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Complimentary Report Not Intended for Compensation

This discussion is a sort of “think piece” about takeover activity in the past few years in the metals sector.

ANTI-VALUE, FULLY VALUED, SEMI-VALUE, TRUE DEEP VALUE AND A REVIEW OF LBO ACTIVITY

The past six sessions’ selloff from the July 19th stock market record, recent turmoil in sub-prime mortgages and general bond market anxiety or awareness of risk may represent a change in mood. It represents an awareness of risk, and heralds the opportunity to buy stocks on less euphoric or perhaps on good terms in time.

We were reflective of metals sector takeover activity in 2006 and 2007, and wanted to make some distinctions. First and foremost, some types of factors are “easily duplicable” or have fewer barriers to entry. Iron ore, bauxite or titanium raw materials are abundant in nature, and we do not regard those kinds of factories or companies truly scarce. Yes, LTV’s Trico joint venture in the late-1990s and in the past year Wheeling-Pittsburgh have shown that newcomers do not run electric arc furnaces as well as veterans. Nonetheless, German or other equipment companies make it very easy to buy, build, obtain software and training to run steel furnaces. “Consolidation” has been a big theme in the past several years, but the taxation of public LBO or hedge fund companies could be a harbinger of anti-business sentiment such as gave rise to antitrust law over a century ago. A future political backlash against takeovers or lax antitrust enforcement could result in challenges such as the EU’s attacks on Microsoft or JFK’s 1962 confrontation against U.S. Steel.

Gold, silver, platinum, uranium, copper, nickel, rare earths or perhaps lead and zinc deposits are scarcer. Cobalt and molybdenum are in short supply today, but some prominent undeveloped deposits could create excess supply five or more years from now if all were built. Geologists tend to celebrate when they find these kinds of minerals.

In the later sections of this report we evaluate seven LBO transactions totaling \$10 billion including debt mostly for “spread businesses” with conservative structures. No LBO involved mining or violent commodity prices with fixed costs like a mine.

TRUE DEEP VALUE

We identify four examples of “true deep” value metals acquisitions during the current metals mega-boom. These are examples of great value identification during periods of market euphoria. They resulted from superior market intelligence, quick action and great diplomacy.

Our examples are Sherritt International’s proposed acquisition of Dynatec at 4.5 times our estimate of 2010 earnings at \$9 nickel and \$7 per pound cobalt virtually as nickel prices set an all-time record in late-April. The next is Aluminum Company of China’s June 11, 2007 \$792 mm bid for Peru Copper, the owner of a 22 billion pound copper and 840 mm lb molybdenum resource founded by Dr. David Lowell, the 1978 discoverer of the large Escondida copper mine. Our third and fourth examples are Rio Tinto’s purchases of initial stakes in Ivanhoe Mines and Northern Dynasty, two of the largest undeveloped copper deposits known. Rio Tinto sought to negotiate improvements on the Mongolian 68% windfall tax on profits above \$1.18 copper and \$500 gold. Rio Tinto seeks to help Northern Dynasty permit and operate in southwestern Alaska. These Mongolian and Alaskan deposits could prove truly “cheap” should tax or permit issues resolve favorably.

SEMI-VALUE

We characterize Freeport-McMoRan Copper and Gold’s purchase of Phelps Dodge, CVRD’s purchase of Inco, Xstrata’s purchase of Falconbridge, many other Xstrata acquisitions and BHP Billiton’s acquisition of WMC Resources in early 2005 as semi-value.

These were not “bargain basement” purchases. Each involved large premiums at the time. Each purchase was made after the underlying commodities like copper, nickel or uranium already had doubled from lows. CVRD bought Inco as nickel rose towards \$8 or almost four times its November 2001 commodity price low. My prior 2005 BHP Billiton report at Prudential was critical of the WMC Resources acquisition, and hurt their feelings so much that their counsel in Melbourne wrote Prudential’s CEO in Newark and they did not hold a position in their December 2006 Western Australia tours for me.

However, in each case the key commodity prices continued to rise. In the case of WMC Resources copper rose from \$1.25 to \$4, nickel from \$6 to almost \$25 and uranium from \$20 to \$136 per pound. In each case the sorts of minerals indeed are scarce in nature and greatly in demand.

FULLY VALUED VALUE

We characterize Rio Tinto’s \$101 bid for Alcan, or maybe 16 times estimated 2007 earnings, as fully valued. Truly Alcan’s Canadian hydro waterfalls are unique assets that cannot be duplicated. Some of the roads, dams, power plants and smelters were part of World War II mobilization and probably would never have been built otherwise.

However, new aluminum capacity in China, Russia, eight Midesast nations, Iceland and other places exists. Commodity exchange warehouses hold 1.1 mmt of aluminum inventory, and no aluminum shortages have yet developed in the current metals boom. Aluminum trades near record discounts to copper, zinc or lead.

Rio Tinto judged that a future boom could develop in aluminum if Chinese coal output, electricity output or aluminum output faltered in the current climate in which Chinese demand grows briskly. It used the credible global demand forecasts of the Commodity Research Unit of London, whom we also subscribe to.

Rio Tinto also judged that global warming protocol could benefit aluminum. We believe global industrial output or vehicle demand could falter owing to the “costs” of climate change protocol, such as carbon or energy taxes. For example, aluminum might win an extra 10% of the light vehicle, but the average U.S. light vehicle could prove 25% smaller.

ANTI-VALUE DEFINED AS MORE THAN TWO TIMES REPLACEMENT COST OR PURCHASE OF ANTIQUATED ASSETS EASILY DUPLICATED NEW

Some recent transactions in steel or aluminum could be characterized as “anti-value.”

We believe that the assets of Chaparral Steel, IPSCO and Dofasco bought by Gerdau Ameristeel, SSAB of Sweden or Mittal Steel are very fine assets. In fact, a new reconstruction of those businesses of scrap probably would build a very similar factory configuration. No blemishes of consequence exist, each are nonunion and we are not aware of any “hidden liabilities.”

In contract, Oregon Steel, Wheeling-Pittsburgh, International Steel Group, the Corus U.K. operations and some other businesses are much less perfect. Those assets would be built very differently should they be rebuilt today. They would be built in different locations with cheaper power or nonunion labor inputs.

The purchases of Chaparral Steel, Oregon Steel, Maverick Tube, NS Group, Lone Star Steel, Harris Steel or Novelis could be classified as “anti-value” on the basis of transaction prices that were more than two times “replacement cost.” Decades ago value investors termed “replacement cost” as the “upper limit” of the price objective for any value investor to pay for an asset.

Gerdau Ameristeel recently paid \$1,780 per ton shipped or about \$1,300 per ton of capacity for Chaparral Steel, whose plant might have cost \$300 per ton five years ago or \$600 per ton at today’s expensive prices to replace. The payment of 2x or 3x replacement cost reflects a conviction that no new entrant will appear.

The buyers of Maverick Tube, Lone Star Steel or Harris Steel created goodwill or intangible accounts near half of the purchase prices involved. The inability to obtain

appraisals to support purchase prices and the accounting for the purchase as “goodwill and intangibles” casts some question as the underlying value.

REVIEW OF PRIVATE CAPITAL LBO TRENDS IN THE METALS INDUSTRY LARGELY INVOLVE SMALLER SIZED “SPREAD” BUSINESSES WITH INTACT MANAGEMENTS

Every one of the transactions we mentioned in the above prior sections involved “strategic buyers” that already have large revenues, earnings, cash flow and balance sheets from existing businesses. “Existing” businesses with cash flow conceivably could be takeover LBO targets. “No revenue” mines under drilling, feasibility, permitting or construction are not LBO targets as they have no cash flow and consume cash.

We characterize most of the private capital transactions as “classic manufacturing” LBO’s. The “spread” business have variable costs of goods sold and revenues, and involve fundamental assumptions about the sustainability or improvements in the spread margins. We do not have access to public data afterwards to see if appraisals supported the purchase prices without use of goodwill or intangibles, and do not necessarily classify them as “value” or not as “value purchases.” Recent years’ low interest rates helped these deals happen.

The largest private capital transaction in metals was Texas Pacific Group’s purchase of Aleris for \$4.4 billion including debt and a pending acquisition. No other purchase is “large” in terms of current U.S. capital markets. Given the deteriorating July 2007 “mood” of credit markets towards leverage, it is uncertain that LBO firms could buy metals cyclicals in large size deals today.

Apollo made two purchases, Metals USA for \$0.7 billion and the former Noranda Aluminum for \$1.2 billion. Wellspring Capital made several small aluminum rolling mill purchases. Platinum Equity just announced a \$2 billion takeover of Ryerson Tull. Many transactions occurred under \$1 billion. We estimated some undisclosed terms.

Exhibit 1: Several Recent Private Capital Metals Transactions \$10 Billion

1. Ryerson Tull \$2 billion by Platinum Equity announced 7/07
2. Hamilton Steel Bar for < \$250 mm by Woodside Capital Partners, LLC in 7/07
3. Vlissingen 224,000 tonnes aluminum smelter by a U.K. firm Klesh and Company, Ltd from Alcan 85% and Hunter Douglas 15% for \$100 to \$500 mm
4. Noranda Aluminum by Apollo for \$1.2 billion
5. Various aluminum rolling mills by Wellspring Capital probably for < \$1 billion total
6. Aleris, including Corus aluminum and Imco Recycling, by Texas Pacific Group in 8/06 for \$1.7 billion for equity, \$1.6 billion for debt and \$1.1 billion for Corus aluminum divn.
7. Metals USA by Apollo in 5/2005 for \$0.7 billion.

Source: Various press releases, web-sites or JTVIR, LLC estimates

Much of these transactions involved “spread businesses,” such as metals distribution, aluminum rolling, aluminum or zinc scrap melting, a small specialty steel bar mill fed from scrap or aluminum smelters probably buying raw materials on a tolling business. These did not involve mines or fixed extraction costs with full price leverages.

Sometimes such spreads rise and fall. Sometimes they rise and fall with economic cycles, metals prices or due to micro market factors such as too much demand or supply in their local region or niche. These transactions could prove wise or not.

Apollo quickly unwound its Metals USA acquisition, and took it public again. Success can be defined here because the debts were unwound.

Metals USA, Aleris, and Ryerson Tull were publicly traded companies with established good management in place. The other private companies were bought with management in place.

The general size and conservative nature of these “spread businesses” recently bought suggests that private capital is not likely to take over Alcoa, Freeport-McMoRan Copper and Gold, Rio Tinto, BHP Billiton or other large extractive companies having uncertain monthly revenues and fixed, escalating extraction costs. Moreover, recent anxiety in debt markets does not support such a purchase.

We would not rule out use of private capital and debt markets to buy a steel minimill, metals distributor, scrap yard or some other sort of “spread business” in which a customary margin exists between fluctuating inputs and outputs. Such economics can resemble an oil refinery, for example, with ebbs and flows of profit expansion or squeezes but generally profitability. The seven transactions we have tabulated suggest such a deal would be more likely in the \$0.5 to \$5 billion size range, and might almost rule out the very largest companies in a given niche like Nucor or Reliance Steel & Aluminum.

CHANGE IN THIS RESEARCH OPERATION

This report reflects an initiation of research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving PEG, which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

DISCLOSURES

“John Tumazos Very Independent Research, LLC” (JTVIR) is a Delaware Corporation with pending registration as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide “unbundled” metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d’Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake

Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thyphyn Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or “due diligenced” for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

ANALYST UNIVERSE COVERAGE:

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of “Overweight,” “Neutral Weight,” and “Underweight” most closely correspond with the more traditional ratings of “Buy,” “Hold,” and “Sell,” respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor’s decision to buy or sell a security should always take into account, among other things, that the investor’s particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to “balance” the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a “bottoms up” manner based on the assets of each individual company.

Price Target – Methods/Risks

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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