

FORDING
VBS

Fording's three way merger

The takeover battle for Canadian-based coal producer Fording Inc. (*MJ*, January 10, p.30) took an unexpected twist this week when all the parties involved announced that they are to join forces to form the world's second-largest metallurgical-coal producer. Fording Inc., Teck Cominco Ltd, Westshore Terminals Income Fund, Sherritt International Corp. and the

Ontario Teachers' Pension Plan have agreed a plan of arrangement whereby the metallurgical coal assets of Fording, Teck Cominco and the Luscar Energy Partnership (owned 50:50 by Sherritt and Ontario Teachers') will be combined to form the Fording Canadian Coal Trust.

The combined metallurgical coal assets will be

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SUAL teams up with Flemings

Russia's second-largest aluminium producer, the SUAL group, is to pool its assets with Access Industries (Eurasia) LLC, a Moscow-based Kazakh thermal-coal producer, in a new, international company, in which the Fleming Family will hold a significant interest. SUAL has been keen to list its assets for some time, and in the middle of last year announced plans for an initial public offering sometime this year (*MJ*, July 5, 2002, p.17). This week, the head of the SUAL group, Victor Vekselberg, described the new partnership as "a further step in the process of preparing SUAL for the international capital markets". However, no details are yet available.

The Fleming family is famous as the founder and major shareholder in

the London-based investment bank Robert Fleming, prior to the latter's acquisition by the US bank Chase for US\$7.7 billion in 2000. The Flemings, through their independent investment house Fleming Family & Partners (FF&P), have already been active in the Russian resources sector, most prominently in the listing of Highland Gold Mining Ltd on London's AIM market at the end of last year (*MJ*, December 6, 2002, p.395).

In the SUAL deal, a group of international investors led by FF&P will acquire a 23% interest in the new company, in return for an undisclosed financial investment plus the contribution by FF&P of a 65% interest in Las Camariocas, a nickel project in Cuba, and the Marropino tantalum project in Mozambique. The balance of the new company will be held by the existing shareholders in SUAL and Access Industries. Management for the new company will be drawn from the international business world.

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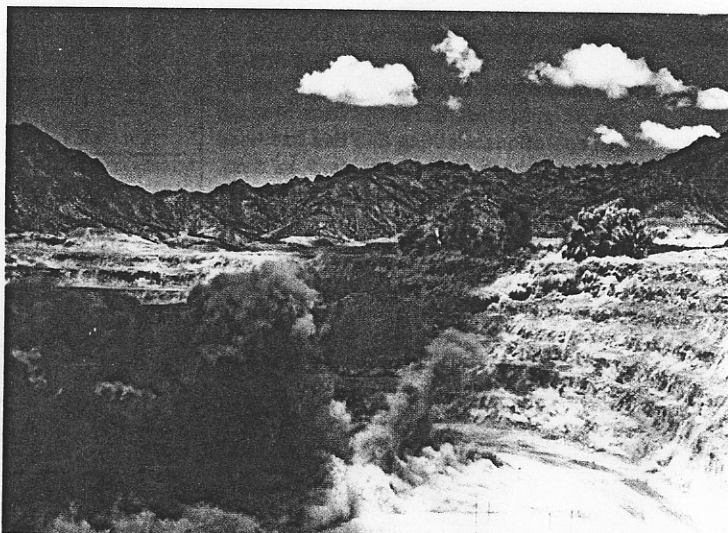
The SUAL group of companies comprises 21 businesses, including bauxite mines, alumina refineries, primary aluminium smelters and downstream plants. Its current production capacity is 4.4 Mt/y of bauxite, 2.0 Mt/y of alumina, 840,000 t/y of primary aluminium and 120,000 t/y of aluminium products. The group also produces about 51,000 t/y of silicon. SUAL's output is predominantly exported, 48% going to Europe, 16% to Asia, 14% to the US and 22% to domestic customers.

SUAL Holdings was formed to manage the group of companies in 2000, principally through the merger of Siberian-Urals Aluminium Co. and Traskonsalt (*MJ*, May 26, 2000, p.413). SUAL now ranks itself sixth in the world in terms of aluminium production, following the very recent purchase of a 32% interest in the 74,000 t/y Nadvoitsy smelter from Rusal (taking SUAL's interest to 92%) and the acquisition

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Rio Tinto to exit Alumbraera

The Rio Tinto group has signed a non-binding 'letter of intent' with Wheaton River Minerals Ltd of Canada under which the latter will buy a 25% interest in Minera Alumbraera Ltd and a 100% interest in the Peak gold mine in New South Wales for US\$210 million. Wheaton River will have the option to defer up to US\$70 million of the payment for up to two years. The deal is dependent on Wheaton River raising the necessary finance, the parties reaching a definitive agreement, regulatory and third-party approvals and, in the case of Alumbraera, the waiving of pre-emption rights. *Continued on p.36*



The Alumbraera open pit. (Photograph courtesy of Arturo Llupia.)

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Fording battle resolved

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held via a coal partnership. The assets will include those of Luscar Energy and CONSOL Energy Inc. (namely the Line Creek mine, the Luscar mine, the Cheviot deposit and a 46.4% interest in Neptune Bulk Terminals (Canada) Ltd), as well as the assets of Fording and Teck Cominco in the Elk Valley of British Columbia. In turn, the partnership will be owned 65% by the new Fording Trust and 35% by Teck Cominco, which will also contribute C\$125 million in cash to, and be manager of, the partnership. As such, Teck Cominco will also have the right to earn up to an additional 5% interest over a four-year period, conditional on the partnership achieving certain operating-cost-reduction targets.

Under the terms of the new agreement, Fording shareholders have a choice of receiving either C\$35.00/share in cash, up to a maximum of C\$1.05 billion, one unit per share in the new Fording Income Trust, up to a maximum of around 21.4 million units, or a combination of the two. This compares with C\$35.00/share in cash

or one unit per share offered by Sherritt and the Ontario Teachers' via their previous, hostile bid, and C\$34.00/share in cash or one unit per share available under the previous Teck Cominco-Westshore Terminals offer. Assuming the cash portion of the offer is fully subscribed, Fording shareholders will hold 18.3 million units in the Fording Trust, representing 38.8%.

The Sherritt Coal Partnership II, a joint venture between Sherritt and Ontario Teachers', will invest C\$375 million in cash in the new trust (Ontario Teachers' C\$275 million, Sherritt C\$100 million) in exchange for a 22.7% interest. As Ontario Teachers' has also agreed to receive units in the trust in respect of its current shareholding in Fording, it will also have an additional 6.7% holding in the trust. Teck Cominco and Westshore Terminals will each invest C\$150 million in cash in the Fording Trust, giving each of them a 9.1% interest. Finally, Luscar and CONSOL will each receive 3.2 million units in the Fording Trust, in exchange for the contribution of their assets, equivalent to 6.8% each. (All percentages are based on Fording shareholders electing for the maximum cash available.)

In addition to regular quarterly distributions, holders of the new income trust units will receive a special distribution of C\$1.48/unit, half of which will be paid with the first quarterly distribution and the remainder with the subsequent quarterly distribution.

The proposed deal will result in significant consolidation of the Canadian metal-

lurgical coal industry. The new coal partnership will be the world's second-largest producer of metallurgical coal (the BHP Billiton group is currently the world's largest producer), producing around 20% of global seaborne, high-quality metallurgical coal. Sales in 2003 are estimated to be approximately 25 Mt, compared with the 14 Mt that Fording had forecast for the year.

David Thompson, deputy chairman and chief executive of Teck Cominco, said of the proposed transaction: "The agreement ... creates a world-class competitor in the metallurgical coal industry." This view was reinforced by Fording's president and chief executive, Jim Gardiner, who described the deal as "the most significant transformation in the history of the Canadian coal industry". He added: "It is the most significant reshaping and rationalisation ... of the Canadian metallurgical coal industry that any of us know of." The new proposal is subject, amongst other conditions, to the approval of Canada's Competition Bureau, which was in the process of evaluating the previous offers for Fording. However, Fording does not believe that the deal will be affected by antitrust concerns.

On formation, the Fording Trust is expected to have a pro forma consolidated capitalisation of approximately C\$2 billion, including pro forma consolidated debt of around C\$336 million. Michael Grandin, currently a director of Fording, will be chairman and chief executive of the Fording Trust, and Jim Gardiner will be president of the Trust and also president and chief executive of the coal partnership. Cost savings from operating synergies under the proposed combination are expected to be significantly higher than the C\$50 million estimated under previous offers, although no actual estimate has been released.

The new coal partnership will enter into a long-term port-services contract with Westshore, similar to that previously agreed under the terms of the Teck Cominco-Westshore bid (*MJ*, December 6, 2002, p.393). In addition, the Sherritt Coal Partnership II has agreed to acquire Fording's thermal coal assets for C\$225 million. The Fording Trust will retain a royalty on production from certain properties included in this sale, capped at 5% of gross revenue.

The Fording board has unanimously recommended that its shareholders accept the proposed combination at a special meeting already scheduled to be held next Wednesday (January 22). The Sherritt Coal Partnership has agreed to withdraw its current offer which was due to close on January 23. The usual regulatory approvals are also required. If approved, it is hoped that the transaction will be completed during February. □

SHARE PRICES AND EXCHANGE RATES

Company	Jan 15 Local	Change 5-day %	Local hi-lo	US\$ mill. Mkt cap.	Company	Jan 15 Local	Change 5-day %	Local hi-lo	US\$ mill. Mkt cap.
Alcan (C\$)	48.45	2.3	39	10,124	Outokumpu (€)	9.15	4.9	22	1,672
Alcoa (US\$)	22.55	3.2	22	19,051	Pasminco (A\$)	0.05*	0.0	0	33
Anglo Platinum (R)	352.00	8.0	24	8,580	Peabody Energy (US\$)	28.21	3.4	81	1,476
Anglo American (£)	9.27	3.5	39	21,799	Pechiney 'A' (€)	30.21	-5.1	15	2,643
AngloGold (R)	300.50	0.2	68	7,595	Phelps Dodge (US\$)	35.37	7.9	64	3,144
Anglovaal Mining (R)	45.50	13.6	100	580	Placer Dome (C\$)	17.05	-7.2	45	4,991
Antofagasta (£)	6.03	-2.2	74	1,905	Potash Corp. of Sask. (C\$)	100.20	-0.4	70	3,393
Arch Coal (US\$)	20.65	-0.8	82	1,082	PT Timah (Rp)	515.00	37.3	46	29
Ashanti Goldfields (US\$)	6.02	-0.8	58	766	Rio Tinto plc (£)	12.24	-2.9	49	20,889
Barrick Gold (C\$)	23.35	-4.6	14	8,219	Stillwater Mining (US\$)	5.17	-3.2	4	225
BHP Billiton Ltd (A\$)	9.88	-0.8	47	21,595	Sumitomo Met. Min. (¥)	473.00	-3.3	45	2,294
BHP Billiton plc (£)	3.26	-0.5	53	12,900	Teck Cominco 'B' (C\$)	12.91	10.5	55	1,558
Boliden (C\$)	2.60	3.6	18	145	UK Coal plc (£)	0.50	-1.5	8	117
Caemi Mineracao (BR)	477.00	-3.6	63	566	WMC Resources (A\$)	4.30	-0.7	78	2,835
Cameco (C\$)	39.00	0.5	59	1,420	Xstrata plc (£)	6.24	-3.3	24	2,525
Cleveland-Cliffs (US\$)	21.53	6.5	35	219	Share prices and exchange rates are intra-day Wednesday. 100 in the high/low column indicates that the share is trading at a high, 0 that it is at a low, based on local prices over the past 52 weeks.				
CVRD (BR)	93.80	-1.3	71	10,682	Currencies Jan 15				
Eramet (€)	23.00	2.2	35	610	Value of				
Falconbridge (C\$)	17.70	12.1	58	2,087	£				
Freeport-Mc. C&G (US\$)	17.20	3.4	67	2,492	US\$				
Gold Fields Ltd (R)	116.26	-1.5	49	6,225	\$ (US)		1.60	1.00	
Grupo Mexico (MP)	12.15	4.3	29	756	\$ (Australian)		2.74	1.71	
Hindalco (Rs)	600.00	3.0	33	922	\$ (Canadian)		2.47	1.54	
HZL (Rs)	16.85	-1.2	9	148	Ringgit (Malaysian) Fixed official rate...		6.09	3.80	
Iluka (A\$)	4.65	0.6	39	633	Franc (Swiss)		2.22	1.38	
IMC Global (US\$)	11.14	5.1	37	1,281	Krona (Swedish)		13.90	8.67	
Impala Plat. (R)	600.00	2.6	60	4,533	Yen		189.09	117.94	
Inco (C\$)	34.96	5.3	89	4,163	Rand (SA)		14.12	8.81	
Industrias Peñoles (MP)	21.78	4.3	79	826	€ (Euro)		1.52	0.95	
Iscor (R)	23.80	8.2	80	1,204	*Suspended				
KGHM (Zł)	14.30	3.6	55	751					
Kumba Resources (R)	33.72	1.0	16	1,137					
Lonmin plc (£)	7.93	-2.1	15	1,780					
MIM Holdings (A\$)	1.57	4.0	98	1,835					
Minsur (PS)	4.80	1.1	166	596					
Mitsui Min. & Smelt. (¥)	287.00	6.3	28	1,361					
Newmont Mining (US\$)	27.64	-3.8	61	11,103					
Noranda Mining (C\$)	16.05	7.0	36	2,488					
MMC Norilsk Nickel (US\$)	23.00	6.2	79	4,920					
Norsk Hydro (NK)	304.50	-0.7	19	11,768					

Source: Bloomberg