

Troubles pile up for Barrick Gold leadership

MINING
News analysis

Chairman Peter Munk risks a turbulent end to his career amid a cash call and strains in the business model, says James Wilson

Peter Munk's long business career has brought him into plenty of difficulties as well as triumphs – but the Canadian entrepreneur marks his 86th birthday today amid one of his toughest challenges yet.

Barrick Gold, the mining group that Mr Munk has steered for more than three decades and turned into the world's largest gold miner, is in the throes of one of Canada's largest capital calls, raising at least \$3bn of equity. It comes in the middle of deep gloom about gold prices after a sharp sell-off this year, and after Barrick decided to suspend work on Pascua-Lama, its flagship new mine, admitting that the ballooning costs of the South American venture made it unviable for the foreseeable future. Barrick made a \$5bn writedown on the mine this year.

Beyond these operating and financial difficulties, Barrick's challenges are also about Mr Munk himself. Some investors have this year been increasingly hostile towards the company's corporate governance standards – including the continued influence of Mr Munk as chairman, and the presence on the board of a coterie of close allies, some of whom have been directors for almost 30 years. His son Anthony is also on the board.

Barrick's balance sheet, its Pascua-Lama project and its governance have been front and centre of investors' concerns

Barrick's balance sheet, its Pascua-Lama project and its corporate governance "have been front and centre of investors' concerns", says Jorge Beristain, analyst at Deutsche Bank in New York.

Trying to ease these concerns and cement support for the equity issue, the miner has promised plans for "rejuvenation" of its board and extra independent directors by the end of the year, as well as for an overhaul of its pay practices after criticism of a \$12m award for John Thornton, the former Goldman Sachs banker named co-chairman last year.

The circumstances point to a troubled end to the long career of Mr Munk at Barrick. Some who know him well believe he may be prepared to step down as early as next year's annual meeting, leaving Mr Thornton as chairman. That could presage a wider management and board shake-up.

However allies of Mr Munk, whose influence at Barrick is in stark contrast to his relatively small holding in the company, also consider that he will not step aside until he is confident that Barrick is back on a sound footing – with the capital raising and the Pascua-Lama suspension seen as key steps towards that end.

"Peter has a huge amount of emotional capital tied up in the business. He is not going when he sees it in its hour of need. He wants to help put the ship back on course and a huge amount of work has been done this year," says a supporter.

More is at stake than just Mr Munk's legacy. Barrick's attempt to restructure highlights the strains in the "Big Gold" model that had the world's leading producers striving for size and scale, chasing ever more marginal production as the gold

Raising the bar



Barrick's Pascua Lama gold mine

price soared. With debt and costs also rising, Barrick, which owns more than two dozen mines across five continents, is selling off smaller and higher-cost operations – though it failed to sell African Barrick Gold, its UK-listed subsidiary, at the start of the year – and axing 1,800 jobs from a bloated corporate structure. "There is not a single aspect of our business that we have not been evaluating," said Jamie Sokalsky, Barrick's chief executive, as he justified the share issue.

Just five of Barrick's mines produce more than half of its 7m troy ounces of gold annually, and the mismanaged development of Pascua-Lama exemplifies the ends to which large gold miners have had to go to try to replenish reserves. The project is more than 5,000m up in the Andes and straddles Argentina and Chile, forcing the company into arduous negotiations with two governments. While Pascua-Lama's costs would be low once in production, the mine has cost more than \$8.5bn and is only half built. It has added to the strain on Barrick's balance sheet, where debt soared to more than \$15bn after its acquisition of copper miner Equinox in 2011.

Barrick's Equinox deal has made it a

"[Peter Munk] is not going when he sees Barrick in its hour of need. He wants to help put the ship back on course"

test bed for the idea that gold miners – which once attracted better valuations than miners of other metals – could sensibly diversify. The deal soured many investors on Barrick, but its copper output is rising. Newmont Mining, Barrick's largest gold rival, is now also publicly exploring a big expansion into copper.

Barrick's capital raising – what one underwriter advertises as a "once in a decade chance to buy" with the share price at about \$19 compared with more than \$50 two years ago – is underwritten by banks. However anything less than a full take-up of the offer would be a severe embarrassment to the company and a blow to its relations with the underwriters. The equity raised will be used to cut net debt by about 20 per cent, with a full repayment of debt due next year.

"It is not a long-term fix but it buys time," says a banker at a North American institution.

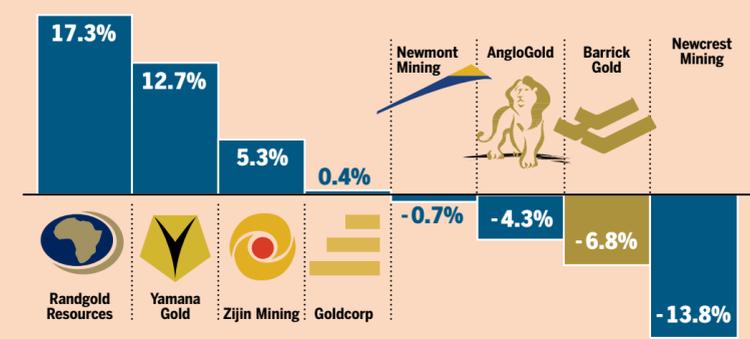
Deutsche's Mr Beristain believes more gold miners will need to raise equity if the gold price continues to hover at about \$1,300 per troy ounce or lower. Gold soared from \$300 an ounce in 2003 but has fallen from above \$1,600 this year. Miners' costs escalated over the same period, leaving many mines barely profitable.

"There is going to be a limited window for equity issuance for the gold sector. As a company you do not want to have to go back to the market," he says. "I give Barrick credit for being further along than many gold miners in reshaping their balance sheet. They had to move more urgently because they were in the biggest trouble. There is nothing like having your feet to the fire."

MORE ON FT.COM

For more news and analysis on the mining sector, go to www.ft.com/mining

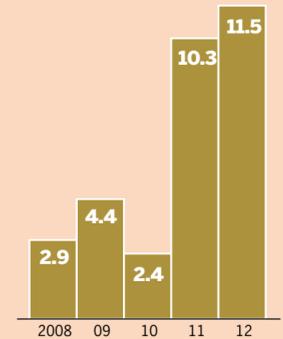
Gold miners
Average total shareholder return over past five years (% local currency)



Barrick Gold
Capital expenditure



Net debt (\$bn)



FT graphic Sources: company; Thomson Reuters Datastream

Randgold applauded for output jump

MINING
By James Wilson in London

Randgold jumped more than 6 per cent as the FTSE 100 listed gold miner hit higher grade reserves at its flagship project and delivered a big increase in output.

The better grades mined at the Loulo-Gounkoto complex in Mali helped Randgold cut its operating costs per ounce of production in the third quarter. The miner also started commercial production at its Kibali mine in the Democratic Republic of Congo, which is expected to help push Randgold's gold output above 1m ounces next year.

The Africa-focused company has become a relative investor favourite in the gold industry for meeting targets and avoiding write-downs on its projects at a time when many peers are reeling from this year's sharp fall in the price of the precious metal. Mark Bristow, chief executive, has stuck to a mantra that projects have to be profitable

if gold – which this year has fallen from above \$1,600 per ounce to about \$1,300 – were to fall further to \$1,000, a level surpassed in 2009.

"At a time when the gold mining industry is struggling to come to terms with austerity we have delivered rising grades, as per guidance, and improved recoveries as promised," Mr Bristow said.

Randgold has also kept up exploration, with Mr Bristow saying: "Cutting exploration is like cutting out your future." But he said capital spending should

fall from \$650m this year to about \$330m next year and further thereafter.

Output rose 19 per cent quarter-on-quarter, lifting year-to-date production to 629,000 ounces against guidance for the year of 900,000-950,000oz. Kibali – a joint venture with AngloGold Ashanti – is expected to produce 550,000oz next year. Output at Loulo-Gounkoto rose 36 per cent compared with the previous quarter. "While the company had always guided for this to come through, we believe the market will be

reassured to see the company delivering," said analysts at Barclays, a broker to Randgold.

A third mine in Mali, at Morila, was in "the twilight of its life" and producing less, as expected, Mr Bristow said.

The Randgold chief said one challenge faced by the miner was at Tongon, in Côte d'Ivoire, where gold recovery rates, at 74 per cent, have been markedly below the 90 per cent-plus levels at other mines. Rates at Tongon were targeted to get to 82 per cent this year and ultimately to 88 per cent, Mr Bristow said.

Quarterly revenues from gold sales rose 10 per cent to \$349m compared with a year ago, when the average gold price was more than 18 per cent higher. Net income for shareholders fell 21 per cent while earnings per share of \$0.88 compare with \$1.13 in the same quarter last year.

"This was a great quarter for Randgold," analysts at GMP said.



The industry is struggling with a fall in the gold price AFP

Deals took former refugee to top

Peter Munk's three decades as the driving force at Barrick Gold have been just one lengthy chapter in a career that has seen him lauded as one of Canada's most important entrepreneurs – and one who has known humbling failure as well as success, writes James Wilson.

Since the 1960s his businesses have ranged from Clairtone stereo equipment, which collapsed in the early 1970s, to the Trizec commercial property empire.

Even after selling Trizec in a deal worth almost \$9bn in 2006, a debt move given the financial crisis that was to hit property, the

restless Mr Munk, pictured left, was moving on to turn a former Adriatic naval base into a superyacht marina, drawing in investment from the likes of Oleg Deripaska, the chief executive of Rusal, the Russian aluminium group, and Bernard Arnault, the chief executive of French luxury goods group LVMH.

A refugee from the Nazis in 1940s Hungary, and a trained electrical engineer, he made Toronto his home and had been a prominent philanthropist in Canada. At Barrick Mr Munk started with one Canadian mine and built the world's largest gold miner by output through deals such as the acquisition of Placer Dome in 2006. Mr Munk has espoused the idea that "being a founder is for life", but as his career draws to a close he faces criticism that the time has come to cut his influence at the company and allow boardroom renewal.

Co-chairman in line to take helm

John Thornton's \$12m welcome package to invest in Barrick Gold shares last year was excoriated by some investors but defended by Peter Munk in typical style, writes James Wilson. The award was about the same as the price of six of the huge electric "shovels" that shift hundreds of tonnes of rock at a time at Barrick's vast mines, said Mr Munk – and the co-chairman would do more for Barrick than they ever could. "John was a highly desirable, well-known commodity," Mr Munk told Barrick's annual meeting. "We had to secure him."

Mr Thornton, pictured right, was a star banker at Goldman Sachs, spearheading its European expansion in the 1980s and becoming president. But he lost the race to the top job in Goldman's later power struggles and branched

into academia, becoming a professor at Beijing's prestigious Tsinghua University and also chairing the board at the Brookings Institute, a Washington think-tank.

With an excellent network in Asia, particularly China, Mr Thornton seemed a chairman-in-waiting at HSBC after he joined its board in 2008 – but he was overlooked in 2010 and left the bank a few months later. Now his position at Barrick puts him in line to be the architect of its future once its founder departs.



Contracts & Tenders

EXCERPT FROM THE CALL FOR EXPRESSION OF INTEREST

The judicial liquidator of the approved composition proceedings of Pramac spa in liquidation and Lifter srl in liquidation calls to express interest in purchasing the Corporate brand "power" of Pramac spa in liquidation, of the company Lifter srl in liquidation as well as 10 shareholdings of the Pramac group.

The Pramac group consists of two business locations in Italy and 18 company sites which are located in 16 countries other than Italy; the group operates on a global scale with five production sites located in Italy, Spain, France, China and USA and through a distribution network that consists of 15 commercial branches; the activities include design, production and distribution of (i) power units for the production of electric energy and other machinery (power) as well as (ii) handling equipment (hand pallet trucks and forklifts).

Interested applicants have to send their expression of interest within and no later than the 6th of December 2013.

Complete version of the call containing the conditions, terms and modes to submit the expressions of interest on the following Website: www.procedure.it/pramac/letterconcordatiomolagati

Those who will have expressed their interest will be admitted, after signing the requested documents, to the virtual data room which will be held from the 16th of November to the 12th of December 2013.

The judicial liquidator: Dott. Franco Michelotti

Business For Sale

MARSTON AGRICULTURAL SERVICES LIMITED (IN ADMINISTRATION)

Tyrene S Courtman and Nicholas J Edwards, Joint Administrators, offer for sale the business and assets of Marston Agricultural Services Limited, an agricultural trailer designer and manufacturer based near Grantham, Lincolnshire.

Key features include:-

- Turnover £3.8m in the year to 30 September 2013
- Opportunity to acquire business and assets as a going concern with 31 employees remaining
- Assets available include freehold land and property set in c.23 acres, plant and machinery and substantial intellectual property
- Owns a number of marques and trailer designs from 60 years of trade

For further information, see www.mas-trailers-group.co.uk or please contact Jonathan Davis at Cooper Parry Group Limited, 1 Colton Square, Leicester, LE1 1QH.

Tel: 0116 262 9922. Email: jonathand@cooperparry.com

Notice for the sale of a shareholding

1. Official name: ASAM S.p.A. (the Seller).
2. Postal address of the seller: Via Vinateo 1 – 20122 Milan (Italy).
3. Contact: Procedure Manager Carmen Zizza – Tel +39.02.57514626 – Fax +39.0257501171 – e-mail asamsps@pec.it
4. Additional information: Available from contact indicated in paragraph 3.
5. Subject of sale: Unitary sale of 95,223,197 shares in Milano Serravalle – Milano Tangenziale S.p.A. (the Company) equal to 52.9% of the share capital (the Participation).
6. Features of the Company: The Company is headquartered in Milan and has a share capital of Euro 50,000,000. Its purpose is the construction and operation of the Serravalle – Milano motorway, the Milan West motorway ring road, the Milan East motorway ring road, the Milan North motorway ring road and other motorways or stretches thereof in force under the Consolidated Convention signed with ANAS S.p.A. on 7/11/2007.
7. Base tender amount: Euro 380,892,788.00 (three hundred and eighty million and eight hundred and ninety-two thousand and seven hundred and eighty euro) for the unitary Participation on sale.
8. Date of execution and transfer of Participation: by 31 December 2013. The date shall be set by the Seller after adjudication, with the right of the Seller to extend that date by 180 days to obtain the legal authorisations. The price of shares may be paid in three instalments, the first of which for an amount not lower than Euro 195 million at the date of signing the contract for the sale of the Participation and the other two of an equal amount by 30 September 2014 and by 30 September 2015, increased by the interest pursuant to Art. 5 of Legislative Decree No. 231 of 2002, as from the date of signing.
9. Deposits required: under penalty of exclusion, a deposit of Euro 7,617,855.76 (seven million and six hundred and seventeen thousand and eight hundred and fifty-five euro and seventy-six cents) is required as warranty of the quote to be paid in cash or by bank surety. The payment of the second and third instalments of the price must be backed by a bank guarantee of equal amount.
10. Conditions of participation: under penalty of exclusion, possession is required of the general requisites and financial capacity indicated in Section 7 of the Notice of public tender published on the www.asamsps.it website under the "Calls for Tender" (the Notice) link.
11. Award criteria: to the best offer equal to or higher than the base tender amount referred to in paragraph 7. In the event of lack of quotes equal to or higher than the base tender amount, the Participation shall be awarded to the quote with closest to the base tender amount, after verification of consistency.
12. Tender documents: the full Notice is available on the www.asamsps.it website under the "Calls for Tender" link, where the documents are published for access to the data room.
13. Data room: as provided for in paragraph 12, interested parties can access the data room containing the Company documents, the templates for submission of quote, the contract of sale of Participation, as well as the shareholders' agreements that the Buyer must sign.
14. Initial deadline for access to the data room: from 11 November 2013.
15. Closing date and submission of quote: under penalty of exclusion, by 6 December 2013 at 12:00 at the address referred to in paragraph 2 in the manner indicated in the Notice published on the www.asamsps.it website.
16. Language used: Italian.
17. Additional information: The Seller shall only warrant full ownership of the shares sold. In case of failure to sign the contract for the sale of Participation, in addition to the security deposit, the purchaser shall pay to the Seller additional damage. The excessive burden clause shall not be applied to the contract of sale. The shareholders' agreements shall establish the right of the Province of Milan to appoint two directors and a member of the Board of Auditors. Stipulation of the contract of sale is subject to the authorisation provided for in the Inter-ministerial Directive of 30/7/2009 and the Ministerial Decree of 29/2/2006, as well as the authorisation of the Antitrust Authority.
18. The buyer must ensure that the Company shall comply with all its obligations under the Consolidated Convention signed with ANAS on 7/11/2007 and all its amendments/additions, including the obligations of investment and maintenance of the requisites of equity soundness, and must do everything possible to ensure that subsidiaries and associated companies also fulfil the motorway concessions which they hold. Alliances are also permitted to tender in accordance with the provisions of the Notice published on the www.asamsps.it website.
19. Appeal may be made to the Regional Administrative Court of Lombardy, via del Conservatorio 13 – 20122 Milan (Italy).
18. Date of dispatch to publications office of the Official Journal: 31 October 2013.

Procedure Manager signed Carmen Zizza