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HD **Baosteel, Aurizon Gain Upper Hand in \$1.3 Billion Bid for Aquila; Australian Iron-Ore Miner Rejects Offer From Mineral Resources**
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SYDNEY—A consortium led by China's Baosteel Group Corp. moved closer to acquiring Aquila Resources Ltd. for 1.4 billion Australian dollars (US\$1.3 billion), after a rival abandoned plans to make a higher offer for the Australian iron-ore miner.

Aquila on Wednesday urged shareholders to accept A\$3.40 a share in cash from Baosteel and Australia's Aurizon Holdings Ltd., after talks collapsed over an all-stock bid of A\$3.75 a share from Mineral Resources Ltd. That offer valued Aquila at A\$1.54 billion.

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"If our offer is successful, it provides to Aquila shareholders who accept the offer certainty, cash and a significant premium in an iron-ore market that has significantly declined since we made our offer," said Dai Zhihao, chairman of Baosteel Resources International Co., the Chinese steelmaker's overseas development unit.

Aurizon Managing Director Lance Hockridge said development of Aquila's proposed A\$7.4 billion West Pilbara iron-ore project in Western Australia could begin soon if the Aurizon-Baosteel offer is accepted.

State-owned Baosteel and Aurizon, Australia's largest rail-freight hauler, last week threatened to walk away from a bid if Aquila didn't accept their offer. The declared their offer final after Mineral Resources bought a 12.8% stake in Aquila in an attempt to muscle in on the iron-ore project.

That triggered selling by Aquila investors who feared that Mineral Resources could torpedo the China-led deal but then find it difficult to marshal others willing to risk investing the billions of dollars required to get the project off the ground.

Aquila shares rose 7% Wednesday with that uncertainty lifted.

Baosteel and Aurizon got a boost from Tony Poli, Aquila's executive chairman and co-founder, who said he intended to vote his 28.9% stake in favor of their bid.

"Investors, of course, have a clear preference for cash," said Michael McCarthy, chief market strategist for CMC Markets in Australia.

Peter Wade, Mineral Resources' nonexecutive chairman, said the company hadn't decided what to do with its Aquila stake, which was purchased at a 10% premium to the Baosteel offer. "We're still weighing up which way to vote," he said, though he ruled out making a higher offer.

Mineral Resources, which had drawn up a plan to build the iron-ore project, said it wanted to work with Aquila or its new owners on providing infrastructure and mining services at the site. "I am disappointed with the decision made by Aquila's board, but am very positive about our capacity to assist in development of the project in the long term," Mr. Wade said.

Aquila shareholders have until July 11 to accept the Baosteel bid.

A takeover by Baosteel, which would own as much as 85% of Aquila, would unlock new **iron-ore** supply for the **Chinese company**'s steel kilns and be the country's biggest **acquisition** of an Australian **mining company** in more than two years.

China long had relied on Australia for the bulk of **China's iron ore**, which is used to make steel. Most of the **ore** comes from large **mining** companies such as BHP Billiton and Rio Tinto, although a growing supply comes from Australian mines that had been bought by state-run **Chinese** companies.

China's National Development and Reform Commission has asked steelmakers to keep building stakes in foreign **iron-ore** assets to protect **China's** national interests and influence in global trade.

Baosteel, one of **China's** largest steelmakers by volume, bought 15% of Aquila in 2009 when **iron-ore** prices were rising and later increased its **stake** to 20%. It was attracted by Aquila's plans for the new mine, which is expected to produce more than 30 **million** metric tons of **iron ore** a year and ship through a new rail line and port that bypasses infrastructure owned by Rio Tinto and other miners in Western Australia's Pilbara region.

Baosteel last month said it was preparing a takeover bid, saying it had become frustrated with delays to the project as management struggled to get funding. Aquila's most recent A\$7.4 **billion** estimate of the project's cost dwarfed the **company's** market value.

Analysts and investors have raised concerns about the prospect of global **iron-ore** oversupply as large producers expand mines, particularly in Australia's northwest. That has helped drag prices to their lowest level since 2012.

Baosteel Resources finance chief Wu Yiming has expressed confidence in the Aquila project, however, even at prices around US\$80 a metric ton. **China's iron-ore** imports currently are priced around US\$89 a ton.

CO aqres : Aquila Resources Ltd. | baois : Shanghai Baosteel Group Corp | mnrlau : Mineral Resources Limited | qnrtnl : Aurizon Holdings Limited | dorval : Aurizon Mines Ltd | hclamn : Hecla Mining Co

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