AFTER WORKING FOR SOME OF THE BIGGEST FTSE 100 BLUE CHIPS, TOM JACK IS ENJOYING A NEW CHALLENGE AT A LESS FAMILIAR NAME, FAST-GROWING MINING GROUP KAZAKHMYS, AS HE TELLS **GRAHAM BUCK**.

Copper bottomed

PHOTOGRAPHER: ROGER HARRIS

In the past 10 years, the constituents of the FTSE 100 index have undergone several shake-ups. At the start of the decade, the tech sector provided several new members whose promotion to the top flight proved to be fleeting once the bubble burst. More recently, the mining sector has generated some significant new listings with several of its members elevated to the top 100 as rising demand and booming prices for both precious and base metals boosts the market capitalisation of producers such as Antofagasta, Vedanta Resources and Lonmin.

Copper producer Kazakhmys, which according to *The Observer* aims to become "the BHP Billiton of Kazakhstan", took an even swifter route. The group went straight into the FTSE 100 when it held its initial public offering (IPO) in London in 2005. Despite its LSE listing, it remains tightly controlled by its management. Chairman Vladimir Kim holds a 46% stake while Chief Executive Oleg Novachuk has 8%.

STRAIGHT TO THE TOP Last month, Kazakhmys's achievement was emulated by its Kazakh rival, Eurasian Natural Resources Corporation (ENRC). ENRC was promoted to the FTSE 100 three months after listing on the London Stock Exchange, thanks to sharp price rises for its three main products of ferrochrome, iron ore and aluminium.

Not only are Kazakhmys and ENRC well positioned to make acquisitions, press reports during March suggested that the two might be holding discussions on a possible merger to create a Kazakh national champion, although Kazakhmys swiftly denied that it had engaged in any talks. One announcement that was made was that the Kazakhstan government could swap mining assets for a stake of up to 15% in Kazakhmys.

Meanwhile, the group has made several deals to widen its interests beyond copper. Last year it bought Dostain-Temir, a company with oil and gas exploration rights in western Kazakhstan, followed by a further move into gold mining last June with the acquisition of Eurasia Gold. This February, it added the Ekibastuz power station, for which it will pay up to $1.5bn; a deal that immediately made the group the biggest power producer in Kazakhstan.

THE ROAD TO TREASURY All this activity means interesting times for Tom Jack, who joined Kazakhmys last October as interim Treasurer, and whose career to date involves work with several other FTSE 100 blue chips. Having graduated from Leeds University in 1984 with a degree in civil engineering, he trained in the City as a Chartered Accountant with the firm of Deloitte, Haskins and Sells, at that time one of the Big Eight accountancy firms and now part of PricewaterhouseCoopers.

"When I qualified as an ACA at the end of 1987, I seriously considered a career in the City – possibly in the securities market – as I'd been dealing with a number of bond market clients," Jack recalls.

"However, this was during a period when the fallout from the Big Bang – the 1986 deregulation of the securities market – was still being felt and the shock of the big stock market fall of October that year was even more recent. All of a sudden the commercial sector began to look a lot more favourable."

As a result, Jack took a job with cleaning to crane hire group BET (British Electric Traction), where the position of International Treasury Accountant was open and the work included sorting out the group's internal funding structure, and doing a good deal of off-balance sheet financing. BET flourished during the construction boom of the late 1980s and acquired a number of rivals, but then the property boom turned to bust. The group's problems were compounded by a venture into the auction market preferred stock (AMPS) market and was eventually taken over by Rentokil, at the time a much smaller rival.

After four years at BET, in 1992 Jack moved to drinks group Allied-Lyons to take up the post of Treasury Manager. He spent two years at Allied, focusing largely on resolving funding issues arising from the group separating its brewing and pub estate activities.

His next move was to Coventry Building Society, where he initially held the position of Risk Manager before being promoted to Treasurer after a year. Coventry was "a very conservatively managed business", which, unlike a number of its peers, firmly resisted demutualisation. His remit – and that of his team of six – was to "revitalise the treasury function". The work included updating treasury systems, managing the balance sheet, liquidity and funding, and liaising with the ratings agencies.

After five years with Coventry, Jack felt the need for another challenge. This turned out to be a 15-month stint as Deputy Group Treasurer for Vodafone, which he joined in 1999 at the height of the dotcom boom.

It was an eventful period for the telecoms giant, which was finalising its acquisition of AirTouch Communications in the US and negotiating the even more ambitious deal that was to result in its takeover of Germany's Mannesmann in early 2000.

His time with Vodafone was marked by a lot of time spent in the US, Mannesmann's head office in Dusseldorf, and in Tokyo, where he was involved in negotiations to extend a joint venture with British Telecom and Japan Telecom.

Vodafone's UK and US treasury team of 12 had major debt restructuring projects to work on, headed by a number of "largest ever" deals, including a syndicated bank loan of €30bn and a $5.5bn global bond. Once the deal was completed, the treasury team had to integrate Mannesmann's treasury operations with those of Vodafone.

FROM TELECOMS TO WATER Jack's next move was to water utility and waste disposal group Severn Trent, where he occupied the post of Group Treasurer for seven years. The work "involved a considerable amount of bonds, bank facilities and structured finance" and he developed a strong team that worked effectively with other disciplines such as tax.

Although the group made a couple of acquisitions over the period, including the £141m takeover of rival waste contractor Hales, Jack says his most interesting work came in late 2006, when the then Chief Executive Colin Matthews decided that Severn Trent should focus on its core regulated water supply business.

This meant a capital structure was needed for the demerger of the Biffa waste disposal business. The new strategy also meant that the non-core assets of Severn Trent's property and laboratory businesses were put up for sale.

The net result was a very different business and a considerable change to the role of Treasurer, leading to Jack's departure from the group last August.

"Up to this point, I'd had considerable experience in bonds and the capital markets, and my career – with the exception of Coventry BS – had been with blue chip and UK-focused FTSE 100 companies," he says.

Moving to a Kazakhstan copper miner offered him exposure both to a new business sector and emerging markets.

"At the start of 2007, Kazakhmys boasted huge amounts of cash, thanks to high prices for copper, in part due to growing demand from China," he says.

"But by the time I joined the group in October, it was also moving from being cash-rich to needing to put financing in place, just as market conditions were becoming more difficult." Kazakhmys also required funding for its planned Ekibastuz power station acquisition.

A STRUCTURED APPROACH So his first task was establishing the group's prudent debt capacity, and then recommending the most appropriate financing instrument for gaining liquidity and financing further growth through mergers and acquisitions.

Kazakhmys also needed to establish a banking group, as it had no core debt facility. "Had it been earlier in the year, setting up an unsecured debt facility would have proved a fairly straightforward task," Jack says.

But after last summer's credit crunch, liquidity was at a premium and raising significant amounts required a more structured approach. Kazakhmys set up a pre-export finance facility (PXF) as the mechanism for securing financing based on its copper revenue that could also be used as part of any subsequent acquisition package.

Although the basic facility was relatively straightforward, two unusual features were added. First, the availability period sought was a year, rather than the more typical three months. Second, it incorporated "certain funds language" because, as Jack explains: "A normal corporate facility isn't really appropriate for use in an acquisition. The addition of certain funds language enables you to benefit from having certain events of default cancelled for a while, which is important in order to demonstrate that you will be able to finance the acquisition at the time that you make an offer."

To secure both these features, the facility was made as straightforward as possible in all other respects and Jack talked with around 25 different banks in the course of a month.

"Funnily enough, the first bank I spoke to accurately predicted the composition of the facility that we signed three months later.

"The common factor associated with all of the banks was their significant experience and expertise in the metals and mining sector and their familiarity with the geography of Russia and the CIS [Commonwealth of Independent States].

"One bank assisted the process by identifying all those of its peers with involvement both in the metals/mining sector and with corporates based in Russia and the CIS. Favourable commodity prices and the fact that the group has been LSE-listed since 2005 also helped."

GOOD GOVERNANCE Kazakhmys has also been active in responding to the UK's standards for good corporate governance by appointing a strong non-executive directors board and was able to reassure the banks with its conservative approach to financing.

However, the early December timing made the task challenging. Seeking financing towards the end of the year is always more difficult as conditions are tighter, even without the added factor of a credit crunch. "Although it wasn't needed in the end, we did consider the possibility of a bridge over the year-end," says Jack. "The inclusion of an early bird fee helped to concentrate the attention of the banks and added some momentum to the transaction."

As a result, Kazakhmys's aim of raising $2bn via the PXF had been achieved by the start of 2008, with 10 banks each providing $200m under the structure of a club-type facility.

"We pitched the deal to the banks as our relationship-defining transaction and only those signing into the facility would be considered for any future banking and capital markets business," adds Jack.

The next stage of the deal, which closed later in January, saw three more banks join and the total available pushed up to $2.6bn, while the total sought was raised by $100m to $2.1bn.

A secondary process followed, bringing in further banks that the group was keen to have a relationship with. This added a further $415m in capacity, which resulted in the individual amount from each participating bank eventually being scaled back to a more comfortable $129m.

Jack says that Kazakhmys plans to build on this debut facility for raising finance through bonds when the bond market is up and running once again. "We have significant amounts of funding to raise to support our development plans of our capital expenditure and we'll be talking to the banks that constitute membership of our PXF."

This suggests no early let-up for Jack in his hectic schedule over the coming months, although he has been able to enlist the support of colleague Matthew Clarke, an AMCT-qualified manager in treasury.

LEAN AND MEAN Jack, who reports directly to the group's Chief Financial Officer, says that while a larger and more centralised treasury team function may be developed over the longer term, head office will remain "lean and mean", with a tight control over costs that includes the head count.

"If you like getting involved in day-to-day activity, as I do, and want a hands-on role, this is a great place to work," he says.

Interesting times are in prospect, with the future likely to be influenced by whether ENRC maintains its overtures to the group. Kazakhstan's president, Nursultan Nazarbayev, may also pursue his wish for the government to exert more control over the continued strong growth in the country's metals and mining industry.

Complicating matters is the fact that the government has a 20% stake in ENRC, and Kazakhmys has an 18.8% stake – subsequently diluted to 15% when ENRC held its IPO. This leaves Kazakhmys well placed for a possible future bid for its rival, although the steep rise in ENRC's share price in recent months has pushed its market capitalisation well above that of Kazakhmys.

Whatever happens next, the remainder of 2008 promises to be eventful for both the group and its Treasurer.

Graham Buck is a Reporter on *The Treasurer*.
editor@treasurers.org

Kazakhmys: a brief history

Kazakhmys is the world's 10th largest copper cathode producer and 10th biggest mined copper producer. Its origins date back to 1930, when a copper smelting complex was set up at Balkhash in Kazakhstan, a Central Asian country that borders southern Russia. In 1992, the Kazakhstan government formed the company OJSC Zhezgazgantzyetmet and, over the subsequent 10 years, steadily reduced its holding from 100% to zero. Korea's Samsung Corporation took over the group's management in 1995 and acquired a 40% stake the following year, which it later sold.

Today, Kazakhmys's principal businesses are still the mining, processing, smelting, refining and sale of copper and copper products, including copper cathode and copper rods. However, it has diversified into the processing, refining and sale of zinc, gold and silver. Copper capacity should be significantly increased by the end of 2011 when two major projects, Boschekul and Aktogay, are scheduled to commence production.

In March 2007 Kazakhmys bought Dostain-Temir, a company with rights to explore for oil and gas in western Kazakhstan, and in February 2008 it paid $1.51bn for the Ekibastuz power station.

Kazakhmys immediately entered the FTSE 100 when it held its London initial public offering (IPO) in 2005. Its initial market capitalisation was around £2.6bn. The shares, priced at 540p in 2005, stood at £16 in April 2008. The group's revenues in 2007 totalled $5.26bn and it reported net income of $1.43bn. It has a workforce of 63,000.