

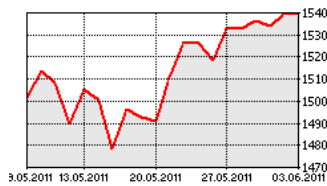
# MetalsMining

Russia/CIS

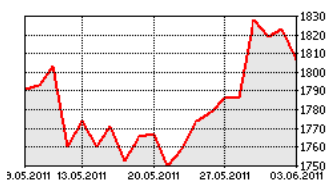
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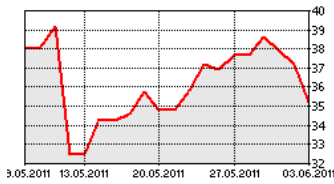
Gold LSE



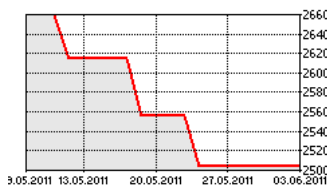
Platinum LSE



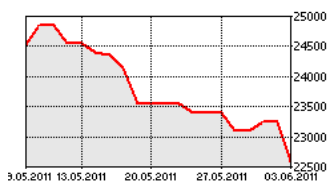
Silver LSE



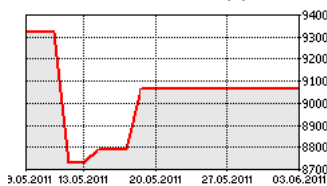
Aluminium LME



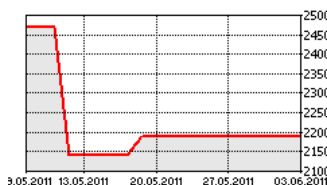
Nickel LME



Copper LME



Zinc LME



Dear subscriber,  
The next issue of MetalsMining will be released on Monday, June 20 as the Russia Day public holiday is observed on June 12th and the day off has been moved to Monday, June 13, with all markets closed.

## Russian bid for large Mongolian coal field has good chances to win

Russian state-owned railroad company Russian Railways and a consortium led by the company may become the first representatives of Russian business to develop a large coal mining project in Mongolia, as the consortium is taking part in a tender for the right to develop the Tavan Tolgoi coal deposit, which is one of the largest in the world.

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## PwC: Global metals M&A value more than doubles on year in first quarter

The value of global metals mergers and acquisitions (M&A) more than doubled on the year to U.S. \$12.9 billion in January–March from \$6.3 billion in the same period of 2010, according to Forging ahead, a quarterly analysis of M&A activity in the global metals sector by PricewaterhouseCoopers (PwC). In the period, the average size of the deal amounted to \$500 million, as compared to \$300 million in the same period of 2010. There were four mega deals in the period, worth at least \$1 billion, PwC said. “Mega deals will continue to be an important factor in M&A activity as 2011 progresses and will likely drive increased deal values in future quarters”.

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Stock Trading Results

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### Focus

## Russian bid for large Mongolian coal field has good chances to win

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The Mongolian authorities are expected to soon determine the participants of the project, and the Russian bid has a good chance of winning, as Russian Railways is promising to build a railroad in Mongolia, Russia's neighbor, which can be the bid's key advantage, analysts said, adding that if the Russian Railways-led consortium wins, the railroad company is likely to hire Russian coal mining companies to develop the deposit.

The expansion of Russian companies into the Mongolian coal mining industry is, however, aimed not at supplying high-quality coal to Russia, which has enough of its own resources to satisfy the growing demand for coal, but at selling the coal to Asian countries, analysts noted. In June–July, the Mongolian authorities plan to determine participants for the development of the Tavan Tolgoi coal deposit, which is one of the world's largest deposits, with 6.5 billion tonnes of coal, Vladimir Yakunin, president of Russian Railways, said Tuesday.

Under the plan to develop Tavan Tolgoi, the Mongolian government is expected to keep a 50% stake in the deposit, while a 30% stake is expected to be given to foreign investors at a tender, a 10% stake is expected to be held by Mongolian companies, and the remaining 10% is expected to be owned by Mongolian individuals.

Besides the Russian Railways-led consortium, companies from all other BRICS countries, namely Brazil, India, China, and South Africa, are interested in the Tavan Tolgoi deposit, Yakunin said.

The Russian Railways-led consortium also includes Russia's Siberian Coal Energy Company (SUEK), some Japanese and South Korean companies, and may also include Chinese companies, Yakunin said in February. Russian multi-industry holding Renova Group controlled by businessman Viktor Vekselberg and businessman Oleg Deripaska's multi-industry holding Basic Element (BasEl) have also expressed their desire to take part in Tavan Tolgoi exploration.

It is hard to forecast whether the Russian bid will win the tender, as there is a significant political factor, which will play an important part in determining the winner, investment bank UBS' metals and mining analyst Alexei Morozov said.

The Russian bid has a good chance of winning the tender, as Mongolia has traditionally closely cooperated with Russia, investment company Aton metals and mining analyst Ilya Makarov said. Meanwhile, if Russian Railways' consortium wins the tender, this will be the first large coal mining project of Russian companies in Mongolia, Makarov said, adding that "Russia and Mongolia haven't cooperated in coal mining yet."

At least private Russian metals and mining companies have not yet been involved in coal mining or other metallurgy projects in Mongolia, Morozov from UBS said, adding that Australian companies, for instance, have some copper projects in Mongolia.

Russian Railways is unlikely to develop coal mining at Tavan Tolgoi itself, but is expected to hire Russian coal mining companies to do the mining, Makarov from Aton said.

The key advantage of the Russian bid is that Russian Railways plans to develop transport and other infrastructure around Tavan Tolgoi, Makarov said. "The Mongolian government is likely to consider the bids as complex projects, so developing infrastructure could be an attractive feature of the Russian bid," he said, adding that Mongolia does not have its own resources and expertise to develop such a large field.

The development of the project requires the construction of a 400-kilometer rail road and an electric power station.

### Focus

The promise to build infrastructure may indeed be “a sweet dressing” for the Russian bid, Morozov from UBS said, adding that the planned infrastructure is likely to help the participants successfully develop the coal field.

Yury Volov, director of equity market department at Bank of Moscow agreed, saying the main advantages of the Russian consortium are the experience of Russian Railways and the geographical proximity of Russia and Mongolia. Makarov from Aton agreed, saying “taking into account Russian Railways’ experience in building infrastructure, the development of the field by the company’s consortium has bright prospects.”

Nevertheless, a lot will depend on the detailed business model of the project, Morozov from UBS said, adding that the successful development requires power generating infrastructure and low cost of coal production.

None of the analysts could estimate the cost of coal production in Mongolia in comparison to that in Russia.

The Russian authorities and companies are, however, seeking to join the project not to supply Tavan Tolgoi coal to Russia, where there are large coal fields with huge unexplored reserves, Makarov from Aton said, adding that this is “merely the expansion of Russian capital into Mongolia.”

Although the demand for coal is currently growing in Russia, it is being satisfied by domestic production, Volov from Bank of Moscow said.

There is enough coal produced in Russia, Morozov from UBS agreed. “There are some shortages in some high-quality sorts of coal in Russia, but there is no urgency in supplying coal to Russia from abroad,” he said.

Russia does not import coal at the moment; on the contrary, Russian companies export coal, and coal from Tavan Tolgoi is also likely to be sold outside Russia, Makarov from Aton said. “The Tavan Tolgoi project is a bridge for possible Russian participants to China, which is likely to be the key consumer of Tavan Tolgoi coal,” Makarov added.

Russia is a large exporter of both power and coking coal, Volov from Bank of Moscow agreed, adding that the Tavan Tolgoi coal is likely to be exported to China and Southeast Asian countries.

The project is export-oriented, Morozov from UBS agreed, also naming Japan, India, and South Korea as importers of Tavan Tolgoi coal, alongside China. Nevertheless, if Russian Railways builds a railroad to Ulan-Bator, the company may carry some types of coal that are rare in Russia to the country.

## Precious Metals & Gems

### Polyus Gold to complete merger with KazakhGold by September

**Russia's leading gold producer Polyus Gold plans to complete a merger with its subsidiary, Kazakh mining company KazakhGold, by September, Polyus Gold's CEO and major shareholder Mikhail Prokhorov told reporters.**

"For large shareholders, the deal will be completed in late July, while for other minority shareholders, in late September," he said.

Prokhorov also reiterated that Polyus Gold might merge with a global gold mining company by the end of this year after Polyus Gold's merger with KazakhGold Group and the enlarged company, called Polyus International, listing in London

Polyus Gold is a leading gold producer in Russia and Kazakhstan.

### Polyus Gold in merger talks with top gold miners

**Russia's leading gold producer Polyus Gold is holding merger talks with the world's top gold miners the U.S.' Newmont Mining, Australia's Newcrest Mining, and South Africa's AngloGold Ashanti, Russian business daily Vedomosti reported citing two sources close to Polyus Gold's shareholders.**

The resulting company is expected to be the world's second largest gold producer in terms of market capitalization after a merger with either Newmont or Newcrest, the daily reported.

A merger deal with AngloGold Ashanti may lead to the creation of the third or fourth largest gold mining company in terms of market capitalization, one of the sources said.

On Thursday, Polyus Gold's CEO and major shareholder Mikhail Prokhorov reiterated that Polyus Gold might merge with a global gold mining company by the end of this year after Polyus Gold's merger with its subsidiary, Kazakhstan mining company KazakhGold Group, and the merged company, called Polyus International, making a listing in London

Currently, Polyus Gold is the world's eighth largest gold producer in terms of market capitalization.

Newmont Mining, which is the world's second largest gold producer, operates in the U.S., Australia, Peru, Indonesia, Ghana, Canada, New Zealand, and Mexico.

Newcrest Mining is Australia's largest gold producer, which operates seven mines in Australia, Indonesia, and Papua New Guinea.

AngloGold Ashanti is South Africa's largest gold miner.

### Highland Gold confirms 43 tonnes of gold reserves at Kyrgyz deposit

**The U.K.'s Highland Gold Mining (HGM), which mines gold in Russia, said that it had received confirmation for 42.9 tonnes of gold reserves at its Unkurtash deposit in Kyrgyzstan from the country's state committee on reserves.**

As a result, HGM's total gold reserves increased by 19% to 268.7 tonnes, HGM said.

In February, the company said that it planned to spend a total of U.S. \$30 million on exploration operations in 2011. Of the total, \$20 million is to be invested in exploring the Unkurtash deposit.

## Precious Metals & Gems

Currently, HGM mines gold at its Mnogovershinnoye and Novosirokinoyskoye mines in Russia's Zabaikalsky Region, and at the Belaya Gora gold deposit in the Khabarovsk Region. HGM is 32% owned by Millhouse LLC, an investment company controlled by Russian billionaire Roman Abramovich, while Barrick Gold, the world's largest gold producer, holds 20%.

### Pavlik to launch processing plant in late 2013

**Russian gold mining company Pavlik plans to build and put into operation an ore mining and processing plant worth about U.S. \$300 million at the Pavlik deposit in the Magadan Region by late 2013, the company told PRIME.**

The plant's designed processing capacity is to amount to 2.5 million tonnes of ore per year, while the production capacity is to amount to 5 tonnes of gold. The company plans to produce first gold at the deposit in December 2013.

In mid-September 2010, Pavlik confirmed 107.7 tonnes of gold reserves at the deposit.

Mining company Pavlik is a part of investment company Arlan. Arlan's portfolio includes the Pavlik, Burkhalinskoye, Shakhskoye, and Utinskoye gold deposits in the Magadan Region. Arlan also controls Stellar Diamonds Ltd., a diamond exploration company that operates in West Africa.

### Uzbek NGMK to invest \$65 million in gold production upgrades by 2016

**Uzbekistan's Navoi Mining and Metallurgical Combinat, or NGMK, plans to invest a total of U.S. \$65 million in gold production upgrades at its hydrometallurgy plant -3 in 2011–2015, NGMK's management told PRIME.**

The modernization envisages expansion of current heap leach gold production capacities, including expansion of mineral resource base at the plant.

In particular, the plant is to process ore from small deposits starting from 2015, such as Turbai, Adzhibugut, Bulutkan and the Zapadno-Uchtepinskaya area. As a result of the upgrades, gold production is to increase by 15% to about 23 tonnes until 2020.

In 2004–2010, NGMK has constructed a gold mining complex at the hydrometallurgy plant -3 worth about \$150 million, which processes ore from the Kokpatas and Daugistau deposits.

By the end of 2011, the complex is expected to reach its design capacity and process up to 5 million tonnes of ore using BIOX technology, while gold production is expected to amount to 20 tonnes per year.

NGMK's gold production amounted to about 58–60 tonnes annually within the last years, while total production in Uzbekistan totaled around 80 tonnes.

## Base Metals

### Executive sees RUSAL's aluminum production up by 1 million tonnes in 3–4 years

**Russian aluminum giant UC RUSAL plans to increase annual aluminum production by around 1 million tonnes within the next three to four years because of the launch of additional smelters, Oleg Mukhamedshin, the company's director for capital markets, said in an interview with the Russia Today television channel broadcast.**

"We plan to increase production in the future mostly because of new large-scale projects, new smelters which we are currently building in Siberia, in the Irkutsk and Krasnoyarsk regions (BEMO and Taishet)," he said.

Mukhamedshin also said that aluminum production in 2011 was expected to remain flat on the year at about 4.1 million tonnes, adding that RUSAL also had no plans to revise its investment program.

The BEMO hydropower and aluminum project in the Krasnoyarsk Region is being jointly implemented by Russian hydropower monopoly RusHydro and RUSAL. The design capacity of the Boguchansky aluminum smelter amounts to 600,000 tonnes.

Construction of the Taishet aluminum smelter is expected to resume in July, Mukhamedshin said in mid-April. Construction of the smelter was suspended in December 2008 after both aluminum prices and demand for the metal fell. The projected capacity of the Taishet smelter amounts to 750,000 tonnes of aluminum per year.

### Regional government: Rail transport between RUSAL smelters restored

**Rail transportation has been restored between the Sayanogorsk and Khakas aluminum smelters of Russian aluminum giant UC RUSAL, both located in Russia's constituent republic of Khakasia, according to a statement by the republic's government press office.**

On May 7, a railway bridge, which was used to deliver raw materials to the smelters, collapsed. On May 9, the company organized alumina and coke supplies to the smelters by truck, but the volume of automotive freight traffic was insufficient for the needs of the smelters. RUSAL decided to cut production and compensate for the lack of traffic by relocating production to other smelters.

In 2010, the Sayanogorsk smelter produced 537,000 tonnes of aluminum, while the Khakas smelter produced 296,000 tonnes.

### Uzbekistan's AGMK to launch Dalneye copper deposit in 2016

**Uzbekistan's Almalyk Mining and Metallurgical Complex, AGMK, plans to launch mining operations at the Dalneye copper deposit in the Tashkent Region in 2016, a representative of AGMK's management told PRIME.**

"Dalneye deposit is considered as a reserve to compensate the existing mineral resource base of the plant, such as Kalmakyr and Syry-Cheku deposits", the representative said.

## Base Metals

The project for development of the Dalneye deposit is expected to comprise two stages. At the first stage, AGMK plans to hold open pit mining of up to 10 million tonnes of ore per year in 2016–2021, and increase the mining capacity to 35 million tonnes per year at the second stage in 2022–2026.

The project, which is estimated to worth U.S. \$721.5 million, is to be financed from AGMK's own funds and loans from the Uzbekistan Reconstruction and Development Fund, and Uzbek banks.

Almalyk Mining and Metallurgical Complex is the largest copper producer in Central Asia and the only copper producer in Uzbekistan. In 2011, AGMK plans to increase copper production 8% on the year to 90,000 tonnes.

AGMK also accounts for 90% of silver production and 20% of gold production in Uzbekistan.

## Other Metals & Coal

### Alrosa seeks contractor to design Yakutia iron ore plant

**Russia's uncut diamond monopoly Alrosa has announced an open tender to choose a contractor to prepare a design project for the construction of the Tayozhny iron ore mining and processing plant in the constituent republic of Sakha (Yakutia), Alrosa said in documents seen by PRIME.**

Bids for the tender are being accepted from Wednesday until June 20. Under the terms of the tender, a contractor is to complete the design project by October 2013.

The processing capacity of the plant is expected to amount to 20 million tonnes of iron ore annually, which is to be mined at the Tayozhnoye and the Desovskoye deposits.

The project also envisages the construction of a plant with an annual production capacity of 3.65 million tonnes of pellets.

Alrosa accounts for about 30% of the world's and 99% of Russia's uncut diamond output.

### NLMK sells Independent Transportation Company for \$325 million

**Russian steel maker Novolipetsk Steel, or NLMK, has completed a deal to sell 100% in Independent Transportation Company, or NTK, to UCL Rail B.V., an affiliate of NLMK's major shareholder Vladimir Lisin, for a total of U.S. \$325 million, NLMK said in a statement.**

NTK's net debt amounted to \$238 million at the time the deal was closed.

The deal is a part of NLMK's strategy approved in April 2010 to divest its non-core assets.

UCL Rail B.V. is a subsidiary of Dutch-registered Universal Cargo Logistics Holding B.V., which is controlled by Vladimir Lisin, chairman of the NLMK's board of directors, who owns 83.16% in NLMK.

### MMK more than doubles environmental spending in January–March

**Russia's Magnitogorsk Iron and Steel Works, or MMK, spent 786.5 million rubles on environmental protection programs in January–March, up from 336.6 million rubles in the same period of 2010, the company said in a statement.**

Of the total, the company spent 752.6 million rubles on the construction of environmental protection facilities, as compared to 116 million rubles spent in January–March 2010.

In 2010, MMK's spending on environmental programs totaled 2.24 billion rubles.

MMK, based in the city of Magnitogorsk in the Chelyabinsk Region, is Russia's largest ferrous metals producer.



## Other Metals & Coal

### Uzmetkombinat sees steel production up 1.3% in 2011

**Uzmetkombinat, which accounts for 95% of ferrous metals production in Uzbekistan, plans to increase steel production 1.3% on the year to 726,000 tonnes in 2011, according to the company's data seen by PRIME.**

Ferrous rolled stock production is expected to increase 0.9% on year to 698,000 tonnes in 2011, while rolled stock exports are projected at 370,000 tonnes, up 7.2% on the year.

Uzmetkombinat is the only ferrous metals producer in the Central Asia, which processes metal scrap.

## Financials

### UK's Trans Siberian Gold net loss narrows 33% in 2010

**The net loss of U.K.'s Trans Siberian Gold (TSG), which operates in Russia, narrowed 33% on the year to U.S. \$3.5 million in 2010, the company said in a report.**

As of December 31, 2010, the company's debt amounted to \$32.9 million, up from \$7.2 million as of December 31, 2009.

Capital expenditures rose to \$29.9 million in 2010 as compared to \$18.9 million in 2009.

According to earlier reports, TSG plans to launch production at the Asacha project in Russia's Kamchatka Region by the end of July. As of March, the company already invested \$118.2 million in the project.

The Asacha project is currently in the construction stage, while the company's Rodnikovoye mine is in the exploration stage.

The Asacha reserves have been estimated at 700,000 ounces of gold and 1.71 million ounces of silver.

UFG Asset Management controls 34.92% in TSG, while South Africa's AngloGold Ashanti owns 29.79%.

### Ovoca Gold launches buyback of 10% shares from market

**U.K.-listed Ovoca Gold, whose main operations are in Russia, said that it had launched the buyback of up to 10% of its shares on the market.**

The company said that it had already acquired a total of 35,000 shares on May 31 at 0.31 British pounds per share.

Currently, the company's charter capital is split into 88,423,806 shares.

As of late 2010, the company had U.S. \$9.1 million in available cash.

Ovoca Gold holds three exploration licenses in the Magadan Region, namely for the Stakhanovskoye, Rassoshinskoye, and Nevsko-Pestrinskoye deposits, which were acquired in January 2010. The company plans to complete exploratory operations at the Stakhanovskoye deposit in 2012, with mining operations scheduled to start in 2013.

### Executive: RUSAL not to issue yuan-denominated bonds

**Russian aluminum giant UC RUSAL has no plans to issue yuan-denominated Eurobonds, Oleg Mukhamedshin, the company's director for capital markets, told reporters.**

He said that it was too expensive to borrow in yuan. "It is currently more interesting for us to borrow in rubles than in yuan," he said.

Mukhamedshin said that RUSAL planned to register 30 billion rubles worth of Russian ruble-denominated bond issues with the Federal Service for Financial Markets. The bonds are to be offered in several tranches with a maturity in the range from seven to 10 years and a three year buyback offer. The timeline for the offering was not provided. "We are not in hurry," he said.

Mukhamedshin also said that the company had agreed to take out a syndicated loan from foreign banks to refinance an existing U.S. \$4 billion syndicated loan. "We have agreed on the main terms of the loan," he said adding that the company planned to borrow more than \$4 billion, but less than \$5 billion.

## Financials

He added that the borrowing was to be decided at the company's forthcoming board of directors on June 24. The maturity of the loan is expected to amount to five years.

As of March 31, RUSAL's net debt amounted to \$11.382 billion.

RUSAL is the world's largest producer of aluminum, it accounts for about 11% of the global production of aluminum and 13% of global alumina output.

### Evraz Group sets coupon rate for 20 billion ruble bonds at 8.4%

**Russia's EvrazHolding Finance, a subsidiary of Luxembourg-registered Evraz Group S.A., has set the first coupon rate for its 20 billion ruble 10-year bond issue at 8.4%, EvrazHolding Finance said in a statement.**

Earlier on June 3, EvrazHolding Finance decreased the indicative coupon rate for the bond issue to 8.40%–8.50% from 8.50%–8.75% set previously.

EvrazHolding Finance closed the bidding book on June 3 and, while demand for the bonds from investors totaled 33.4 billion rubles. The placement is scheduled for June 7.

The bonds have a 5-year buyback offer and carry semiannual coupons.

Sviaz-Bank, Gazprombank, and Troika Dialog are the organizers of the offering.

Evraz Group is one of the largest vertically integrated metallurgy and mining companies operating in Russia.

### NLMK holders approve paying 7.2 billion rubles in July–December 2010 dividends

**The annual general meeting (AGM) of shareholders of Russia's Novolipetsk Steel, or NLMK, has approved paying a total of 7.192 billion rubles in dividends for July–December 2010, or 1.2 rubles per share, the company said.**

For January–June 2010, the company paid a total of about 3.716 billion rubles, or 0.62 rubles per share. NLMK's charter capital is split into 5,993,227,240 common shares with a face value of 1 ruble each.

In 2010, the net profit of NLMK surged to U.S. \$1.255 billion from \$215 million in 2009, as calculated under U.S. GAAP.

The company paid a total of 1.3 billion rubles in dividends for 2009, which accounted for about 20% of NLMK's net profit for that year, as calculated under U.S. GAAP.

The chairman of the company's board of directors, Vladimir Lisin, holds 83.16% in NLMK. NLMK is Russia's fourth largest steel producer and the largest producer of electric steel.

### TMK swings to IFRS net profit in January–March

**Russian pipe maker TMK has posted a net profit of U.S. \$104 million in January–March against a net loss of \$1 million in the same period of 2010, as calculated under International Financial Reporting Standards (IFRS), the company said in a statement.**

## Financials

The company's revenue increased 35% on the year to \$1.669 billion, while gross profit rose 34% to \$391 million.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 44% on the year to \$293 million in January–March.

TMK also posted a pretax profit of \$157 million in January–March, up from \$24 million in the same period of 2010.

As of March 31, the company's net debt increased 4% in January–March to \$3.853 billion.

Founded in 2001, TMK is the largest pipe producer in Russia and one of the three largest in the world.

### Koks sets coupon rate for 5 billion ruble bonds at 8.7%

**Russian coke producer Koks, a unit of Russia's vertically integrated Koks Group, has set the rate of the first coupon for its 5 billion ruble 3-year exchange bonds at 8.7%, the company said in a statement.**

The annual yield for the bonds amounted to 8.89%.

The guideline for the coupon rate was set at 8.70%–9.00% annually, while the yield rate is projected at 8.89%–9.20% annually, the company said earlier.

The bidding book was closed on May 31, while the placement was scheduled for June 1.

The exchange bonds are in 1,000-ruble denominations and carry semi-annual coupons.

Raiffeisenbank, Sberbank, Sviaz-Bank, and VTB Capital are the organizers of the offering.

### SDS-Ugol in talks with banks over possible IPO

**Russian coal producer SDS-Ugol is holding talks with banks over a possible initial public offering (IPO), Russian business daily Vedomosti reported citing a statement from Lev Rybak, chairman of the company's board of directors, to Bloomberg.**

He said that talks were still at an early stage. The company has been preliminarily valued at over U.S. \$4 billion.

Rybak added that the company was technically ready for the IPO assuming that shareholders agree.

SDS-Ugol plans to invest \$2 billion to increase its annual coal production to 50 million tonnes by 2017 using its own funds, loans, and project financing, Rybak said. In 2010, the company produced about 16 million tonnes of coal.

Siberian Business Alliance, known in Russian as Sibirsky Delovoi Soyuz, includes over 100 companies in the coal mining, machine building, and transportation industries. The holding is controlled by two businessmen, Mikhail Fedyayev and Vladimir Gridin.

## Official

### Kazakhstan allows Central Asia Resources pilot mining at Dalabai

**The State Committee for Mineral Reserves of Kazakhstan has approved pilot mining of 145,000 tonnes of ore at the Dalabai deposit by Australia's Central Asia Resources Ltd, the company said.**

As reported earlier, the company plans to launch a heap leach facility at the Dalabai deposit sometime in July–September 2011

The facility is expected to process 500,000 tonnes of ore per year and produce 20,000 ounces of gold and 140,000 ounces of silver.

Currently, the Dalabai deposit resources stand at 97,000 ounces of gold and 1.36 million ounces of silver.

Central Asia holds 95% stake in Altyn-Tas LLP which holds the Altyntas, Kepken and Kengir licenses, 90% stake in Onzhas Ltd which holds the Dalabai licence, 60% stake in Buguty-Palm LLP which holds the Uenke Bulak licence, and 90% stake in Altynsai-Geo Ltd which holds the Bizhe license.

### Sverdlovsk Region to invest 1.5 billion rubles in special economic zone

**The government of Russia's Sverdlovsk Region plans to invest about 1.5 billion rubles in the creation of infrastructure for the Titanovaya Dolina (Titanium Valley) special economic zone, Anatoly Gredin, the head of the region's government, told PRIME.**

Total investments in the economic zone are estimated at 52.4 billion rubles, while the minimum investment for each resident is set at 3 million euros, as reported in January.

The zone is to be created in the region's Verkhnesaldinsky district.

The Sverdlovsk Region-based titanium producer VSMPO-Avisma was the initiator of the project.

The zone's future residents are expected to build plants to produce titanium semi-finished products, titanium pipes, aircraft components, as well as equipment for the chemical, nuclear, aviation, rail, and non-ferrous industries.

Special economic zones provide benefits for investors, including tax cuts.

Russian Prime Minister Vladimir Putin signed a ruling on the creation of the Titanovaya Dolina economic zone on December 16, 2010.

### Agency puts minor stake in NLMK up for sale

**The Federal State Property Management Agency has put the government's 0.00027% stake in Russian steelmaker Novolipetsk Steel, or NLMK, up for sale, the agency said.**

The starting price for the stake, which includes 16,016 shares, is set at about 2.014 million rubles. The timeline for the auction was not provided. Currently, NLMK's charter capital is split into 5,993,227,240 shares with a face value of 1 ruble each. Vladimir Lisin, NLMK's chairman of the board of directors, controls 83.16% in the company.

### Official

## Russian antitrust opens case against NLMK, unit over high prices

**The Federal Antimonopoly Service has opened a case against Russian steelmaker Novolipetsk Steel, or NLMK, and its subsidiary, VIZ-Stal, on suspicion of violating competition law by setting unjustifiably high prices for transformer sheets on the domestic market, the service said.**

NLMK and VIZ-Stal are the only producers of transformer sheets in Russia, the main consumers of which are producers of high voltage electrotechnical equipment.

NLMK is Russia's largest producer of electric steel.

## Rosatom chief: Enactment of deal to set up uranium joint venture delayed

**Enactment of the intergovernmental agreement between Russia and Mongolia to set up a joint venture to explore, produce, and process uranium in Mongolia is being delayed due to procedural issues, Sergei Kiriyenko, head of Russian nuclear power corporation Rosatom, told reporters, as cited by ITAR-TASS.**

"We have final framework agreements signed, the question is only in their entry into force, but there some procedural delays by the Mongolian side," he said, adding that Mongolia needs to determine the list of properties and assets to be transferred to the joint venture.

On January 11, Russian President Dmitry Medvedev signed into law an accord to set up a joint venture to explore, produce, and process uranium in Mongolia.

Under the accord, the joint venture is expected to develop fields in Mongolia with over 50,000 tonnes of uranium reserves. The joint venture's annual uranium output is expected to amount to around 2,000 tonnes.

Russian state-owned uranium holding Atomredmetzoloto (ARMZ), a subsidiary of Rosatom, and Mongolia's MonAtom are to own the joint venture, called Dornod Uran, on a parity basis, according to earlier reports.

## Mongolia to pick participants for development of Tavan Tolgoi field soon

**Mongolia plans to determine participants for the development of the Tavan Tolgoi coal deposit in June–July, Vladimir Yakunin, head of state owned Russian Railways, told reporters after taking part in a meeting between Mongolian President Elbegdorj Tsakhia and Russian President Dmitry Medvedev, ITAR-TASS reported.**

"In June–July, a decision will to be made on tender procedures and the creation of consortium," he said adding that all BRICS countries, Brazil, Russia, India, China, and South Africa, were interested in developing the deposit.

He also said that Mongolia would choose a contractor for the construction of a rail road to the deposit after the developer was determined.

"We are ready to invest U.S. \$1.5 billion or maybe more if the consortium headed by Russian Railways wins, and that's only for the construction of infrastructure," Yakunin said.

### Official

Russian Railways has submitted a bid in a consortium with Russia's Siberian Coal Energy Company (SUEK) and a number of companies from Japan and South Korea.

The Tavan-Tolgoi deposit is one of the largest in the world in terms of reserves, which amount to 6.5 billion tonnes of coal. The development of the project requires the construction of a 400-kilometer rail road and an electric power station.

The Mongolian government plans to retain 50% in the project, while 30% is to be offered to foreign investors.

## Coal output in Russia up 0.6% on year in January–May

**Coal output in Russia increased 0.6% on the year to 134.028 million tonnes in January–May, TsDU-TEK, an agency that provides data and analysis to the Energy Ministry, said in documents.**

The following is a breakdown of coal output by company:

	Jan-May, mln tns	Change on year, mln tns
SUEK	38.597	+2.079
Kuzbassrazrezugol	18.023	-1.407
SDS-Coal	8.374	+0.681
Vostsibugol	6.271	+0.133
Yuzhny Kuzbass	5.498	+0.198
Yuzhkuzbassugol	4.155	-1.017
Raspadskaya	2.812	-1.676
Yakutugol	2.665	-0.874

Coal supplies to the domestic market fell 2.3% on the year to 85.166 million tonnes in January–May, while coal exports increased 6.1% to 42.7 million tonnes.

Below is a breakdown of Russia's coal exports in this period, as provided by TsDU-TEK:

	Jan–May, mln tns	Change on year, mln tns
Total coal exports, including:	42.723	+2.473
-Coking coal exports	3.260	-2.396
Coal exports to CIS countries, including:	2.534	-1.107
-Coking coal exports to CIS countries	1.135	-0.834
Coal exports to non-CIS countries, including:	40.190	+3.580
-Coking coal exports to non-CIS countries	2.124	-1.562

## Ukraine's coal output up 10% on year in January–May

**Coal output in Ukraine increased 9.9% on the year to 33.918 million tonnes in January–May, according to data from the country's Energy and Coal Industry Ministry seen by PRIME.**

## Official

In 2010, coal output in Ukraine rose 4.0% on the year to 75.166 million tonnes. Ukraine plans to increase its annual coal production to about 100 million–105 million tonnes in the near future.

### Ukraine's coke exports soar 72.6% in January–April

**Coke exports from Ukraine soared 72.6% on the year to 632,790 tonnes in January–April, according to data from the Ukrainian government obtained by PRIME.**

Exports were worth U.S. \$221.67 million in this period. No comparison was available.

Coke imports to Ukraine fell 76.9% to 37,100 tonnes in January–April and were worth \$13.69 million.

In 2010, coke exports from Ukraine increased 59% on the year to 1.466 million tonnes worth \$444.54 million, while coke imports to Ukraine rose 22.4% to 305,510 tonnes worth \$93.82 million.



## Major Foreign Companies

### Africa Barrick investigates sex abuse allegation in Tanzania

**London-listed Africa Barrick Gold is investigating allegations of sexual assault by the Tanzanian police and mine security against local women at its troubled North Mara Gold Mine just two weeks after clashes with locals left at least seven people dead, the company said, Dow Jones Newswires reported.**

The company launched a preliminary investigation after its employees at North Mara made these allegations to external investigators examining an unrelated matter, Africa Barrick said in a statement.

“The investigation has identified credible evidence of sexual assaults by members of the Tanzanian police and employees of ABG’s security unit. The investigation is ongoing,” the company said.

The Tarime regional police commander, Constantine Massawe, told Dow Jones Newswires the police have been conducting investigations after being informed by the company of the abuses. “People are supposed to report to the police if they are assaulted but we have not received a single complaint so far,” he said in telephone interview.

Police investigations have not yielded any useful information linking police guards at the mine to sexual abuses, he said.

The police deploy at least 50 guards at North Mara everyday to backup the mine security personnel around North Mara.

Barrick, which operates four mines in Tanzania, has had a stormy relationship with locals living near the mine since 2006. The mine has been invaded by locals on several occasions, resulting in deadly clashes, the latest earlier this month left at least seven locals dead.

Operations at North Mara, Tanzania’s third largest gold mine by output, continue to be interrupted by these incessant incursions, company officials say. Activists blame the invasions on high levels of poverty in areas around the mine.

The company said that following the sexual abuse allegations, the management has met and briefed senior law enforcement officials in Tanzania and urged the police to conduct their own investigation.

“Barrick is unwavering in its commitment to eradicate human rights violations at all of its operations and those of its affiliates. These deplorable crimes, if confirmed, are neither acceptable nor excusable,” the company stated.

The company added it had undertaken “substantial” efforts to strengthen and improve conditions of communities near the North Mara.

It said it had increased North Mara’s annual community relations budget to \$2 million and it has invested at least \$40 million to connect North Mara to the Tanzanian power grid, linking the Mara region to the national electricity grid.

### Zambia ZCCM agrees to sell Lumwana Copper Mines stake to Barrick

**Zambia’s state mining investment company, Zambia Consolidated Copper Mines Investments Holdings, has agreed to sell its 2.2% stake in Lumwana Copper Mines to Canada’s Barrick Gold Corp for at least \$160 million, ZCCM-IH said, Dow Jones Newswires reported.**

## Major Foreign Companies

The board of ZCCM-IH agreed to the offer after “due consideration and consultations,” the company said in a statement, adding that the offer presents ZCCM-IH with an opportunity to realize value from its investment in Toronto-listed Equinox Minerals Ltd, which is due to be taken over by Barrick.

Zambia’s state regulator, the Competition and Consumer Protection Commission, had earlier insisted that the ZCCM-IH stake was not for sale. However, following consultations between government, Barrick and Equinox, the commission ended its insistence, according to Zambian officials.

The Zambian government has since granted unconditional approval of the \$7.7 billion deal, which will pave the way for the takeover of Equinox’s assets in Zambia.

ZCCM-IH acquired the 2.2% stake in Lumwana in 2006. The state miner maintains minority stakes in major copper mines on the Copperbelt and North Western provinces.

Barrick is expected to honor Equinox’s copper smelting agreements with Zambian local smelters and suppliers, according to the commission’s spokesman Brian Lingele.

Lumwana Copper Mines has copper smelting deals with Chinese-owned Chambishi Copper Smelter and Konkola Copper Mines’ Nchanga Smelter on the Copperbelt province.

Chambishi is a joint venture between China Nonferrous Metals Co and the Yunnan Copper Group while KCM is owned by London-listed Vedanta Resources PLC.

Zambia, Africa’s largest copper miner, continues to attract investments from global mining giants as they seek to exploit rich ore bodies in the mineral-rich Southern African nation.

### Xstrata Zinc acquires exploration projects in Canada

**Xstrata Zinc, a division of Swiss based global mining company Xstrata Plc, has entered into an agreement with Sabina Gold and Silver Corp to acquire its exploration projects, Hackett River and Wishbone, in Canada, Xstrata said in a statement.**

The total cost of the deal amounts to 50 million Canadian dollars. Additionally, Xstrata will commit a further 50 million Canadian dollars in exploration and to complete a bankable feasibility study within four years of the deal’s closing.

Exploration drilling in Hackett River is underway and has confirmed an NI 43-101 compliant resource of about 60 million tonnes of ore containing zinc, silver, copper, lead and gold, with approximately 5.2 million tonnes of zinc equivalent. Both projects contain significant additional exploration potential.

Xstrata is a global diversified mining group, which maintains a position in seven major international commodity markets, such as copper, coking coal, thermal coal, ferrochrome, nickel, vanadium and zinc with additional exposure to gold, cobalt, lead and silver.

### Rio Tinto, Chinalco form exploration joint venture in China

**U.K.-based global mining company Rio Tinto and China’s aluminum corporation Chinalco have set up an exploration joint venture in China, Rio Tinto said in a statement.**

The joint venture is subject to Chinese regulatory approvals and once established will operate under the name Chinalco Rio Tinto Exploration Co. Ltd. The company’s immediate priority is to be copper exploration, with coal and potash among other commodities potentially considered at a later date.

## Major Foreign Companies

Under the agreement between the companies, Rio Tinto is to get 49% in the joint venture, while Chinalco is to control 51%. It is not the first joint venture of the two companies.

In March, Rio Tinto and Chinalco have agreed on joint development of Simandu iron ore project in Guinea.

Chinalco is also holding negotiations with the government of Mongolia on participation in development of the Oyu Tolgoi copper and gold project in the country, where Rio Tinto is taking part as a strategic partner of Canada's Ivanhoe Mines.

Chinalco is one of the five largest primary aluminum producers in the world and the second largest alumina producer.

### Focus

## PwC: Global metals M&A value more than doubles on year in first quarter

The value of global metals mergers and acquisitions (M&A) more than doubled on the year to U.S. \$12.9 billion in January–March from \$6.3 billion in the same period of 2010, according to Forging ahead, a quarterly analysis of M&A activity in the global metals sector by PricewaterhouseCoopers (PwC)..

In the period, the average size of the deal amounted to \$500 million, as compared to \$300 million in the same period of 2010. There were four mega deals in the period, worth at least \$1 billion, PwC said. “Mega deals will continue to be an important factor in M&A activity as 2011 progresses and will likely drive increased deal values in future quarters”.

The recovery in global metals M&A activity, which began in 2010, is expected to continue for the rest of 2011 because of stronger corporate balance sheets, improved availability of credit, and stabilizing metal prices.

Deal valuation, as reflected by EBITDA, increased significantly in January–March. This improvement, according to PwC, was likely driven by companies with cash-heavy balance sheets seeking attractive investments that could bolster organic growth.

John Campbell, metals and mining leader, PwC Russia, said: “The metals industry continues to enjoy a promising period of M&A activity after two consecutive years of total deal value that exceeded \$90 billion”.

“Additionally, the trend in financial liquidity indicates that the sector is becoming better positioned to pay for new deals. A PwC survey reveals that the top 50 publicly traded global metals competitors have, on average, significantly higher cash balances than just two quarters ago. This cash, in combination with improved availability of credit and interest rates that are extremely low, positions companies favorably to take advantage of opportunities. We expect that these trends could lead to increased activity, at least in the near term”, Campbell said.

For deals worth \$50 million or more, the Asia and Oceania and North American regions drove overall deal value in the first quarter, with deals that have at least one entity in these regions contributing \$6.7 billion and \$6.1 billion, respectively.

Europe was the primary driver for outbound deals with three that contributed \$2.4 billion in deal value. Asia and Oceania counted three inbound deals worth a total of \$4 billion.

Jim Forbes, global metals leader, PwC, said: “Acquirers from the more advanced economies were responsible for an increased proportion of overall deal activity. Making acquisitions offers companies a number of opportunities for growth that might not be available from a strictly organic growth strategy, such as access to raw materials, entrance into new markets, and creation of larger economies of scale.

“We expect that Asia and Oceania will continue to drive local deal value throughout the rest of 2011 as smaller Chinese companies combine for increased efficiency in production. It’s also our belief that Asia and Oceania will see large inbound activity as companies in other regions seek a foothold in emerging markets and look to reduce operating costs”, Forbes said.

Financial investors are increasing their involvement in the sector with 16% of deals worth more than \$50 million in January–March compared with 12% in 2010 and just 4% in 2009. Financial investors also contributed to the third and fourth largest deals in the first quarter of 2011.

Continued  
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## Focus

PwC expects financial investors to remain engaged in metals deals, but notes that their focus is likely to stay on downstream targets, with upstream assets remaining primarily the domain of strategic acquirers. The reasons for this, according to PwC, include the inherent volatility, political risks, and potentially longer holding periods required for upstream acquisitions.

Targets classified as iron ore were the primary driver of activity during the first quarter of 2011, contributing almost 40% of the quarter's deals worth a total of \$5.1 billion. This is a significant increase over full year 2010 when iron ore only represented 20% of total deals. Steel targets represented a total deal value of \$4.4 billion, while aluminum deals were worth \$2.3 billion in the first quarter of 2011.

"The focus on iron ore deals illustrates the need for companies to integrate reliable iron ore supplies into their organizational structures. Additionally, we've seen an uptick in these deals due to horizontal consolidation of some of the smaller players", Forbes added.

## Stock Market

### Russian metallurgy stocks

Company	Stock exchange	Ticker	Closing price 27.05	Closing price 03.06	Change, %	Market capitalization, US \$, billion
Norilsk Nickel, RUR	MICEX	GMKN	7,120.0	6,909.0	-3.0	47.0
UC RUSAL, HKD	HKSE	0486	11.2	11.3	+0.9	22.1
UC RUSAL, RUR	MICEX	RUALR	408.0	405.0	-0.7	-
Severstal, USD	LSE	SVST	18.0	18.1	+0.6	18.2
Severstal, RUR	MICEX	CHMF	506.0	506.5	+0.1	-
Polyus Gold, USD	LSE	PLZL	33.8	35.5	+5.1	13.5
Polyus Gold, RUR	MICEX	PLZL	1,892.5	1,991.7	+5.2	-
NLMK, USD	LSE	NLMK	37.3	36.6	-1.9	21.8
NLMK, RUR	MICEX	NLMK	104.7	102.1	-2.5	-
MMK, USD	LSE	MMK	12.0	11.8	-1.7	10.2
MMK, RUR	MICEX	MAGN	26.0	25.5	-1.9	-
Evrast Group, USD	LSE	EVR	32.4	32.0	-1.2	14.0
TMK, USD	LSE	TMKS	18.9	18.3	-3.2	4.3
TMK, RUR	MICEX	TRMK	133.9	128.1	-4.3	-
Raspadskaya, RUR	MICEX	RASP	169.9	171.3	+0.8	4.8
Mechel, USD	NYSE	MTL	26.7	26.0	-2.6	10.8
Mechel, RUR	MICEX	MTLR	747.7	745.0	-0.4	-
Polymetal, USD	LSE	PMTL	18.0	19.6	+8.9	7.7
Polymetal, RUR	MICEX	PMTL	509.8	541.7	+6.3	-
VSMPO-AVISMA, RUR	MICEX	VSMO	4,030.0	4,100.0	+1.7	1.7
Chelyabinsk Zinc plant, USD	LSE	CHZN	4.4	4.4	-	0.2
Chelyabinsk Zinc Plant, RUR	MICEX	CHZN	128.3	124.5	-3.0	-
Chelyabinsk Tube Rolling Plant, RUR	MICEX	CHEP	74.7	71.0	-5.0	1.2
Vyksa Steel Works, RUR	MICEX	VSMZ	55,000.0	52,000.0	-5.5	3.2

The **MICEX** index was down 0.3% and the MICEX Metals & Mining index increased 0.6% in the period from May 27 to June 3.

**Polyus Gold** and **Polymetal** were the growth leaders among metals and mining stocks last week, mainly because of the growing price for gold, investment company Grandis Capital analyst Andrei Kucherov said. "Polyus Gold is also attractive to investors, as the company's latest operating results allow investors to expect a significant growth in production in 2011," Kucherov said. As for Polymetal, the company was oversold on poor operating results several weeks ago, which was an additional factor for its significant growth amid the increasing commodity prices last week, Kucherov said.

## Stock Market

Ferrous metals producers, such as Magnitogorsk Iron and Steel Works (**MMK**) and Novolipetsk Steel (**NLMK**) were down, as they traditionally fall deeper than the broader market when bears come to the stock market, Kucherov said. "These companies are second-tier stocks, and investors sell them first before turning to blue chips," he added.

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