

# BEHRE DOLBEAR

## Global Mining News

### OUT WITH THE OLD AND IN WITH THE NEW: GOLD PRODUCTION SHIFTS TO CHINA

May 28, 2007 (Interfax-China) – China will become the world’s largest gold producer by 2010, an industry insider said at the Western China Mining Summit 2007, held in Chengdu on Friday. Chinese production of gold increased by 162.8 tonnes to 247.2 tonnes between 1997 and 2006, a trend that has also been mirrored in other developing countries like Peru, Russia and Indonesia, Morino G. Pieterse, editor of Goldletter International, a gold investment report, said. Emerging gold producing countries have increased output from 17.7% of global production in 1997, to a current 29.8%.

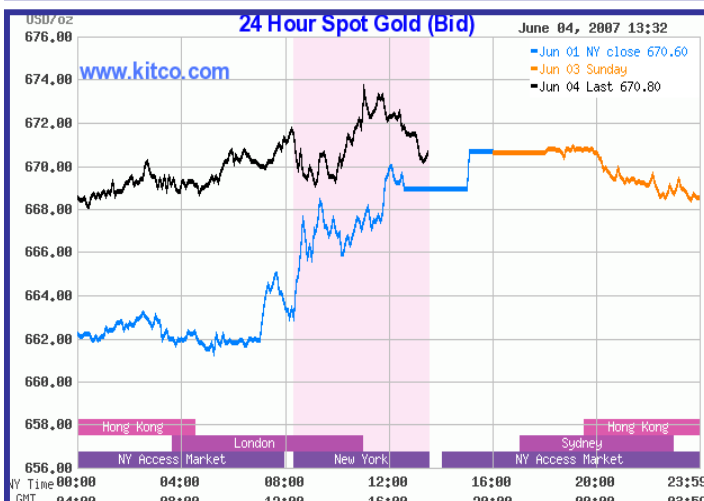
Conversely, gold production from traditional gold producing countries such as the United States and South Africa has steadily declined in recent years from 362 tonnes and 527 tonnes in 1997, to 251.8 tonnes and 291.8 tonnes in 2006 respectively. Across the board, gold output from traditional gold producing countries has fallen from 54.3% of global production in 1997, to 36.1% in 2006.

“China’s gold output surpassed Australia’s last year, is due to surpass U.S. production this year, and will surpass South African production within two years,” Pieterse said. In recent times, consumer demand has fallen steadily in line with gold production. However, this has not been reflected in gold prices, which averaged at \$276.50 per ounce at the end of 2001 but have since spiked to \$677.0 per ounce on April 30 this year.

Pieterse explained that skyrocketing global gold prices over the last 10 years has been led mainly by excessive market

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USD	JUNE 1, 2007	MAY 25, 2007
<b>GOLD</b>	<b>666.50</b>	<b>655.30</b>
<b>SILVER</b>	<b>13.5300</b>	<b>12.9250</b>
<b>PLATINUM</b>	<b>1,290.00</b>	<b>1,276.00</b>
<b>PALLADIUM</b>	<b>371.00</b>	<b>367.50</b>
<b>ALUMINUM</b>	<b>1.2589</b>	<b>1.2487</b>
<b>COPPER</b>	<b>3.4067</b>	<b>3.2396</b>
<b>LEAD</b>	<b>1.0664</b>	<b>0.9779</b>
<b>NICKEL</b>	<b>22.8838</b>	<b>23.1332</b>
<b>URANIUM</b>	<b>125.00 (05/28/07)</b>	<b>125.00 (05/21/07)</b>
<b>ZINC</b>	<b>1.6831</b>	<b>1.6375</b>

speculation, particularly by de-hedging in the last five years. Because the price surge is not a result of any significant supply and demand problems, gold prices will not rise above \$700 per ounce in the future, Pieterse predicted.

Meanwhile, gold as a percentage of global currency has fallen from 84% in 1950, to 10% at present, Pieterse said. He commented that the widespread belief that emerging Asian economies, mainly China, will mass-purchase gold to make up central bank reserves is fundamentally mistaken and based on outdated western opinions. Nevertheless, investment in gold mining in China has rapidly increased over the last few years, rising from \$5.1 billion in 2005 to \$7.1 billion in 2006.

Growing investment also indicates that the recent rise in production costs has not curtailed investment. Although the cost of production has risen to around \$400 per ounce, leaping gold prices have actually increased profit margins from 12.5% in 2003 to a current 43%, which is further encouraging investment. While production costs in traditional gold mining countries are rapidly increasing, Chinese production costs still remain relatively low.

Steve Ryan, general manager of Oxiana, a precious metals company listed on the Australian Stock Exchange, commented that although local governments are

sometimes unwilling to grant foreign companies access to very profitable mines, they are also unwilling to invest significant sums in prospecting and development.

At present, China only attracts approximately 3% of global exploration investment, and given the relative lack of investment in western China, this figure can be expected to greatly increase in the next 20 years, Ryan said. One of the main reasons behind low foreign investment is a lack of confidence in China's legal structure, with western companies uncertain that their investment will be secure, particularly as mine investment can run into hundreds of millions of dollars.

James Moore, president and CEO of InterCitic Minerals, noted that the main problem was in the wording of Chinese mining law. "At the moment, the law states that a foreign company has 'priority rights' to a mine, if that was changed to 'full rights', foreign investment would flood into China almost immediately. However, it is more likely that there will be no change in the law, and it will take several foreign company success stories to increase foreign investor confidence in Chinese mine exploration," he said.

Furthermore, Pietrese added he considers the political risks in China to be minimal, and stressed that it is more a matter of finding suitable business partners and adjusting to the Chinese ways of carrying out business.

## RIO TINTO LIKELY TO BID FOR ALCAN, SAYS REPORT

May 28, 2007 (*Doman-B.com, India*) – London-based Rio Tinto Ltd is eyeing a possible acquisition of Canadian aluminum producer Alcan Inc and has hired Deutsche Bank to advise it on a possible bid, the Sydney Morning Herald reported. Rio Tinto is the latest mining house to join the race after Alcan rejected a \$28.4 billion bid by Alcoa. Other potential bidder include BHP Billiton Ltd., United Company Rusal, Anglo American and Xstrata Plc. Rio Tinto is likely to be pitted against larger rival and the world's biggest miner, BHP Billiton Ltd, which also is reported to be interested in Alcan.

Analysts say that Rio may not opt to retain Alcan's downstream aluminum rolling and packaging arms, which it could sell for more than \$8 billion and avoid the

possibly of having to shelve over \$30 billion for Alcan. Alcan and Rio are equal 40-40 partners in the world's biggest alumina refinery – Queensland Alumina, in Australia – with Russia's United Company Rusal holding the remaining 20 per cent.

There is yet no confirmation as to whether BHP Billiton or Rio Tinto is interested in Alcan. Names of CVRD, Anglo and Swiss-based Xstrata plc. and UK-based Anglo American plc are in circulation as some of the other bidders for the aluminum producer.

Australian aluminum producer Alumina Ltd is also rumoured to be watching the proceedings eagerly, with the possibility of a bid.

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## BOLIVIA TO MAKE MINING FIRMS SIGN JVS

May 29, 2007 (Reuters) – Bolivia will no longer grant concessions to mining firms under a decree issued by the leftist government this month, instead making them sign joint-venture deals with the state, the country's mining minister said.

The decree signed by President Evo Morales on May 1 means foreign miners wanting to explore or mine land in the mineral-rich South American nation will have to negotiate joint-venture contracts with state-run mining firm Comibol.

“What has been modified are the future concessions, they are going to have to sign a contract with Comibol. We're not going to grant private concessions,” mining minister Luis Alberto Echazu told Reuters in an interview. However, he said the government would respect existing concessions and the investments made by mining firms already operating in the country. “Those who are already working in the country, will continue working (under) the same (conditions),” Echazu said.

Foreign mining companies with projects in Bolivia include US-based Apex Silver Mines Ltd and Coeur d-Alene Mines Corp. They are due to start production at large silver mines over the next year. Several Canadian companies also have assets in Bolivia, including Eaglecrest Explorations, Apogee Minerals Ltd and Orvana Minerals Corp, and investors have been jittery as the government slowly unveils plans to overhaul the mining industry.

Morales nationalised the poor country's vast natural gas reserves last year, and now implementing a series of reforms to reap more benefits from its significant deposits of tin, zinc, wolfram, lead, silver and gold.

Earlier this month, a senior mining official said the government planned to introduce a new 10% tax on profits, in a bid to raise the tax burden on miners to 50% of net profit, from the current 35%.

## ZIMBABWE RULES OUT FOREIGN PARTNERS IN DIAMOND MINE

May 29, 2007 (Reuters) – Zimbabwe will not seek foreign partners to mine diamonds in the east of the country and has stopped all illegal mining in a controversial area granted to a state firm, a government minister said on Monday.

Over 20 000 illegal miners descended on the Marange diamond deposit in the eastern province of Manicaland last August, sparking fears by the World Diamond Council (WDC) that some of the diamonds were finding their way to the black market against rules set up to curb trade in gems from conflict zones. President Robert Mugabe's government sealed off the area and took over the diamond claim previously allocated to the London-listed African Consolidated Resources, which is contesting the move in court.

Mines Minister Amos Midzi told journalists that all illegal mining activities had been stopped and that the state-owned Zimbabwe Mining Development Corporation (ZMDC) had since begun trial mining on site. “So far we have dealt with some of the problems we are all aware of, chiefly that problem with illegal mining,” Midzi said. “The situation has been contained ... and starting on 22 April, ZMDC started the first run of the trial mining, starting with two tons of ore and they were able to produce the first carats from Marange,” Midzi added.

He said the trial runs had since risen to 25 of ore per day and indications were that the yield would be enough to allow full-scale operations, but added that ZMDC would not seek foreign partners in the project. Mugabe's government is currently considering legislation to transfer control of foreign-owned mines into government and local ownership.

“The decision of the government is that the ZMDC should go it alone. From what we've seen, there is no need for that (external investors). ZMDC has not drawn on any expertise or equipment from outside, which is testimony that we are able to do it on our own,” Midzi said.

The minister said a six-member delegation from the WDC's Kimberly Process Committee, which was currently in the country for consultations was free to visit Marange and other diamond mines in the country to assess the situation. “We expect the team to visit River Ranch, Murowa and Marange so that they can make their own assessment. I'd like to dispel the notion that the team has imposed itself on us ... they are here at our invitation,” Midzi said.

## BHP/RIO MERGER WOULD CREATE \$300 BILLION MINING GROUP: ANALYST

May 29, 2007 (Platts) – The possible merger of BHP Billiton and Rio Tinto would create a \$300-billion “mega-mining company” in which energy assets could be demerged in order to concentrate on core mining activities such as steel raw materials, a Prudential Equities analyst said Tuesday in a conference call to investors.

“BHP could sell their oil and gas assets, which we think are worth \$40 billion-plus... and use that to pay most of the costs of buying Rio Tinto,” John Tumazos, senior metals and mining analyst, said during the call. This

would result in “a market cap that could rival that of Exxon, Mobil, GE, Citigroup, or other very large caps in the liquidity market,” he said, adding that Rio Tinto’s share price currently can be assumed to incorporate a takeover premium. “Streamlining might save a billion dollars,” Tumazos said of possible synergies that could be realized by the combined companies.

He did not cite specific examples of synergies in steel raw materials but noted that the two companies were similar to one another and have iron ore and coal properties in Australia that essentially adjoin one another.

## INDONESIA SEEKS BETTER ROYALTY PAYMENT FROM INCO

May 29, 2007 (Reuters) – Indonesia’s government is negotiating with PT International Nickel Indonesia to revise the current royalty system to seek more revenue from rising nickel prices, a senior mining official said on Tuesday.

The government wants Inco’s royalty payment, which is currently fixed at \$78 a tonne, to be changed into a flexible one in line with nickel price movements, said Simon Sembiring, director general of mineral resources. “We will count the figures. It will be mutually beneficial,” said Sembiring, adding that the government expected the new royalty could come into effect in 2008.

Prices of nickel – used in stainless steel production – nearly tripled on the back of dwindling supplies and a 15 percent rise in stainless steel output during 2006. Nickel is trading near all-time record peaks of \$50,000-

plus a tonne on the London Metal Exchange. It was at \$46,650/\$46,950 a tonne on Tuesday.

PT Inco, which is owned by Brazil’s Companhia Vale do Rio Doce through Canada’s Inco Ltd. said a flexible royalty could affect its margins. “The government wants to change the royalty system because they did not expect nickel prices will surge. If the government wants a fluctuating royalty it will reduce our margin,” said Arief Siregar, Inco Indonesia’s president director.

The company booked net profit of \$513.4 million in 2006, a 91.7 percent increase from the previous year. Siregar said Inco would produce between 158 million and 160 million pounds of nickel in matte in 2007. Last year, the company produced 157.9 million pounds of nickel in matte or 71,700 tonnes in 2006.

## UNIONS REBUFF ANGLO PT’S REVISED WAGE OFFER

May 30, 2007 (miningmx.com) – South Africa’s two largest mineworker unions rejected a revised wage offer from Anglo Platinum on Thursday, raising the prospect of industrial action at the world’s biggest producer of the precious metal. Anglo Platinum upped its offer to six percent from its opening offer of five percent, but it dropped the offer of a 30% once-off bonus on workers’ monthly wages.

The largest union, the National Union of Mineworkers (NUM) is demanding 15%, while its peers Solidarity decreased its demand to 15% from 18%. “We would like to remind the powers that be at Anglo that the NUM is in no way playing when it talks of double digits. It is a mandate given to us by our members in the wake of

booming commodity prices,” NUM said in a statement after wage talks on Wednesday.

Greg Potter, a trader at Nedcor Securities, said the chances of industrial action and jitters about platinum supplies in a very tight market, were likely given the vast difference in the position of the two sides. “The platinum counters have been experiencing fantastic margins and the workers want to benefit too,” he said on the Classic Business Day week-nightly radio show. We are getting closer but at 6% and 15% you can still drive a bus through there,” he said. “There’s going to be industrial action with such a difference in ‘bid’ and ‘ask’, so to speak.”

Difficult wage talks were widely anticipated given the massive run up in the price of commodities over the past year. Mining companies have made it clear they want to contain costs in an environment where the price of inputs across the board have run up strongly. Solidarity said it was “unimpressed” by Anglo Platinum’s revised offer, pointing out it was lower than the inflation data.

Anglo Platinum has said it is still early in the bargaining process and has declined to make further comment. Meanwhile, Solidarity has raised the prospect of a strike in the 270,000-strong metal and engineering sector when

wage talks ended ‘in deadlock’ on Wednesday. Both sides will meet again on 5 and 6 June to resume talks ahead of the current wage agreement’s expiry at the end of June.

“If these attempts are unsuccessful, a formal dispute will be declared after which the unions will apply for a strike certificate,” said Johan Pieterse, Solidarity’s general secretary for the metal and engineering industry. In those negotiations, Solidarity is asking for an 11% increase, but the companies in the sector are offer 5.5%.

## THE MYSTERY BEHIND URANIUM PRICING

*May 30, 2007 (Financial Post)* – If you think those uranium sales that are often cited as the basis for recently skyrocketing prices are secretive processes, you’re right. Everyone wants to know what price people are willing to pay for the nuclear fuel. While they are often referred to as auctions, these uranium sales are done via a single round of private sealed bids, according to Eric Webb, senior vice president of information services at Ux Consulting Co LLC.

Market monitors like UxC and TradeTech provide commentary and develop uranium spot price indicators based on the most competitive offer price out there and other deals, but they never reveal actual bids.

Unlike gold or oil, there is no formal exchange for uranium. However, the recently-established NYMEX futures market may push the showdown between traditional uranium players and a new crop of participants further.

The next auction – for 100,000 pounds of  $U_3O_8$ , the naturally occurring form of uranium – has its bids due on May 30 and comes from Mestena Uranium LLC. A previous auction of the same size from the Texas-based company drove spot uranium prices to a new record of US\$113 a pound in early April. Prices now stand at US\$125, according to UxC.

Another unidentified seller, possibly a hedge fund, reportedly has two lots up for sale with bids due by June 1. The first lot is said to be 200,000 pounds of  $U_3O_8$ , while the other is for 100 kilograms of an enriched version of uranium ( $UF_6$ ), which is equivalent to 260,000 pounds of  $U_3O_8$ . These two offerings constitute the largest amount of spot uranium into the market in many months, so it wouldn’t be surprising to see price indicators move again sometime soon.

Canada’s Uranium Participation Corp. holds its uranium through management company Denison Mines Inc. for example. However, few in the financial community have direct accounts and suppliers have generally not been interested in their business, Mr. Webb said.

While he doesn’t see any acceleration in the number of lots put up for sale, the way transactions take place has changed somewhat in the last couple of years. Traditionally, buyers make requests and sellers respond with offers to sell. These days, Mr. Webb said, sellers are increasingly putting their material up for bid.

Meanwhile, another interesting development raised by some uranium experts is that speculators may be driving up the spot price of uranium in order to boost the value of their investments in mining stocks.

## CHINA’S LEAD CAPACITY TO HIT 3.9 MILLION MT/YEAR BY 2010: ANTAIKE

*May 30, 2007 (Platts)* – China’s lead smelting capacity is expected to reach 3.9 million mt/year by 2010, which is an increase of 1.04 million mt from 2005, Feng Juncong, chief analyst at the lead/zinc department of Beijing Antaika, the state nonferrous metals information division, said at the 2007 China Nonferrous Metals Market Conference in Hong Kong Wednesday.

“By 2010, lead enterprises with capacity of more than 100,000 mt/year will reach up to 13, and by 2010, secondary lead capacity in China will also hit 1 million mt/year. But China will still need to import lead concentrate every year for now,” she said. According to Feng, China will produce about 2.95 million mt of refined lead in 2007, up from 2.68 million mt in 2006.

Output in 2008 is expected at 3.27 million mt, and 3.57 million mt by 2009.

“China’s lead output is growing rapidly, actually it’s one of the fastest-growing metals outputs in the country. Output has increased on the back of higher demand due to strong Chinese economic growth,” she added. Feng said China’s lead consumption had grown rapidly mainly due to the strong growth in domestic automobile production, in the electromotion bicycle industry, and in lead-acid batteries demand and export.

“The fact that lead consumption was not much affected by the higher prices in 2005-2006, unlike copper and zinc, also showed that lead had strong support, probably because lead can more easily transfer the higher costs

downstream compared with the other metals sectors,” she said.

In the future, Feng said China was likely to become more dependent on the development of the lead-acid battery industry, and the battery sector is expected to continue rapid growth. “We expect to see China’s lead consumption reach about 3.32 million mt by 2010, which will see an average annual growth of about 10.2% from 2007 to 2010,” she added.

Feng also expects to see net lead exports fall to around 450,000 mt by 2010, down from 500,000 mt expected in 2007, on the back of increased domestic consumption. Net exports in 2008 and 2009 are both projected at 480,000 mt.

## INDIA’S HINDALCO, STERLITE MAY JOIN ALCAN RACE

*May 30, 2007 (Reuters)* – India’s biggest aluminum maker, Hindalco, and Sterlite Industries, are in talks with global firms to separately bid for Canada’s Alcan, the Hindustan Times newspaper said on Wednesday. Citing unnamed sources, the paper said Sterlite’s parent Vedanta Resources Plc was in advanced talks with global miner Rio Tinto to form a special purpose vehicle to bid for the aluminum major.

London-based Vedanta will likely invest \$3-\$4 billion and Rio Tinto could put in \$10-\$12 billion in the joint

venture, the paper said. Hindalco Industries Ltd., which earlier this year bought Canadian aluminum firm Novelis for \$5.9 billion, was in talks with BHP Billiton for a joint bid but a deal was some distance away, the paper said.

Media reports earlier this week said Norwegian aluminum group Norsk Hydro and Rio Tinto might place separate bids to trump Alcoa’s \$28.5 billion hostile bid for Alcan, a takeover that would create the world’s largest aluminum group.

## GOLD LIKELY TO TOP \$700/OZ THIS YEAR – VIRTUAL METALS

*May 30, 2007 (Mining Weekly)* – The gold price is still likely to surpass the \$700/oz-mark this year, underpinned by a number of price-supportive factors, a gold market report indicated this week. The Virtual Metals Group (VM Group) and Fortis Bank’s biannual analysis of the global gold market, ‘The Yellow Book’, predicts that the \$700/oz level could be exceeded this year, but adds that it is not certain whether consolidation above this level would be achieved.

The risk of sharply lower prices come mainly from external factors, such as a dollar recovery or a fall in global share prices, but the group said that remained unlikely. VM Group CEO Jessica Cross said that the group was not foreseeing significant new quantities of metal coming on to the market over the next 24 months or in the medium term, despite numerous junior mining companies listing and media reports on new production and planned expansion of existing operations.

“While there is no shortage of junior mining companies listed and seeking finance, we have yet to see the

announcement with regard to very large gold projects or regions which will take the primary industry into the next generation. Primary mine supply is unlikely to increase sharply in the medium- to longer-term and the major companies still have the problem of reserve replacement,” she said in a statement accompanying the report.

On other gold market strengths, the report noted that the rate at which jewellery was being recycled had slowed compared to the flows of metal the industry saw in 2006, but that secondary gold would still be a major component of the supply side. Offsetting the strengths, ‘The Yellow Book’ highlighted that current prices could result in a small market surplus, but that it would be taken up by the investment funds. It also said that dehedging was expected to continue, but at a reduced rate compared with recent levels.

## CVRD SAYS ENERGY WOES WILL LIMIT INVESTMENT

May 30, 2007 (Reuters) – Delays with electricity generation projects in Brazil will limit investment by mining giant CVRD in 2012 and 2013, the chief executive of the world's biggest iron ore miner said. Underscoring concerns expressed by power sector analysts about possible energy shortages in Brazil at the start of the next decade, CVRD's CEO Roger Agnelli said Brazil was running out of time to launch new power projects, which are held back by environmental authorities.

"There is no doubt we need to respect the environment, but we cannot keep discussing because ahead of us, we'll have a serious energy problem," Agnelli told a seminar

on development. "There won't be energy if we don't accelerate the process of adding power plants, be it hydroelectric, coal or nuclear. Next decade, CVRD investments will be limited because of energy availability," he said.

Apart from iron ore, which does not require a lot of energy, CVRD produces alumina and aluminium in an energy-intensive process. "We have gigantic bauxite reserves and capacity to produce alumina, but we are thinking of no new investment in the aluminium area because there is no available energy," he told reporters on the sidelines of the seminar.

## TRIBUNAL'S APPROVAL OPENS WAY FOR R14BN HOLCIM BEE DEAL

May 31, 2007 (Mining Weekly) – The black-controlled Afrisam Consortium (ASC) received unconditional approval from the Competition Tribunal on Thursday for its proposed acquisition of the majority interest in cement group Holcim South Africa – tribunal approval was effectively the last condition precedent for the conclusion of the R14-billion transaction.

The other major milestone was achieved earlier this week when shareholders in JSE-listed steel and construction group Aveng, which owned 46.65% of Holcim South Africa, approved the sale of the group's holding to the consortium for R7.4-billion. The motion was passed at a general meeting on Monday morning, with 99.97% voting in favour of the sale. Nearly 80% of all Aveng shareholders, or their proxies, voted.

A source close to the deal also confirmed with Engineering News that all funding for the transaction, which was being raised offshore, was in place and that the conclusion of the deal was imminent. He dismissed suggestions that the consortium was battling to raise the

necessary finance, revealing that various funding mechanisms and instruments were being used, including ones not traditionally available in the South African marketplace.

However, he noted that there were still some technical and legal processes that had to be completed and which could be affected by the impending public-sector strike. Nevertheless, he was confident the deal would be concluded either on June 1, or soon thereafter.

On Thursday, the tribunal approved ASC's acquisition of 85% of the entire issued share capital in Afrisam (previously Holcim South Africa) from Cemasco – Cemasco would remain with 15% shares in Afrisam with minority protection rights.

Earlier in the week, Holcim South Africa notified its customers that its new holding company, Afrisam (Pty) Ltd, had been formed, with ASC owning 85% of the shares, and the balance owned by Holcim Limited of Switzerland.

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## RUSSIAN METALS TYCOON PROKHOROV SETS UP \$17 BIL HOLDING

May 31, 2007 (*Platts*) – Russian billionaire Mikhail Prokhorov is setting up a new investment fund for his \$17 billion holdings in some of Russia's largest companies including Norilsk Nickel and Polyus, Prokhorov said Thursday at a press conference. The fund, dubbed Onexim Group, will include Prokhorov's current stakes of 22% in both Norilsk Nickel and Polyus Gold and a 50% interest in Interros. Assets held within Onexim have a total value of \$17 billion, Prokhorov, who has become the president of the new holding, said at a press conference in Moscow.

Within five years assets of Onexim, whose main focus will be investment in high technology, are expected to rise in value to at least \$30 billion, he said. Prokhorov's new holding company is being set up months after he and business partner Mikhail Potanin announced they had decided to part company, leaving much speculation as to how they would divide up their massive Interros empire.

Prokhorov's 50% in Interros now moves to Onexim. The break-up of Interros assets on the parity basis between Potanin and Prokhorov will be complete by the end of the year, Prokhorov said. By the same time, some of Norilsk Nickel's electricity assets will be spun off into a separate company. After the break-up and spin-off of the energy holding are completed, the partners will decide whether to swap or sell part of the assets, Prokhorov said.

When asked if he had decided to sell his 22% interest in Norilsk Nickel, Prokhorov said, "I can only say that I am

very interested in energy, but the decision will be made only after the energy holding is spun-off from Norilsk Nickel." Onexim will be allocated shares in that spin-off in line with its holding in Norilsk. Electricity assets necessary for Norilsk production are not included in the spin-off plans.

The new company will look at the development of existing assets and a possible purchase of stakes in territorial generation companies in Russia as well as the construction of new generation capacity in emerging markets, Razumov said, naming Brazil, Mexico, India, Vietnam and China as possible markets.

Mining and metals will remain a key part of the company's business, Prokhorov said, noting a particular interest in palladium. Dmitry Razumov, Onexim General Director, said the company planned exploration of new potential deposits in Russia and the CIS rather than buying licenses for existing fields. "We will not become Norilsk Nickel or Polyus's competitors. We will be involved in a risky business of finding new massive deposits," he said.

Onexim has already drafted "theoretical models" as to possible locations of significant metals reserves. In the long term, he did not rule out cooperating with other metals companies for the development of the deposits that Onexim plans to find and explore.

## BASE METALS – THE FUNDS DOMINATE BUT THE POSITIVE FUNDAMENTALS REMAIN IN PLACE

May 31, 2007 (*MineWeb*) – GFMS Metals Consulting's latest interim review on base metals reports that the recent bout of fund-led profit taking has put the fundamentals into the background, as the technical picture worsened for a number of metals, leading to sizeable selling from momentum-based funds including the CTAs. The study covers the non-ferrous metals that are traded on the London Metal Exchange, plus cobalt, while there is a separate publication covering steel. This brief summary looks at the conclusions for aluminium, copper and nickel.

Despite the sell-off from the mid-May highs, most of the metals finished May fairly close to where they started the month and GFMS Base Metals Consulting's base metals

index stood, close to the end of the month, at 363.49 against 363.94 at the start of the month.

The report notes that with the exception of nickel there was no build in LME inventories in response to the backwardations that are in place and that even for nickel, the underlying level of inventories is so low that the increase in LME inventory (from a low of 4,446 tonnes on May 9 to 7,720 tonnes on May 30) was largely ignored. The group is of the view that the continued downtrend in inventories for the majority of the sector suggests that there is scope for price gains in June, but views for further out are mixed.

The review notes that most of the economic data during the month suggested more of the same – “rapid growth in the emerging markets, solid expansion in Europe and the potential for a recovery in the US”.

The study is cautious with respect to the prospects for aluminium, noting that consolidated global primary aluminium production rose to three million tonnes in April, up by 12% from 2.69 million tonnes in April 2006, with year-to-date production up 27% to 11.78 million tonnes. Perhaps it is no surprise that China is the primary driver, while elsewhere there is steady growth in all producing regions with the exception of Africa. Demand in the US and Japan was down by 10% and 13% in the first quarter although European demand remains reasonably robust.

The copper sell-off is described as largely technical in nature with the more fundamentally-based funds staying on the sidelines, while the fact that the backwardation remains in place (currently \$55/tonne back for cash-to-threes on a three month price of \$7,255/tonne), highlighting both the tightened inventory position and, interestingly, the existence of a dominant long.

The group believes that the bulk of the weakness is now behind the copper market, although there is a measure of doubt as to whether China’s performance is too good to last, as all the evidence points to the building of inventories within China so far this year.

Apparent demand in China has been estimated by the International Copper Study Group at 35% higher in the first two months of this year against January-February 2006, driving growth of 8.6% in consumption globally over the period. GFMS is of the view that the heightening premiums in the United States are a function of tightening supply rather than an indication of recovery in demand, noting that COMEX stocks are down to 27,400 tonnes.

The group takes the view that in the short term we could see new highs in the nickel price, but that cash prices will be hard to sustain over \$50,000/tonne during the third quarter of the year. It describes the tug-of-war in the market, with demand weakening from the stainless steel sector, while there are increasing supplies from scrap and low-grade ferro-nickel.

The report notes that recent independent estimates of an apparent deficit of 42,000 tonnes in the first quarter of this year (a 15% deficit) does not account for the surge in low-grade ferro-nickel output. There is an increasing trend among stainless steel producers to move towards ferritic grades and low nickel-content grades; in addition to this there is an increasing availability of stainless steel scrap.

## DE BEERS BLOCKED FROM BUYING MINES

May 31, 2007 (*miningmx.com*) – It remains to be seen what Anglo American does with its 45% stake in private diamond company, De Beers. One view is that Cynthia Carroll, Anglo CEO, may decide to kick the diamond business into touch, to employ the American parlance.

As the diamond industry’s long-standing custodian, De Beers tends to provoke feelings of resentment within the sector. You can now add to this the wrath of anti-competition regulators. Asked recently if De Beers would be able to bid for producing mines – which it may do in an effort to lift its production – chief financial officer, Stuart Brown, gave a curt negative.

The reason is that the world’s competition authorities would deem such an acquisition as anti-trust given the estimated 45% control De Beers has over diamond production. That’s why the company has had to relinquish a \$700m marketing agreement with Alrosa from 2009 down to around \$275m by 2011. It’s also why

De Beers throws so much money into exploration; in fact about \$100m will be dedicated to exploration in 2007, Brown said.

Instead, De Beers has had to fall back on its own (considerable) resources: “We’ve got four new mines coming into production over the next few years which will produce \$700m worth of diamonds,” said Brown. “This is more than the Russian production we’re now losing,” he said.

So where is De Beers looking for its new generation of diamonds? Not Canada despite opening its Snap Lake prospect there. “Because we couldn’t put our money elsewhere, we put it in Canada,” said Brown. “But now we’re reducing that budget in favour of the Congo and Angola.” De Beers is also exploring India for diamonds although gaining access to “the right ground” is described by Brown as “a challenge”.

## A\$1.2BN COAL SALES THREATENED

May 31, 2007 (*Financial Times*) – Posco, the world's third largest steelmaker, has threatened to stop buying Australian coal because of costly delays and unreliable deliveries at Queensland's Dalrymple Bay Coal Terminal.

The South Korean company, which spends more than A\$1.2bn (\$1bn) a year on coal from the northern Australian state, blames state-owned rail operator Queensland Rail for the problems, which it says are getting worse.

Posco said it had written to Anna Bligh, Queensland's deputy premier, in February and lobbied Peter Beattie, the premier, during a trade mission to Seoul earlier this month.

In the letter, Posco vice-president YT Kwon warned that: "If a stable and expanding source of supply is not available from Queensland, we will need to consider other sources to secure our growing supply needs.

"The lack of smooth supply from Queensland means we are having to divert coal from other countries. We do not

experience elsewhere the rail problems we have in Australia. Even though coal-mines are mining the coal, they can't sell it because they can't move it to the port," he wrote. "It means that Queensland government is losing big royalties. We have to prepare for the future. We will do our utmost to develop other areas such as Mongolia, Russia, Mozambique and Indonesia. We might have to take our business elsewhere."

Australian coal producers also criticised the state government and Queensland Railway, claiming they had failed to capitalise on booming demand for natural resources from China.

Stephen Cantwell, acting chief executive of Queensland Rail, said the company was spending A\$3.5bn on network expansions and new rolling stock, but he also forecast that infrastructure work would cut capacity in the second half of this year.

Queensland's coal miners, rail and port operators said they would act together to overcome the threats to the state's A\$18bn a year coal industry.

## MILLS TO CUT SPOT MOLYBDENUM PURCHASES DUE TO CHINA EXPORT RULE

June 1, 2007 (*Platts*) – Steel mills in South Korea and Japan plan to reduce their molybdenum oxide and ferromoly purchases due to China implementing export regulations on these products, sources said this week.

The Chinese government on Friday released a list of 30 molybdenum producers and trading companies to be granted export licenses. Companies without licenses will not be allowed to export. The government is also expected to set the volume of molybdenum products allowed to be exported by each licensed company.

An official in charge of procurement at South Korean steel producer Posco said he had been prepared for this move. "There had been rumors on the Chinese government actions. It was expected. But this means we need to find other sources outside China ... South America, Chile," the official said.

Posco sources molybdenum products through monthly tenders as well as on contracts. Monthly tenders involve

moly products of 100 mt or more. Sources at Japanese blast furnace mills said they had increased the ratio of contract supplies, sourcing more from Chile on annual contracts, and less from China on spot basis.

For January-April 2007, roughly 50% of Japan's ferromoly imports were from China, mostly on a spot basis, and 30% from Chile, mostly on contracts. Due to mills' tendencies to rely more on contracts, market sources generally expect to see a decrease in imports from China, some even saying that Chile may overtake China as the top ferromoly exporter to Japan.

Mill sources generally said they expected molybdenum prices to rise on the back of possible reduction of Chinese exports. One trader, however, gave a different opinion: "Mills reducing tender procurement would mean less spot demand. That may result in falling prices."

## NORILSK SHARES JUMP ON REPORT RUSAL MAY BUY A STAKE

June 1, 2007 (Bloomberg) – Shares of OAO Norilsk Nickel, the world's biggest miner of the metal, rose 8.5 percent after Interfax reported that United Co. Rusal is interested in buying a stake. Billionaire Oleg Deripaska's Rusal, the world's largest aluminum producer, is seeking permission from Russia's government to buy a stake in Norilsk, Interfax said today, citing an unidentified person familiar with Rusal's plans.

"We are indeed reviewing the possibilities of diversifying our business, but to speak of any concrete projects or acquisition plans is preliminary," Vera Kurochkina, a spokeswoman for Moscow-based Rusal, said in an e-mailed statement. Rusal said last year that it wanted to diversify into other metals to model BHP Billiton Ltd., the world's largest mining company.

Billionaire Mikhail Prokhorov said yesterday that he may consider selling his 22 percent stake in Norilsk next year. He didn't confirm a January statement by Interros Holding Co., which holds most of his and business partner Vladimir Potanin's assets, that the stake will be sold to Potanin. Dmitry Razumov, chief executive officer of Onexim Group, Prokhorov's private fund, denied any talks of a sale.

A spokesman for Deripaska's holding company, declining to be identified, said an acquisition would be logical for the aluminum billionaire's business development and add to his growing portfolio of assets in machine building and construction.

## HARPER SAYS CANADA WON'T CHANGE INVESTMENT RULES FOR ALCAN

June 1, 2007 (Bloomberg) – Canadian Prime Minister Stephen Harper won't change investment rules "in midstream" to make it easier for Alcan Inc to fight off a takeover bid by Alcoa Inc. "I don't think players who are involved in takeovers or the subject of takeovers can expect the government to change rules in midstream," Harper said on Friday in an interview.

Canada's Conservative Party government earlier this week rejected calls to expedite a review of the country's investment rules, amid a rash of foreign takeovers of Canadian firms like Alcan. Alcoa's May 7 hostile takeover bid for Montreal-based Alcan triggered a backlash from opposition parties, who say foreign acquisitions of Canadian companies may lead to job losses.

"I don't want to get in the marketplace and say, this transaction we'll allow, and that transaction we won't allow, and then try to micromanage international investment flows," Harper said. "That would be a disaster." Still, a review of foreign-investment rules is "long overdue," Harper said. "What we want to see as a government ultimately is Canadian champions in sectors like mining and other sectors where we're world leaders," he said.

The government this week said it would appoint a panel of experts within a month or two to review Canada's competitiveness policies, including rules on foreign investment. The government first announced plans for the review last November.

Under current Canadian investment law, Industry Minister Maxime Bernier can block any takeover of a Canadian company worth more than C\$265 million (US\$248 million) if the deal doesn't provide "net benefits" to the economy. Such benefits include increased productivity or research and development. The government has said it will wait for advice from Bernier's ministry before deciding whether to approve Alcoa's cash-and-stock offer, which is valued at about US\$27.7 billion.

The main opposition Liberal Party has called for a three-month moratorium on acquisitions, and asked the government to appoint a panel of experts to use the time to study whether foreign-investment laws in Canada are lax compared with elsewhere. Bernier responded that the government didn't plan any changes to the rules before the next budget.

## UBS WORRIES THAT GOLD MAY BE LOSING ITS LUSTER

*June 1, 2007 (MineWeb)* – In its latest analysis published Thursday, UBS Investment Research questions if gold has lost its luster, citing the breakdown of the relationships between oil and gold, and between the U.S. dollar and gold. “Overall, we are growing more concerned that North American gold equities may have lost their relative multiple advantage over other commodity producers and may offer less portfolio protection in the event of a broader equity market downturn,” the analysts said.

Noting that gold has long held an advantage to other metals due to its role as a reserve currency and an inflation hedge, UBS analysts claimed that gold is no longer a reliable portfolio hedge for generalist investors.

“More recently, gold bullion has underperformed oil and has not shown its typical negative correlation to the U.S. dollar or the broader markets,” the analysts said. “Political risks premiums are also at records lows which has eroded gold’s role as a safe haven investment.”

Meanwhile, UBS also raised the question of whether gold equity valuations have become permanently impaired? “While bullion has underperformed its traditional relationships, gold equities have significantly underperformed bullion since February 2007,” according to their analysis. Golden Star is the only gold equity that outperformed bullion over the last three months, according to UBS.

“The underperformance of gold equities versus bullion can be explained by a) the emergence of the gold ETF

and its cannibalization of investment flow; b) the better equity performance recently available in base metals; c) strong gains from some of the fringe metals such as molybdenum; d) there have also been fewer gold discoveries made which has minimized the optionality of gold equities.”

UBS asserted that gold margins have eroded, claiming that “operating and capital costs have increased more rapidly than the gold price if one excludes by-product credits.” They attributed poor cost performance to the lack of new mine development and an aging asset base. “New development projects are generally inferior in quality to existing assets and new growth is coming at the expense of free cash flow.”

Noting that Barrick Gold Chairman Peter Munk recently admitted that Barrick may have to eventually expand further into non-gold precious or base metals production if its share price continues to underperform, UBS suggested that perhaps “all gold companies should pursue base metal or platinum acquisitions while they still have a multiple advantage.”

Despite today’s trend of producer de-hedging, UBS asked if “perhaps gold companies should also pursue hedging if gold optionality is no longer superior to base metal optionality? Although North American gold equities on average are at an 11% discount to forward curve NAV valuations, UBS suggested that “base metal equities still look even more inexpensive,” which are at a 24% discount.

## WESTERN MINING OPTS FOR SHANGHAI

*June 2, 2007 (South China Morning Post)* – Western Mining, a leading mainland producer of zinc, lead, copper and aluminium, plans to raise at least 4.44 billion yuan in a Shanghai initial public offering this month. The company originally had intended to launch an H-share offering before Beijing signalled its wish for well-run mainland firms to sell shares at home in a bid to improve the nation’s stock markets.

The Qinghai-based metal producer will seek approval from the China Securities Regulatory Commission on Tuesday to sell as many as 500 million A shares or 20.64 per cent of its enlarged share capital, according to its preliminary prospectus. No price range or timetable has been given but the firm has said it aims to raise at least 4.44 billion yuan to help fund expansion of its mining and refinery capacity, acquisitions and repaying bank borrowings.

In April, Western Mining dropped its plan for a Hong Kong listing after the commission urged mainland firms that were seeking H-share listings to sell shares on the mainland first, or consider a simultaneous listing, sources said. UBS originally was helping Western Mining to sell shares in Hong Kong.

The listing switch means the Swiss bank will join United States rival Goldman Sachs as the only global securities firms that can earn underwriting fees in the world’s fastest-growing stock market. Goldman Sachs’ mainland joint venture helped arrange Ping An Insurance’s 38.9 billion yuan Shanghai share sale in February – the first deal underwritten by a mainland unit controlled by a Wall Street company.

Based on the amount Western Mining plans to spend and the 1.5 per cent underwriting fee that mainland

investment banks typically levy on large domestic initial public offerings, UBS may garner US\$8.7 million in fees. Mainland companies have raised almost US\$41 billion in Shanghai and Shenzhen since the start of last year, more than in the previous seven years combined, according to data compiled by Bloomberg.

Initial public offerings in the A-share market probably will reach 200 billion yuan this year as large H-share companies seek domestic listings, global accounting firm PricewaterhouseCoopers said in a January report.



## ANNOUNCEMENT

### Mr. Peter Ingham, General Manager of Mining

Behre Dolbear Australia Pty Limited (BDA) has today announced the appointment of Mr. Peter Ingham as General Manager of Mining for the Australasian consulting services.

Based in the Behre Dolbear's Sydney office, Mr. Peter Ingham has periodically operated as a BDA Senior Associate for several years and, from June 2007, will take responsibility for managing the BDA mining consulting portfolio as well as actively seeking growth and development opportunities in Australasia.

BDA was founded in 1994 and is the Australian subsidiary of Behre Dolbear and Company Inc., a group that has operated continuously as a mineral industry consultancy since 1911, with offices in Denver, New York, Toronto, Vancouver, London, Beijing, Hong Kong and Guadalajara, as well as Sydney. Behre Dolbear Associates and Consultants cover a wide range of technical expertise and have experience in most parts of the world. BDA uses primarily Australian-based consultants, but can call on expertise from overseas

specialists and engineers from other Behre Dolbear offices where appropriate. BDA currently acts on behalf of numerous international banks, financial institutions, and mining clients and is well regarded as an independent expert consultant in the minerals industry.

Managing Director John McIntyre said the role of General Manager of Mining is a newly established position which will assist BDA to service the growing number of clients in Australasia and to be actively involved in expanding the BDA services and capability in the region.

Mr. Ingham has more than 25 years of experience in underground and surface mining operations and has worked predominantly with base and precious metals. Before joining the company, Mr. Ingham held various senior technical and management roles in mining companies, including Delta Gold, Australian Resources, Cyprus Gold, Mt. Isa Mines, and Roan Consolidated Mines (Zambia).



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