Norilsk Nickel's BoD (13 members) will be composed of: 4 directors nominated by Rusal, 4 by Interros and 1 by Millhouse, as well as 3 independent directors, each being nominated by Rusal, Interros and Millhouse. The 13th member of the BoD is to be elected by the minority shareholders of Norilsk Nickel.

Exhibit 1: Shareholder structure prior to the settlement



Source: Company data, Goldman Sachs Research.

Exhibit 2: Shareholder structure post the settlement



Source: Company data, Goldman Sachs Research.

Announcements suggest Norilsk payout ratio to reach c.82%

The first Board of directors meeting held on December 17, 2012 after the announcement put the agreement into the execution stage. The BoD appointed Mr. Potanin as the new CEO of the company and called an EGM for January 29, 2013 to vote on cancellation of the first tranche of 9.7% treasury shares held by NN Investments. Further, UC Rusal issued a clarifying statement regarding agreements between the largest shareholders, implying that subject to the satisfaction of certain conditions (not disclosed) dividend payments should amount to US$2.0 bn in 2013 and US$3.0 bn in 2014 and 2015. Further 2016 dividends should be equal to 50% of Norilsk Nickel's EBITDA reported for the previous year (which is also fully inline with statements made by the new CEO after being appointed). Lastly an extraordinary US$1.0 bn dividend is to be paid if international and/or non-core assets are sold.

We update our estimates to incorporate the dividend distribution schedules highlighted by the major shareholders. As a result on our estimates the payout ratio for 2012 results should amount to 63% of net income and the average payout ratio over 2012-17 should be 82% (Exhibit 3 summarizes the announcements made and our estimates).

Exhibit 3: Latest communications from Norilsk Nickel shareholders implies on average a c.82% payout ratio for Norilsk over 2013-17

Highlights of the Norilsk Nickel dividends profile

	Dividends		
	US$ bn	% of Y-1 EBITDA	% of Y-1 Net Income
2013	2.0	39%	63%
2014	3.0	56%	90%
2015	3.0	56%	92%
2016	3.3	50%	81%
2017	3.7	50%	82%

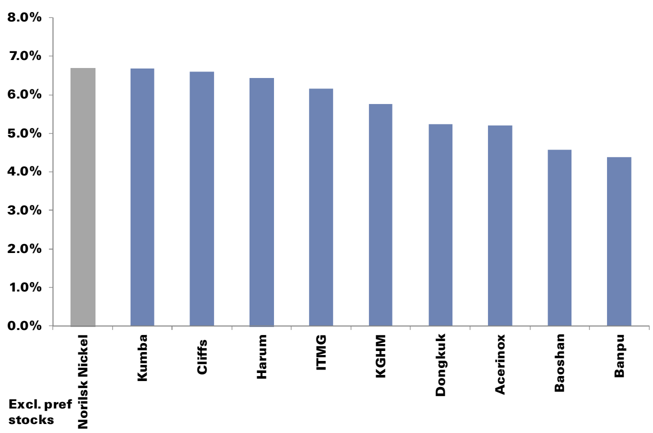
Announced dividend policy GS estimates

Source: Company data, Goldman Sachs Research estimates.

Norilsk shifts up to one of the highest dividend payers

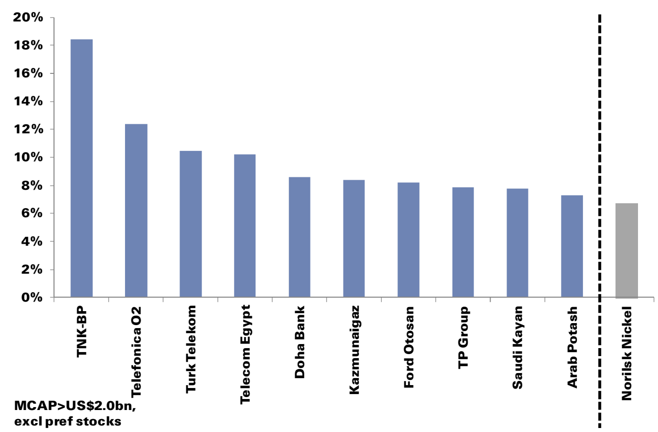
The new dividend outlook for Norilsk results in one of the highest yields in our CEEMEA metals and mining coverage and moves Norilsk up both among global metals and mining companies and our overall CEEMEA covered universe. The implied dividend yield for Norilsk on the back of dividend payments expected in 2013/14/15 as at last close stand at 6.7%%/10.0%/10.2%. Exhibits 4-7 highlight the relative positioning on dividend yield and dividend payout ratio vs. other stocks in Goldman Sachs' coverage; we excluded preferred shares from this list to keep the comparison consistent.

Exhibit 4: Top-10 dividend payers in GS global metals and mining coverage
2013E dividend yield



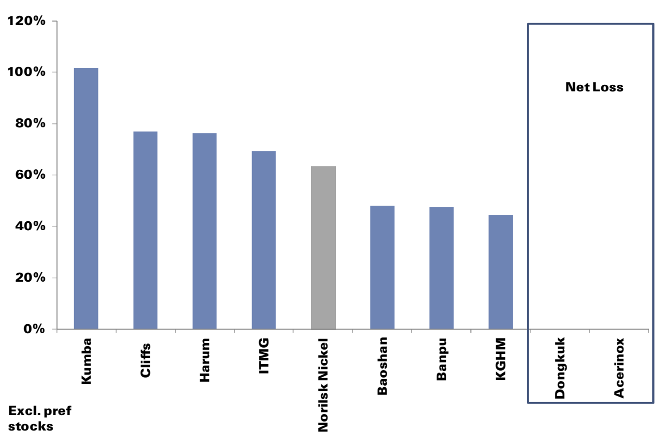
Source: Goldman Sachs Research estimates.

Exhibit 5: Top-10 dividend payers in GS CEEMEA coverage
2013E dividend yield



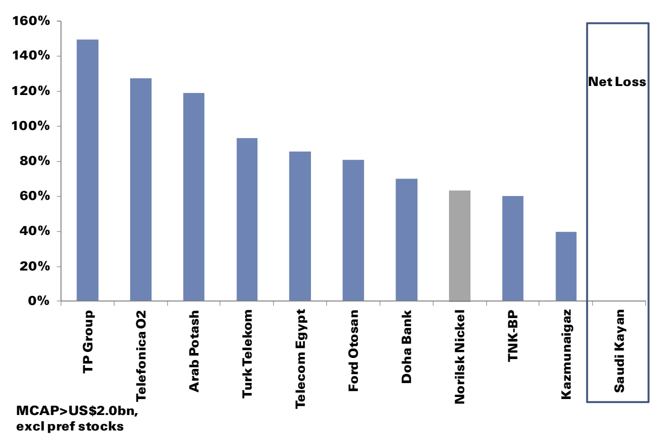
Source: Goldman Sachs Research estimates.

Exhibit 6: Dividend payout ratio for Top-10 payers in 2013 in GS global metals and mining coverage
% of Y-1 net income



Source: Goldman Sachs Research estimates.

Exhibit 7: Dividend payout ratio for Top-10 payers in GS CEEMEA coverage
% of Y-1 net income



Source: Goldman Sachs Research estimates.

Dividend discount model suggests dividends are priced in

We ran a discount dividend model for Norilsk Nickel which implies that the equity value per GDR of Norilsk Nickel stands at US$19.8 (vs. US$18.9 close as at January 7, 2013) and therefore suggests that the latest run-up in the shares was likely driven by markets taking into account the dividend profile post settlement of the shareholder conflict. Exhibit 8 provides details of our dividend discount model.

Exhibit 8: We find that dividends are mostly priced in, as Norilsk Nickel's share price increased 20% since Dec 1, 2012

Dividend model		2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Dividends paid	US$ mn	1,217	1,151	958	2,000	3,000	3,000	3,345	3,686
Net Income	US$ mn	3,298	3,604	3,167	3,344	3,268	4,120	4,482	4,211
% dividends		35%	27%	63%	90%	92%	81%	82%	
EBITDA	US$ mn	7,159	6,962	5,141	5,369	5,376	6,690	7,372	7,216
% dividends		16%	14%	39%	56%	56%	50%	50%	
Net debt	US$ mn	-1,722	4,266	3,280	3,587	5,293	7,015	8,736	10,106
ND/EBITDA		-0.24x	0.61x	0.64x	0.67x	0.98x	1.05x	1.19x	1.40x
Discount factor					0.89	0.80	0.71	0.63	0.56
PV (Div)	US$ mn				1783	2385	2127	2114	2078

Equity calculation	
Terminal Dividends	3,686
Growth	2%
TV (Div)	37,041
PV of TV (Div)	20,878
PV (DiV)	**31,365**
Equity value per share	
US$/share	**19.8**
Up/(down)side to close	*5%*

Source: Company data, Goldman Sachs Research estimates.

We thus believe that the dividends are mostly priced in and that share price performance going forward should be driven by the following factors:

- **Adjustments to the dividends policy:** Upside risks include the potential non-core and/or international assets in the company's portfolio that we currently do not include into our forecasts due to low visibility; downside risks include the undisclosed conditions of the dividends payments outlined by UC Rusal, as the limited visibility of those may create overhang risk;
- **Commodity price dynamics:** The company's revenue stream is driven by the dynamics of its metals basket performance, where we remain cautious on Ni and PGMs, whereas Cu remains the only bright spot in the Norilsk Nickel basket over the next 12 months, which we expect to turn around in 2014 on the back of reversal of the China construction cycle;
- **Operational performance**: Execution of opex improvement initiatives (supporting the stability of operating margins in the environment of declining grades and depleting legacy mines);
- **Capital allocation decisions**: We believe that the company is due to perform its development strategy update, after completion of the shareholder agreement, that should provide an updated list of investment projects and their implications for the longer-term returns profile of Norilsk. We will only be able to quantify these after the relevant disclosure is made by the company.

… that should compensate for the lack of near-term growth

We believe that in the current market environment where uncertainty with respect to performance of cyclical commodities is likely to persist, equity investors are likely to prefer companies that: (1) either have already invested in growth expansion and thus commodities price volatility would be somewhat smoothed by immediate volume growth effect; or (2) those that, given their industrial positioning (high quality mining assets), would be able to remunerate shareholders through cash returns either via share buy-backs or dividends distributions (that should be sustainable).

The analysis performed earlier this year by our GS SUSTAIN team shows that in GS mining universe Norilsk Nickel doesn't screen well on volume growth metrics. On a corporate equivalent basis its output declines marginally over 2010-15E vs. other miners in our global coverage for which it grows.

Norilsk Nickel's strategy envisages execution of several new mining projects (Maslovskoye, Chita, etc.) that should bring volume growth, which according to our current expectations is likely to be the most pronounced over 2016-18. We believe that given overall volatility in commodity prices the markets are currently unlikely to assign high value to long-dated (i.e. 3 years from today) volume growth as returns on this growth would be subject to even greater uncertainty related to long-term economic growth prospects affecting commodity prices.

On those grounds we believe that higher dividend payments from Norilsk Nickel are likely to be perceived by the market as a "natural" way to compensate for the lack of near-term volume growth.

Exhibit 9: Norilsk Nickel doesn't offer Cu equivalent growth among GS covered mining universe
GS SUSTAIN, for additional information please refer to: *Growing pains*, published May 7, 2012

Company	CROCI		Product Market Consolidation	Cash Cost Position	Underlying margin contraction from operating cost inflation	Access to Growth
	2012-14E	change vs 2009-11 in ppts	Weighted average consolidation in end markets (shr of top 3)	2010A EBIDA Margin	2014E EBIDA Margin assuming 2010A Macro	Copper equivalent volume growth (2010-2015E)
Norilsk Nickel	**14%**	**-6%**	**46%**	**44%**	**31%**	**-1.3%**
BHP Billiton Plc	19%	-6%	39%	34%	38%	5%
Rio Tinto plc	13%	-1%	44%	34%	23%	6.0%
Anglo American plc	13%	1%	42%	29%	25%	4.6%
Vale	16%	-2%	54%	47%	43%	7%
ENRC	14%	-5%	40%	35%	39%	11.5%
average diversified	**15%**	**-3%**	**44%**	**36%**	**34%**	**6.7%**
KGHM Polska Miedz S.A.	16%	-14%	26%	33%	25%	5.0%
Kazakhmys	6%	-3%	25%	39%	36%	1.5%
Freeport-McMoRan Copper & Gold Inc.	18%	-9%	29%	38%	30%	3.3%
Vedanta Resources	12%	1%	30%	25%	18%	6.6%
First Quantum Minerals	19%	3%	28%	35%	44%	13.0%
average base metals	**14%**	**-5%**	**27%**	**34%**	**31%**	**5.9%**

Estimates as of May 7, 2012

Source: Company data, Goldman Sachs Research estimates.

Fundamental challenges for Norilsk remain the same

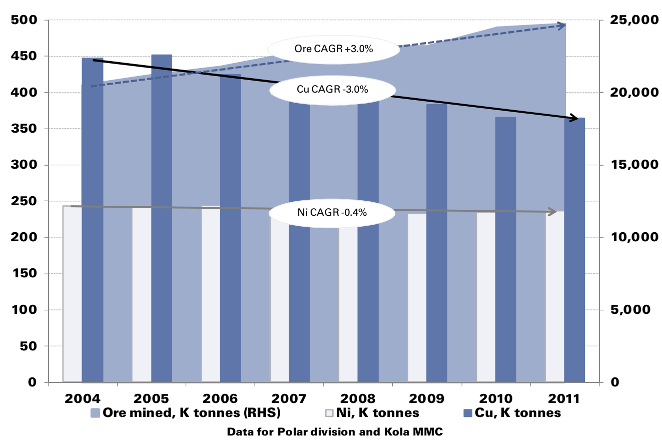
We revisit the fundamentals of the Norilsk Nickel investment case and find that such positives as its exposure to Cu, our structurally preferred metal (c.25% of top line), is more than balanced by Ni and PGMs. We further highlight that unique legacy assets in Russia should continue to generate stable cash flows, yet would require the company to address operating issues of declining metal grades and under-investment in the existing fixed asset base (we estimate total capex of US$8.7 bn over 2013-15). Lastly, the post capex free-cash flow yield is estimated to average c.5% over 2013-15 vs. an average dividend yield of 9% over the same period, implying the company would have to accumulate additional debt. We estimate that net debt/EBITDA will rise from 0.7x at end-2012 to 1.0x at end-2015, and therefore the company should retain one of the strongest balance sheets in our coverage.

Falling grades contributed to margins moderation

Our analysis of the operating statistics disclosed by Norilsk Nickel highlight that the performance of its Russian mining operations was affected by declining grades over 2004-11. Notably the amounts of ore mined have been rising at a CAGR of 3% over that period, which didn't lead to volume growth with (Exhibit 10) an Ni volume CAGR of -0.4% and Cu of -3.0% while PGMs showed similar trends. We believe that the grades will normalize and currently expect only minor further deterioration, as we expect that Norilsk will further optimize its mining plans and introduce new development areas of its Russian mining asset base that should translate to grade normalization.

Exhibit 10: Grade declines translating to lower Cu and Ni volumes

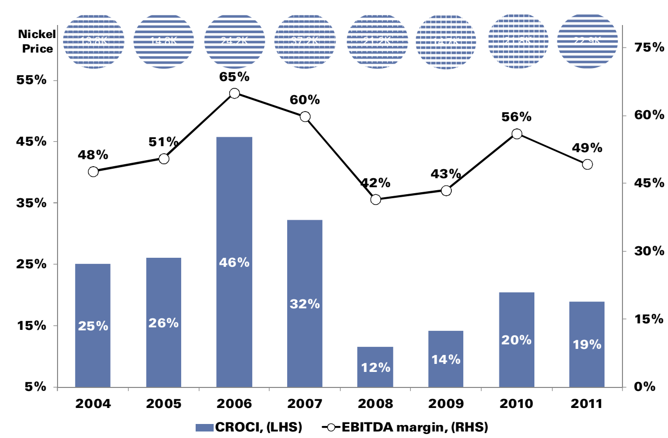
Norilsk operating statistics in Russia over 2004-11



Source: Company data, Goldman Sachs Research estimates.

Exhibit 11: Margin peaked in 2007 in the previous bull-cycle; now on downward trend

Norilsk returns/margins over 2004-11, average Ni prices in circles



Source: FactSet, Datastream, Company data, Goldman Sachs Research estimates.

Norilsk underinvested vs. peers

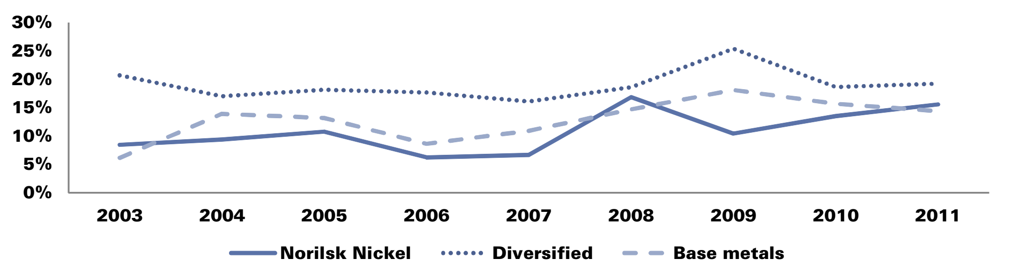
We find that the trend of declining grades that in turn leads to returns deterioration is typical for the mining industry overall and was observed over the last decade where the quality of legacy ore bodies deteriorated. This in our view pushed miners into additional capex for asset maintenance and development (an additional factor that miners were trying to capture through higher capex was the need to increase supply to catch-up with growing demand from emerging market consumers and China specifically).

Also miners globally were investing significant amounts in asset developments (on average 55% of annual EBITDA over 2003-11) and our analysis suggests that when we benchmark Norilsk vs. its peers in two groups (diversified miners and pure base metals miners), it has massively underinvested. We used different metrics to track the investment rates of global miners and on all of them Norilsk lags behind the benchmarks: capex as percent of EBITDA shows the greatest diversion, which in our view provides for the risk that capex would have to rise at a higher rate in the future.

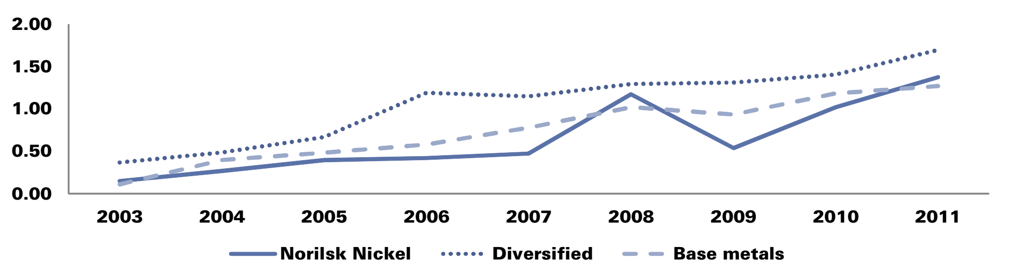
Exhibit 12: Norilsk underinvested vs. its mining peers (diversified and base metals) over 2003-11

Investment rates for Norilsk Nickel and global miners in GS coverage

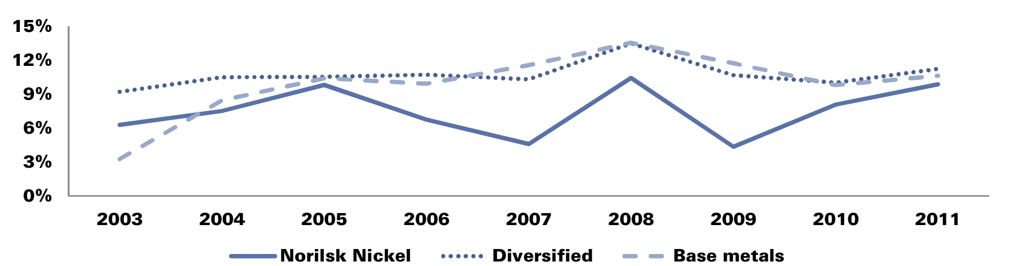
Capex as % of revenue



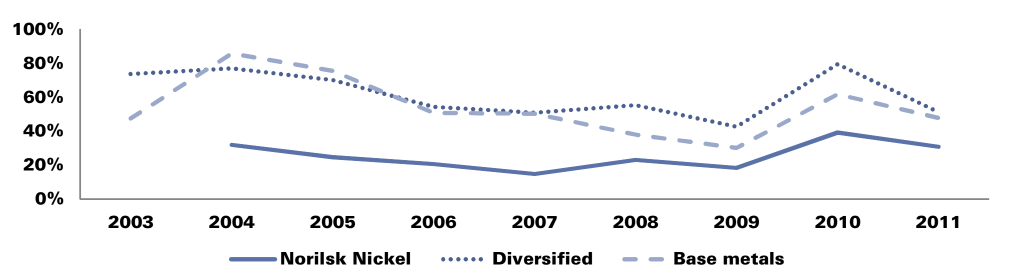
Capex per CU equiv production, US$/t Cu eq. production



Capex as % of PPE gross



Capex as % of EBITDA



Source: Company data, Goldman Sachs Research estimates.

Environmental footprint creates additional pressure

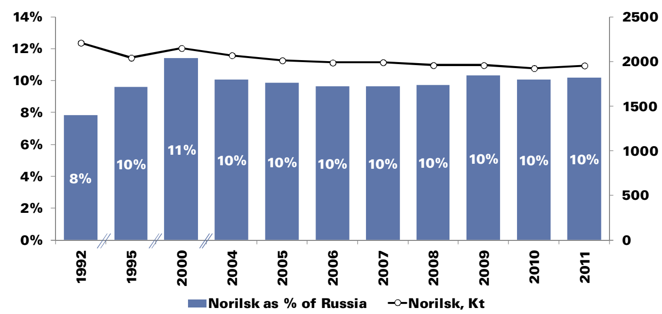
The environmental situation in the city of Norilsk remains challenging. According to the Russian Bureau of Statistics Norilsk remains the most polluted city in Russia (air pollution) and Norilsk Nickel accounts for 99% of the air adverse effects.

Exhibit 13: City of Norilsk accounts for c.10% of overall air pollution in Russia, remaining the most polluted city in Russia
Air pollution in Kt of pollutants from stationary sources

Top-5 polluted cities, 2011		
City	Air pollution,kt	Share
Norilsk	1,955	10%
Novokuznetsk	311	2%
Magnitogorsk	231	1%
Krasnoyarsk	140	1%
Bratsk	118	1%
Russia	19,200	100%

Source: Rosstat.

Exhibit 14: Air discharges reduced by 9% from 2000 to 2011; CAGR of -1%
Air pollution in Kt of pollutants from stationary sources



Source: Rosstat.

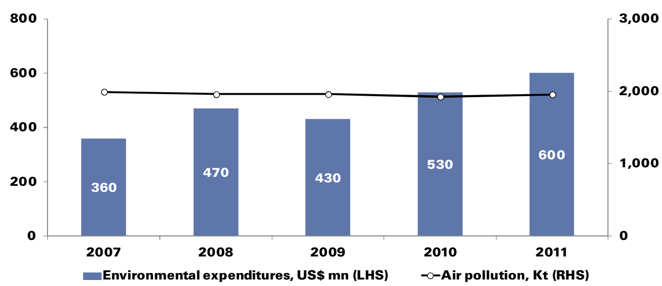
As a result of the activities of the company in the sphere of social responsibility and environmental protection, it remains under scrutiny from the Russian regulator and attracts significant attention from senior leadership of the country. In the summer of 2010 Mr. Putin (Prime Minister of Russia at that time) visited Norilsk and commented that Norilsk Nickel would either invest in its asset base and reduce environmental pollution or pay emissions charges.

According to the latest data disclosed by the company, the total level of investment in the reduction of its environmental footprint amounted to US$2.4 bn over 2007-11, achieving an air pollution reduction of 2%. The company is working on development of further plans to improve the environmental situation in Norilsk and its primary objective is to concentrate on sculpture treatment technologies that should result in the further gradual reduction of SO2 emissions. The announced capex budget devoted to a complex of environmental projects is US$2.0 bn to be invested over 2013-16.

Our analysis of the development program approved by the city of Norilsk highlights that the city administrators envisage c.US$1.2 bn of spending on socioeconomic development over 2013-15, which, according to the public budget, should be financed by companies in the region. The environmental programs account for c.81% of total spending. Exhibit 16 summarizes the budgeted development program financing schedule.

Exhibit 15: Norilsk Nickel investments in environmental protection improvement amounted to US$2.4 bn

Air pollution in Kt of pollutants from stationary sources



Source: Company data, Rosstat.

Exhibit 16: Development program of Norilsk city financed by companies (excl. construction projects)

Norilsk city approved socioeconomic development program up to 2020

	RUB mn	USD mn*	Environmental programs % of total
2013	7,044	231	**70%**
2014	16,336	536	**88%**
2015	13,056	428	**86%**

** RUB/USD 30.5052*

Source: Norilsk-city.ru.

We expect total capex of US$8.7 bn over 2013-15

We updated our capex schedule for Norilsk Nickel on the back of the available information on its mining projects (Maslovskoye, Chita), environmental protection (see above), investments into infrastructure (logistics, utilities, energy), as well as maintenance capex. In our annual capex estimates we attribute US$1.0 bn to maintenance capex, which is equivalent to capex levels by the company over 2009 (the latest economic downturn) when it shrunk its investment budget to only business critical investment activities.

For the remaining capex that we include: we made adjustments to announced budgets to incorporate for inflation and FX rate changes since their announcement (in some instances early 2011) and also performed an analysis of what projects the company announced and schedule them in order of being critical for the continuation of business (e.g. energy and gas projects are critical for energy self-sufficiency and sustainability of the company operations, we thus believe that the company will invest in those first and then move to other auxiliary infrastructure development projects).

As a result of this analysis we expect that the total capex spent over 2013-15 will be US$8.7 bn and its annual investment budget will grow from US$2.3 bn in 2012 to US$3.5 bn in 2015.

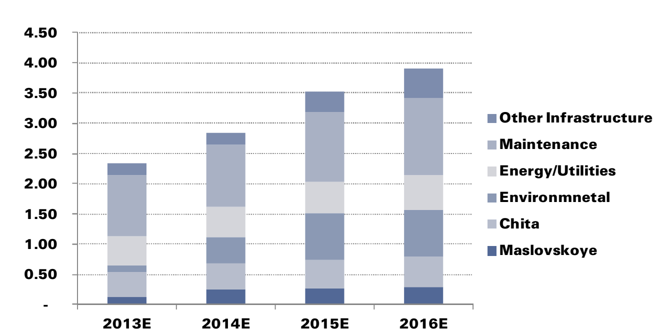
Exhibit 17: Norilsk Nickel capex program

	Budget, US$ bn	Period of investment	Implied CAPEX pa*, US$ bn
Maintenance	1.00	annually	1.00
Projects			
Chita	1.50	2013-16	0.38
Maslovskoye	2.00	2012-20	0.22
Environment	2.00	2012-16	0.40
Infrastructure	15.00	2012-25	1.07
including Energy	*6.10*		*0.44*
Average implied CAPEX pa			**3.07**

* - the announced CAPEX dividend by the number years in period of investment;
** - Average CAPEX pa - sum of implied CAPEX pa, which may fluctuate yoy due to changes in projects schedules

Source: Company data, Goldman Sachs Research estimates.

Exhibit 18: Total capex spent by Norilsk over 2013-15E will amount to US$8.7 bn

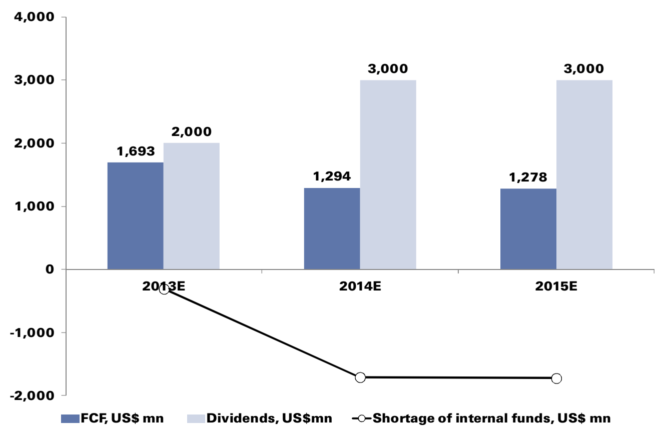


Source: Company data, Goldman Sachs Research estimates.

Financial leverage would rise yet BS strength to persist

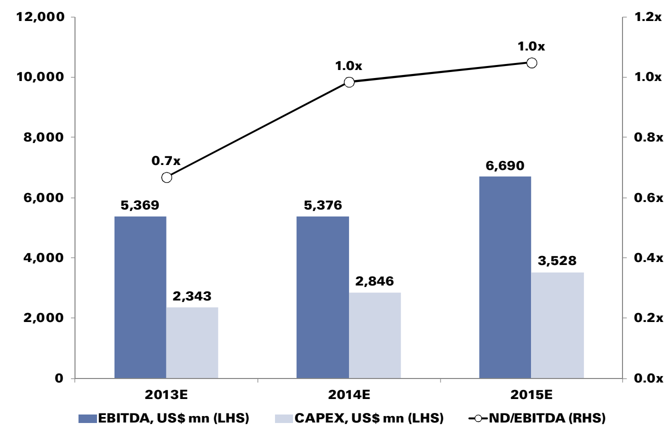
When we combine our expected capex for the company with dividend payments guided by its largest shareholders we find that the company's free-cash flow over 2013-15E does not appear sufficient to cover the dividends (Exhibit 19) and estimate that additional debt will be required to cover both (capex and dividends). As a result, we expect net debt to rise from US$3.3 bn for 2012 to US$7.0 bn in 2015. Yet financial leverage in our view should remain healthy over that period with net debt/EBITDA only at c.1.0x in 2015 (Exhibit 20).

Exhibit 19: Norilsk's free cash flow expected to be lower than dividends over 2013-15



Source: Goldman Sachs Research estimates.

Exhibit 20: We expect net debt/EBITDA to rise to 1.0x from 0.7x



Source: Goldman Sachs Research estimates.

The average net debt/EBITDA for our CEEMEA metals and mining coverage in 2012E equals 2.6x, falling to 1.2x in 2015E, implying Norilsk Nickel maintaining a relatively strong balance sheet.

Lower margins at spot prices, yet limited concerns over leverage

We performed a scenario analysis of our estimates for Norilsk Nickel applying current spot prices instead of Goldman Sachs base-case commodity price assumptions. We found that under current spot prices, the highest downside to our forecasted revenue streams is from Cu and Pd. Further, our average EBITDA margin forecast would fall from c.44% over 2013-15 to c.40% and the amount of debt required to fund both capex and dividends would rise. As a result net debt/EBITDA would reach 1.8x by end-2015E vs. our base case of 1.0x currently.

Exhibit 21: In our spot price scenario Norilsk margins would decline and required leverage would rise

GS base case and spot commodity prices case summary estimates of Norilsk Nickel

		2008	2009	2010	2011	2012F	2013F	2014F	2015F	Spot prices (% vs. GS'13)	
Benchmark commodities prices											
Nickel	US$/t	21,129	14,661	21,841	22,893	17,826	**17,000**	17,236	19,605	**17,015**	*0%*
Copper	US$/t	6,957	5,164	7,551	8,823	8,023	**8,458**	7,017	7,622	**7,797**	*-8%*
Palladium	US$/oz	351	263	527	734	655	**781**	925	1,000	**685**	*-12%*
Platinum	US$/oz	1,571	1,203	1,610	1,723	1,568	**1,544**	1,581	1,625	**1,539**	*0%*
Key financials											
Base case											
Revenue	mn US$	13,980	10,155	12,775	14,122	11,799	12,280	12,305	13,675		
EBITDA	mn US$	5,807	4,416	7,159	6,962	5,141	5,369	5,376	6,690		
margin		*42%*	*43%*	*56%*	*49%*	*44%*	*44%*	*44%*	*49%*		
Net profit	mn US$	(449)	2,747	3,298	3,604	3,167	3,344	3,268	4,120		
margin		*-3%*	*27%*	*26%*	*26%*	*27%*	*27%*	*27%*	*30%*		
Capex	mn US$	(2,360)	(1,061)	(1,728)	(2,201)	(2,355)	(2,343)	(2,846)	(3,528)		
ROE	%	-4.2%	20.1%	19.0%	32.5%	25.1%	23.9%	23.0%	26.8%		
ND/EBITDA	x	0.9x	0.5x	-0.2x	0.6x	0.6x	0.7x	1.0x	1.0x		
Spot price scenario											
Revenue	mn US$	13,980	10,155	12,775	14,122	11,799	11,766	11,838	12,026		
EBITDA	mn US$	5,807	4,416	7,159	6,962	5,141	4,724	4,731	4,973		
margin		*42%*	*43%*	*56%*	*49%*	*44%*	*40%*	*40%*	*41%*		
Net profit	mn US$	(449)	2,747	3,298	3,604	3,167	2,853	2,762	2,783		
margin		*-3%*	*27%*	*26%*	*26%*	*27%*	*24%*	*23%*	*23%*		
Capex	mn US$	(2,360)	(1,061)	(1,728)	(2,201)	(2,355)	(2,343)	(2,846)	(3,528)		
ROE	%	-4.2%	20.1%	19.0%	32.5%	25.1%	21.2%	20.9%	21.4%		
ND/EBITDA	x	0.9x	0.5x	-0.2x	0.6x	0.6x	0.8x	1.3x	1.8x		
Effect of spot 2012 prices on key metrics											
Revenue							-4%	-4%	-12%		
EBITDA							-12%	-12%	-26%		
Net profit							-15%	-15%	-32%		

Source: Goldman Sachs Research estimates.

Stable returns are fairly valued, 12-month price target to US$20.3, Neutral

We set our updated 12-month price target at US$20.3 (up from US$15.0) per GDR, implying upside potential of 7%. Our equity valuation is based on a target EV/EBITDA of 6.0x applied to our 2013/14 estimates. We have revised our target multiple up from 4.5x to 6.0x to reflect corporate improvements and to better capture its PGMs business component (PGM miners historically trade at a premium to other miners). We believe that the latest re-rating of the stock on the back of positive corporate developments will not be reversed as Norilsk Nickel screens strongly vs. its mining peers on both absolute levels of margins and returns and on its progression (demonstrates the strong stability). We re-iterate that company returns are expected to significantly dilute, shifting from 1st quartile for our CEEMEA metals coverage in 2011 to 3rd quartile in 2013E from historical levels.

Our analysis of Norilsk Nickel margins and returns generation capabilities vs. its global mining peers highlights that the company suffered from industry wide returns dilution (driven by both commodity price declines and increased opex/capex pressures). When we look at company performance going forward we expect Norilsk to exert greater margins/returns stability with EBITDA margins remaining stable at c.45% over 2013-15 and CROCI at c.14%.

Exhibit 22: Norilsk Nickel vs. diversified miners and base metals on EBITDA margin, CROCI, FCF yield and EV/EBITDA

EBITDA margin screen	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	07-11 av.	12-15 av.	Progression
Norilsk Nickel	**49%**	**40%**	**45%**	**56%**	**49%**	**44%**	**44%**	**44%**	**49%**	**48%**	**45%**	**-6%**
BHP Billiton Plc	50%	46%	45%	49%	49%	44%	44%	45%	41%	**48%**	**44%**	**-8%**
Rio Tinto plc	42%	49%	33%	43%	43%	35%	37%	37%	31%	**42%**	**35%**	**-16%**
Anglo American plc	30%	33%	26%	37%	37%	26%	27%	24%	20%	**33%**	**24%**	**-25%**
Vale	48%	47%	38%	55%	55%	32%	49%	51%		**49%**	**44%**	**-10%**
ENRC	42%	61%	44%	47%	44%	30%	32%	30%	29%	**48%**	**30%**	**-36%**
Average diversified miners	42%	47%	37%	46%	46%	34%	38%	37%	30%			
KGHM Polska Miedz S.A.	42%	36%	33%	39%	71%	37%	35%	30%	26%	**44%**	**32%**	**-28%**
Kazakhmys	44%	32%	33%	53%	50%	37%	39%	28%	32%	**42%**	**34%**	**-19%**
Freeport-McMoRan Copper & Gold Inc.	46%	-61%	50%	53%	49%	39%	44%	37%		**27%**	**40%**	**47%**
Vedanta Resources	38%	28%	28%	31%	29%	36%	39%	36%	35%	**31%**	**36%**	**18%**
First Quantum Minerals	61%	42%	58%	56%	55%	45%	56%	55%	60%	**54%**	**54%**	**-1%**
Average base metals	46%	15%	40%	46%	51%	39%	42%	37%	38%			

CROCI screen	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	07-11 av.	12-15 av.	Progression
Norilsk Nickel	**29.8%**	**13.2%**	**14.0%**	**23.5%**	**20.1%**	**14.7%**	**13.9%**	**12.9%**	**14.5%**	**20%**	**14%**	**-30%**
BHP Billiton Plc			22.1%	27.7%	24.8%	16.8%	15.1%	14.4%	12.0%	**25%**	**15%**	**-41%**
Rio Tinto plc		17.1%	7.5%	15.9%	15.8%	9.7%	9.8%	10.1%	7.4%	**14%**	**9%**	**-34%**
Anglo American plc	15.1%	18.1%	10.1%	12.3%	13.4%	7.6%	8.4%	7.0%	5.2%	**14%**	**7%**	**-49%**
Vale	15.3%	27.8%	6.5%	21.5%	25.5%	11.7%	13.2%	12.6%		**19%**	**12%**	**-35%**
ENRC		43.2%	13.7%	23.9%	18.9%	8.2%	8.0%	7.3%	6.8%	**25%**	**8%**	**-70%**
Average diversified miners	15.2%	26.5%	12.0%	20.3%	19.7%	10.8%	10.9%	10.3%	7.9%			
KGHM Polska Miedz S.A.	27.6%	22.4%	15.9%	29.3%	45.6%	20.2%	17.6%	12.6%	10.2%	**28%**	**15%**	**-46%**
Kazakhmys	22.6%	15.5%	10.9%	11.8%	6.1%	6.6%	6.3%	3.3%	4.7%	**13%**	**5%**	**-61%**
Freeport-McMoRan Copper & Gold Inc.	25.3%	16.9%	24.0%	30.4%	27.2%	17.7%	19.8%	13.3%		**25%**	**17%**	**-31%**
Vedanta Resources	54.2%	15.3%	17.0%	11.4%	2.3%	9.6%	13.8%	12.6%	12.4%	**20%**	**12%**	**-40%**
First Quantum Minerals	41.8%	26.7%	12.7%	31.6%	1.2%	1.5%	19.4%	18.5%	25.9%	**23%**	**16%**	**-28%**
Average base metals	34.3%	19.3%	16.1%	22.9%	16.5%	11.1%	15.4%	12.1%	13.3%			

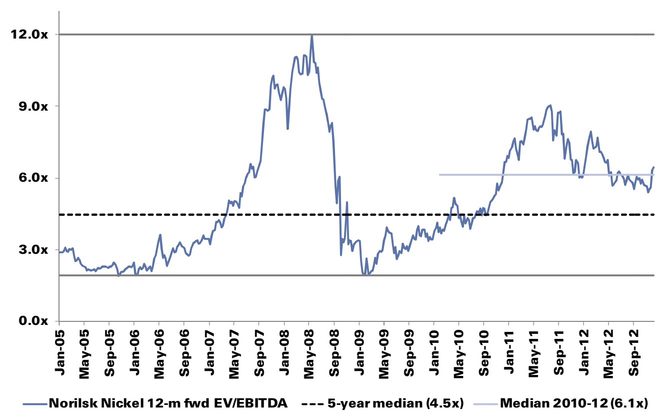
FCF yield screen	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	07-11 av.	12-15 av.	Progression
Norilsk Nickel	**14.0%**	**5.4%**	**13.0%**	**12.1%**	**6.2%**	**7.2%**	**5.7%**	**4.3%**	**4.3%**	**10%**	**5%**	**-47%**
BHP Billiton Plc		5.2%	6.3%	8.4%	6.4%	0.5%	1.2%	3.5%	3.2%	**7%**	**2%**	**-68%**
Rio Tinto plc	4.3%	9.0%	5.3%	12.4%	7.7%	-4.7%	0.9%	4.4%	2.2%	**8%**	**1%**	**-91%**
Anglo American plc	4.6%	7.9%	-5.2%	4.6%	8.3%	0.5%	2.8%	2.3%	2.5%	**4%**	**2%**	**-50%**
Vale	3.2%	4.0%	-4.2%	3.8%	6.9%	-2.3%	2.3%	4.3%		**3%**	**1%**	**-48%**
ENRC	0.3%	6.1%	2.1%	5.3%	0.1%	-10.0%	-7.9%	-2.5%	4.0%	**3%**	**-4%**	**-248%**
Average diversified miners	3.1%	6.4%	0.9%	6.9%	5.9%	-3.2%	-0.1%	2.4%	3.0%			
KGHM Polska Miedz S.A.	16.3%	10.2%	8.8%	18.6%	21.7%	6.8%	10.5%	8.5%	5.2%	**15%**	**8%**	**-49%**
Kazakhmys	5.8%	4.1%	7.6%	4.6%	6.4%	-8.1%	-5.4%	-10.5%	-4.3%	**6%**	**-7%**	**-224%**
Freeport-McMoRan Copper & Gold Inc.	15.3%	2.1%	11.5%	12.3%	8.5%	0.5%	6.2%	4.0%		**10%**	**4%**	**-64%**
Vedanta Resources	3.6%	-3.9%	-6.1%	-3.0%	-3.2%	6.2%	15.6%	17.0%	19.8%	**-3%**	**15%**	**0%**
First Quantum Minerals	22.8%	36.0%	4.9%	6.3%	-6.2%	-8.3%	1.2%	6.6%	10.7%	**13%**	**3%**	**-80%**
Average base metals	12.8%	9.7%	5.3%	7.8%	5.4%	-0.6%	5.6%	5.1%	7.8%			

EV/EBITDA	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	07-11 av.	12-15 av.	Progression
Norilsk Nickel	**5.6**	**7.7**	**3.8**	**3.8**	**6.1**	**6.1**	**5.9**	**6.2**	**5.2**	**5.40**	**5.85**	**8%**
BHP Billiton Plc	6.6	6.7	6.0	6.0	5.9	6.1	6.5	6.2	6.9	**6.22**	**6.41**	**3%**
Rio Tinto plc	9.1	4.6	5.3	4.8	5.1	7.6	6.6	5.9	7.8	**5.77**	**6.98**	**21%**
Anglo American plc	8.0	6.7	7.5	5.0	4.5	6.4	5.3	6.2	7.7	**6.34**	**6.41**	**1%**
Vale	9.1	8.2	13.5	7.0	5.2	8.7	4.9	4.6		**8.61**	**6.06**	**-30%**
ENRC	6.7	4.6	7.8	6.1	5.0	5.8	5.2	5.2	5.3	**6.06**	**5.38**	**-11%**
Average diversified miners	7.9	6.2	8.0	5.8	5.1	6.9	5.7	5.6	6.9			
KGHM Polska Miedz S.A.	4.2	4.4	4.7	4.1	1.7	3.9	3.3	4.4	5.1	**3.81**	**4.20**	**10%**
Kazakhmys	4.9	7.6	6.0	6.9	6.3	6.6	6.3	11.0	7.8	**6.34**	**7.92**	**25%**
Freeport-McMoRan Copper & Gold Inc.	5.0		4.1	4.0	4.6	5.2	3.5	4.8		**4.42**	**4.47**	**1%**
Vedanta Resources	4.2	7.0	6.4	6.0	7.2	5.0	3.6	3.6	3.1	**6.15**	**3.83**	**-38%**
First Quantum Minerals	1.5	1.8	3.0	4.2	7.3	8.0	4.9	4.4	2.5	**3.59**	**4.91**	**37%**
Average base metals	4.0	5.2	4.8	5.0	5.4	5.7	4.3	5.6	4.6			

Source: Company data, Goldman Sachs Research estimates, Quantum database.

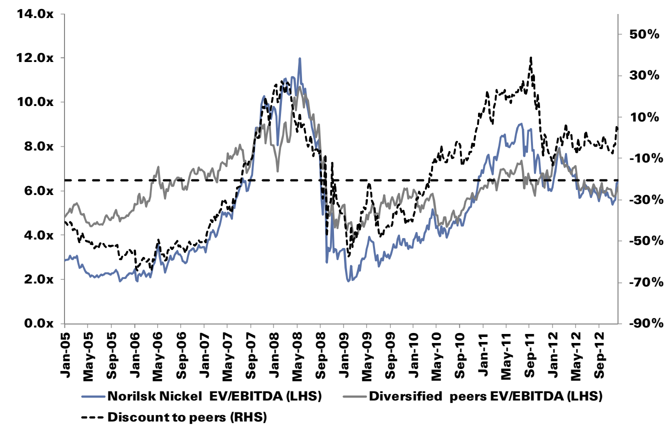
This margins/returns profile in our view should be supportive for the company's valuation range going forward and we expect that the re-rating post improvements in the corporate situation should be sustained and do not expect the stock to de-rate to its median multiple of 4.5x since 2005.

Exhibit 23: We expect Norilsk to trade above its median of 4.5x since 2005
12-month forward EV/EBITDA



Source: FactSet, Goldman Sachs Research estimates.

Exhibit 24: Norilsk trades close to diversified peers on EV/EBITDA
12-month forward EV/EBITDA



Source: FactSet, Goldman Sachs Research estimates.

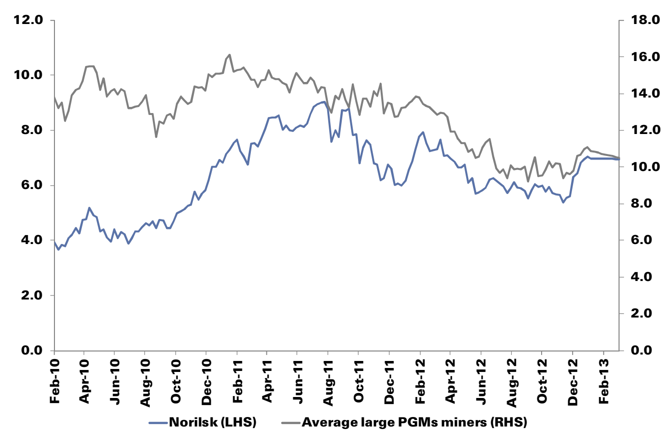
We further highlight that Norilsk Nickel's trading pattern has lately showed greater similarities to the trading pattern of PGM stocks. We attribute this to the scarcity value of available equity instruments to get liquid PGMs exposure, and as we expect the contribution of PGMs to the results of Norilsk Nickel to increase over time (given our price outlook and the company's mining profile) we believe this may be an additional argument for the sustainability of a higher multiple for Norilsk Nickel.

Exhibit 25: PGMs account for c.30% in consolidated revenue
Consolidated revenue split by commodities

	Av. 98-10	2011	2012E	2013E	2014E	2015E
Ni	49%	51%	47%	44%	44%	46%
Cu	22%	25%	25%	28%	24%	23%
Pd	17%	15%	16%	19%	23%	22%
Pt	11%	9%	10%	10%	10%	9%

Source: Company data, Goldman Sachs Research estimates.

Exhibit 26: Norilsk Nickel and PGM stocks demonstrated the same EV/EBITDA dynamics since January 2012
12-month forward EV/EBITDA



Source: FactSet, Goldman Sachs Research estimates.

We update our valuation for Norilsk Nickel by shifting our target multiple to 6.0x (reflecting the median trading range over 2010-12) to capture the stock re-rating on positive corporate developments and greater PGMs impact to the earnings we expect going forward. We set our 12-month target price at US$20.3, which currently implies upside potential of 7%. The stock currently trades at 2013/14E EV/EBITDA of 5.9x/6.2x vs. our target multiple of 6.0x and vs. the diversified peer average of 5.7x/5.6x. We find it fairly valued, and rate the shares Neutral.

Exhibit 27: We set our 12-month target price at US$20.3 per GDR

in mn US$, unless otherwise stated	2013	2014		
EBITDA	5,369	5,376		
Target EBITDA multiple, x	6.0x	6.0x		
Target EV	**32,213**	**32,258**		
Less				
Net Debt	3,587	5,293		
Add				
Associates	1,942	1,942		
Less				
Minorities	107	107		
Add				
Dividends	2,000	3,000		
Price, US$	**20.5**	**20.1**	**12-m TP, US$**	**20.3**

Source: Goldman Sachs Research estimates.

Summary estimates changes

We only marginally update our expectations with respect to the underlying operating dynamics of Norilsk Nickel that and therefore our revenue, EBITDA and net income (EPS) estimates are largely unchanged. We have incorporated the profile of dividend payments provided by the largest shareholders and our updated view on capex post our analysis of the latest available investor presentation from the company.

Exhibit 28: Norilsk Nickel summary estimates changes

		2012E	Change	2013E	Change	2014E	Change
Financials							
Revenue							
New	USD mn	11,799	*0%*	12,280	*0%*	12,305	*0%*
Old	USD mn	11,799		12,280		12,305	
EBITDA							
New	USD mn	5,141	*2%*	5,369	*0%*	5,376	*0%*
Old	USD mn	5,036		5,367		5,376	
EPS							
New	USD per GDR	2.00	*3%*	2.11	*1%*	2.07	*0%*
Old	USD per GDR	1.95		2.10		2.07	
DPS*							
New	USD per GDR	1.26	*159%*	1.90	*261%*	1.90	*266%*
Old	USD per GDR	0.49		0.53		0.52	
Capex							
New	USD mn	2,355	*0%*	2,343	*-6%*	2,846	*14%*
Old	USD mn	2,355		2,500		2,500	

* - Dividends paid next year on the back of previous year result

Source: Company data, Goldman Sachs Research estimates.

Exhibit 29: Price performance of Norilsk Nickel vs. peer group
Prices as of the close on January 8, 2013

Company	Ticker	Primary analyst	Price currency	Price as of Jan 8, 2013	Price performance since Oct 24, 2011	3 month price performance	6 month price performance	12 month price performance
Europe Mining Peer Group								
Norilsk Nickel	**NKELyq.L**	**Yulia Chekunaeva**	**$**	**19.00**	**-11.7%**	**18.9%**	**16.5%**	**25.4%**
Anglo American Platinum	AMSJ.J	Eugene King	R	465.00	-14.8%	15.4%	7.2%	-14.2%
AngloGold Ashanti	ANGJ.J	Eugene King	R	251.00	-24.9%	-17.2%	-9.4%	-30.3%
ChelPipe	CHEP.MM	Yulia Chekunaeva	Rubl	42.42	-44.2%	23.0%	46.3%	-27.7%
ENRC	ENRC.L	Yulia Chekunaeva	p	306.90	-55.2%	-5.8%	-26.9%	-56.4%
Erdemir	EREGL.IS	Yulia Chekunaeva	YTL	2.54	1.1%	16.5%	23.9%	9.6%
Evraz Plc	EVRE.L	Yulia Chekunaeva	p	271.90	NA	11.1%	10.4%	-29.5%
Ferrexpo Plc	FXPO.L	Yulia Chekunaeva	p	273.00	-12.0%	32.2%	24.3%	-7.7%
Gold Fields	GFIJ.J	Eugene King	R	101.88	-19.8%	-6.5%	0.4%	-21.0%
Harmony Gold	HARJ.J	Eugene King	R	66.82	-30.8%	-3.9%	-12.5%	-32.3%
Impala Platinum Holdings Ltd.	IMPJ.J	Eugene King	R	166.00	-4.3%	15.4%	28.4%	-4.1%
IRC Ltd	1029.HK	Yulia Chekunaeva	HK$	1.21	6.1%	112.3%	36.0%	13.1%
Israel Chemicals	ICL.TA	Dzhuni Astor	NIS	45.81	3.2%	-6.5%	7.1%	13.8%
Jastrzebska Spolka Weglowa S.A.	JSW.WA	Yulia Chekunaeva	PLN	93.50	0.8%	0.8%	-5.3%	5.1%
Kenmare Resources	JEV.L	Fawzi Hanano	p	32.81	-18.0%	-17.2%	-14.1%	-30.9%
KGHM Polska Miedz S.A.	KGH.WA	Yulia Chekunaeva	PLN	193.10	28.8%	23.5%	28.6%	69.4%
Koza Gold	KOZAL.IS	Yulia Chekunaeva	YTL	43.70	97.7%	14.1%	17.8%	84.4%
Magnitogorsk Steel	MAGNq.L	Yulia Chekunaeva	$	4.50	-32.0%	-6.1%	20.1%	-13.1%
Mechel	MTL	Yulia Chekunaeva	$	7.06	-45.8%	1.1%	13.5%	-22.0%
Mechel (Pref)	MTL__p	Yulia Chekunaeva	$	2.15	-54.4%	-17.3%	-14.7%	-40.9%
New World Resources Plc	NWRR.L	Yulia Chekunaeva	p	308.80	-41.2%	14.4%	-13.7%	-32.3%
Novolipetsk Steel	NLMKq.L	Yulia Chekunaeva	$	21.69	-23.2%	7.5%	30.5%	1.4%
Petropavlovsk PLC	POG.L	Yulia Chekunaeva	p	364.60	-52.5%	-15.4%	-20.5%	-45.7%
Polymetal International Plc	POLYP.L	Yulia Chekunaeva	p	1147.00	NA	-0.3%	32.7%	1.9%
Polyus Gold International	PGIL.L	Yulia Chekunaeva	p	200.00	NA	-9.6%	-2.4%	NA
Raspadskaya	RASP.MM	Yulia Chekunaeva	Rubl	60.55	-35.0%	-20.3%	-26.2%	-40.2%
Severstal	CHMFq.L	Yulia Chekunaeva	$	12.83	-6.1%	1.1%	11.4%	1.7%
Sierra Rutile	SRXR.L	Fawzi Hanano	p	57.50	88.5%	-21.2%	-24.6%	11.1%
TMK	TRMKq.L	Yulia Chekunaeva	$	15.74	22.0%	1.1%	23.8%	49.9%
United Company Rusal	0486.HK	Yulia Chekunaeva	HK$	4.99	-27.0%	12.4%	14.4%	7.5%
Uralkali	URKAq.L	Dzhuni Astor	$	38.40	-7.8%	-6.4%	-2.7%	6.7%
MSCI Russia				**815.83**	**2.0%**	**1.0%**	**11.8%**	**6.8%**

Note: Prices as of most recent available close, which could vary from the price date indicated above
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

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Source: Quantum database, FactSet.

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Reg AC

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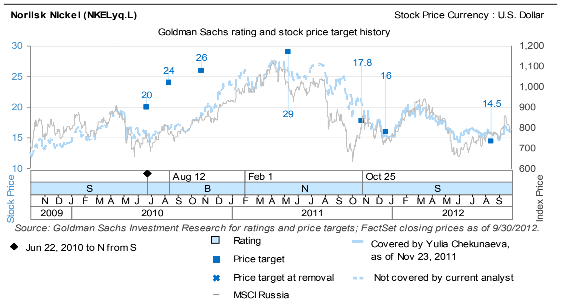

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