REUTERS/ CHRISTIAN HARTMANN

THE BIGGEST COMPANY YOU NEVER HEARD OF

A powerful and secretive Swiss trader is likely to list this year. Can the Goldman Sachs of commodity trading survive going public?

BY ERIC ONSTAD, LAURA MACINNIS AND QUENTIN WEBB
BAAR, SWITZERLAND, FEB. 25

On Christmas Eve 2008, in the depths of the global financial crisis, Katanga Mining accepted a lifeline it could not refuse.

The Toronto-listed company had lost 97 percent of its market value over the previous six months and was running out of cash. Needing to finance its mining projects in the Democratic Republic of Congo -- a country which has some of the world's richest reserves of copper and cobalt -- Katanga's executives had sounded the alarm and made a string of calls for help.

Global credit was drying up, the copper market had fallen 70 percent in just five months, and Congo -- still struggling to recover from a civil war that killed some five million people – was the last place an investor wanted to be.

One company, though, was interested. Executives in the wealthy Swiss village of Baar, working in the wood-panelled conference rooms in Glencore International's white metallic headquarters, did their sums

and were prepared to make a deal. Their terms were simple.

They wanted control.

For about $500 million in a convertible loan and rights issue, Katanga agreed to issue more than a billion new shares and hand what would become a stake of 74 percent to Glencore, the world's biggest commodities trading group. Today, with copper prices regularly setting records above $10,000 a tonne, Katanga's stock market value is nearly $3.2 billion.

Deals like Katanga have helped turn Glencore into Switzerland's top-grossing company and earned it comparisons with investment banking giant Goldman Sachs.

In the world of physical trading -- buying, transporting and selling the basic stuff the world needs -- Glencore is omnipresent and controversial, just as Goldman is in banking.

Bigger than Nestle, Novartis and UBS in terms of revenues, Glencore's network of 2,000 traders, lawyers, accountants and other staff in 40 countries gives it real-time market and political intelligence on everything from oil markets in Central Asia to what sugar's doing in southeast Asia. Young, arrogant, and often brilliant, its staff dominate their market. The firm's top executives have forged alliances with Russian oligarchs and well-connected African mining magnates. Like Goldman, Glencore uses its considerable heft to extract the best possible terms in every deal it does.

Some might add that Glencore also fits the description that Rolling Stone magazine gave to Goldman: "a great vampire squid wrapped around the face of humanity".

Sometime in the coming weeks, Glencore is likely to announce its Initial Public Offering. The firm currently operates as a privately held partnership, with staff sharing the profits according to a performance-based incentives scheme. Sources familiar with Glencore's plans say it may list 20 percent of the company, possibly split between the London Stock Exchange and Hong Kong. Such a listing could yield up to $16 billion and value the firm at as much as $60 billion.

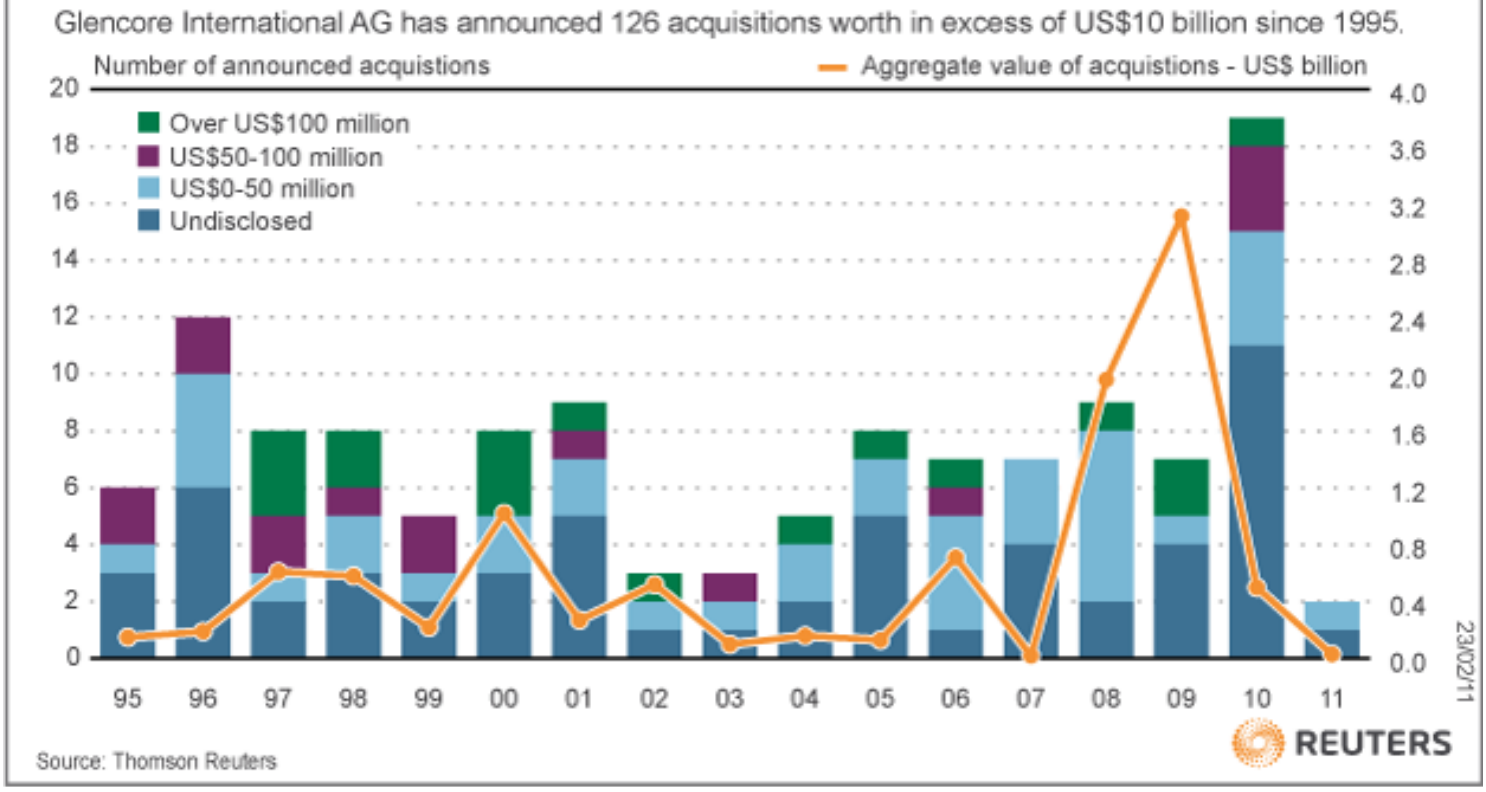
Fuelled by the lofty prices in many of the raw materials that Glencore buys, mines, ships and sells, the float would be among the biggest in London's history. It could launch the firm onto the FTSE 100 index alongside resource giants such as BHP Billiton, Rio Tinto, and Royal Dutch Shell and from there into the pension funds and investment portfolios of millions of people who know virtually nothing about the secretive giant. It would also represent a huge payday for investment banks -- perhaps $300 to $400 million, according to estimates by Freeman & Co., a mergers and acquisitions consultancy.

"THEIR KNOWLEDGE OF THE FLOW OF COMMODITIES IS TRULY FRIGHTENING."

At the same time, it would force a company that for four decades has thrived outside the limelight to reveal some of its secrets. Can it withstand becoming a household name? Does it risk losing its prized traders? Given Glencore's impeccable timing in deals, is an IPO a certain sign that we've reached the top of the commodities cycle?

"Their knowledge of the flow of commodities around the world is truly frightening," says an outsider who has worked

A major buyer



Reuters graphic/Vincent Flasseur

closely with senior Glencore officials and who, like most people interviewed by Reuters for this report, declined to be identified speaking about the company for fear it could jeopardise sensitive business relationships. Glencore executives declined to comment on the record, though the company did issue a statement about its current disclosure policy.

UNDER THE RADAR

NESTLING IN A LAKESIDE village in Switzerland's low-tax canton of Zug, Glencore's starkly modern headquarters reflect a culture where trading aggression is coupled with public discretion. In front of the building a simple concrete sculpture -- a sphere spinning atop a pyramid -- hints at Glencore's global reach. Inside, the hushed hallways are adorned with modern art, the offices eerily quiet.

"Glencore is looked on as guys screaming into telephones, but it's more the dull old business of logistics," says a mining industry source, describing hours spent on the phone and organising trade-related paperwork. "Glencore trading floors are more akin to DHL offices than Goldman Sachs."

Yet within the commodities and mining sectors, Glencore is regarded with a mix of admiration and fear. "It's an incredibly performance-based culture -- investment banking times three, probably," says a second outsider.

Glencore's client list is a roster of the world's largest firms including BP, Total, Exxon Mobil, ConocoPhilips, Chevron, Vale, Rio Tinto, ArcelorMittal and Sony, as well as the national oil companies of Iran, Mexico and Brazil and public utilities in Spain, France, China, Taiwan and Japan.

Physical commodities traders, like Glencore and its main rivals Vitol, Trafigura and Cargill, make their money finding customers for raw materials and selling them at a mark-up, using complex hedges to reduce the risk of bad weather, market swings, piracy or regime change.

Unlike Chicago traders who scream out bets on the future prices of orange juice or pork bellies, physical commodity traders negotiate prices and arrange shipments of cargo quietly, keeping their positions well hidden from others.

"It's modern financial engineering meshed with an old-fashioned commodity trading house," said John Kilduff, a partner at the hedge fund Again Capital LLC in New York. "It's amazing how this formula has flown under the radar for so long, as the profits and growth of these firms has been astounding."

Glencore's profit after tax topped $4.75 billion in 2008, not far off its best year ever, 2007, when profit ran to around $5.19 billion. Even in the gruesome market of 2009, it raked in more than $2.72 billion.

Performance is rewarded on a scale that would turn even Wall Street green, with bonuses for star traders running into the tens of millions. Glencore's 500 partners and key staff are sitting on a book value of $20 billion.

The secret, says the second outsider, is the traders' incredible focus. "I don't recall talking to any of these guys -- and I've spent a lot of time with them -- about anything other than business," he told Reuters. "I have no idea what sort of family life these guys have. This is everything."

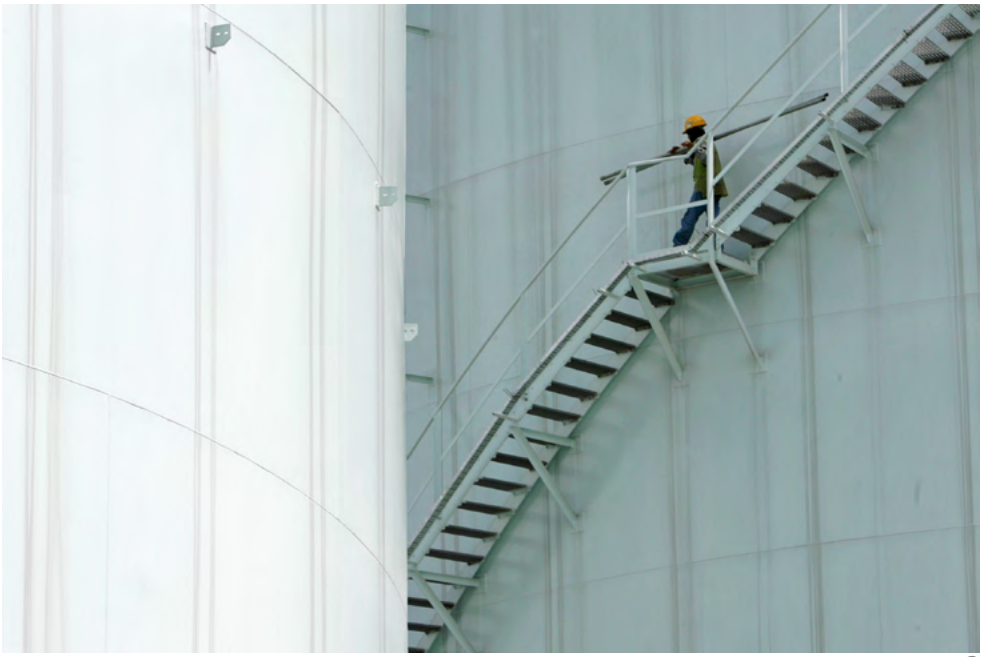
Employees are hired young and expected to make a career at the group, where they are known as either "thinkers" -- bright number-crunchers who design the company's complex financial deals -- or "soldiers", the hard-driven traders who fight to win the transactions.

The company's 10 division managers are aged 37 to 52 and remain largely anonymous outside Glencore's business circles. "They're really bright guys, they are really focused, they play to win every day," says a mining executive in North America. Or as the second outsider puts it: "They look like kids, really -- but they are incredibly impressive individuals."

Nobody more so than Chief Executive

FOUR DECADES IN THE SHADOWS

1974 Founded as Marc Rich + Co.
1987 Buys first stake in an industrial asset: 27% of U.S. Mount Holly aluminium smelter
1988 Takes first controlling position in an industrial asset with two-thirds stake in Peruvian mine
1994 Marc Rich sells his stake; company renamed Glencore
1996 Company sells first bonds to investors
2001 In the final days of his presidency, U.S. President Bill Clinton pardons Rich
2002 Swiss peer Xstrata buys $2.5 billion of Glencore coal assets and lists in London. Ivan Glasenberg succeeds Willy Strothotte, also Xstrata chairman, as chief executive
2008-9 Company begins to lift veil of secrecy as credit crisis sends the cost of insuring its debt to severely distressed levels
2009 Issues $2.2 billion of convertible bonds in move "towards the public equity markets"



GET PHYSICAL: A worker climbs down the stairs of an oil storage tank at a Glencore-owned terminal in Singapore, 2008.
REUTERS/Tim Chong

Ivan Glasenberg, a lean publicity-shy operator whose sport is race-walking. Glasenberg, 54, grew up in South Africa and has been a champion walker for both South Africa and Israel. Each morning he runs or swims, often with colleagues. "The thing about Ivan, he can fly in and meet presidents of countries but he also talks to the guy on the trading floor," said Jim Cochrane, chief commercial officer and executive director of the Kazakh mining group ENRC.

After earning an MBA at the University of Southern California in 1983, Glasenberg was hired by Glencore as a coal trader in South Africa. He does not suffer fools and has a fiery temper, but is also intensely charming and has a sharp memory for details about people, according to people who know him. Despite being a billionaire in charge of thousands of staff, "this is a guy that picks up his own phone," the second outsider said.

A $60 BILLION COMPANY?

Glencore's equity could be worth roughly $60 billion – but little more than a third of that derives from its vaunted trading business. Here's how one leading research team values the company, based on the prices of its share holdings and the commodities it produces, plus the valuation multiples the market applies to listed rivals such as Noble Group.

Mining assets (mines, smelters and refineries)	$14.6 billion
Trading business	$23 billion
Stakes in Xstrata and other listed companies	$29.5 billion
Less 10 percent discount as seen with "investment trusts"	-$6.7 billion
Glencore equity value	$60.4 billion
Net debt	$13.6 billion
Enterprise value	$74 billion

Source: Liberum Capital estimates, January 25 2011

CHEQUERED PAST: Glencore founder Marc Rich became a fugitive from U.S. justice. From left, with his ex-wife Denise at the Davos Management Symposium, 1985; receives an honorary degree from Bar-Ilan University in Tel Aviv, 2007. An oil-For-Food Committee staff member hands out copies of the final report in New York, 2005 **REUTERS/Staff/Gil Cohen Magen/Jeff Zelevansky**

THE MARC RICH LEGACY

GLENCORE LIKES TO PROMOTE from within and build a kind of closed, self-sustaining network of senior traders, a culture encouraged by the company's founder Marc Rich. Not that Glencore likes to mention Rich, a figure so notorious that he's not even mentioned in the official history on Glencore's website.

Rich escaped Nazi Europe as a seven year old, and grew up in the United States. He launched the trading group which would become Glencore under his own name in 1974.

Rich was a sensation in commodity circles -- he is credited by some with the invention of the spot market for crude oil -- but by 1983 U.S. authorities had charged him with evading taxes and selling oil to Iran during the 1979-81 hostage crisis and Rich fled to Switzerland where he lived as a fugitive for 17 years.

Rich has always insisted he did nothing illegal and he was officially pardoned by Bill Clinton on the President's last day in the White House in January 2001. Among those who lobbied on his behalf were Israeli political heavyweights Ehud Barak and Shimon Peres, according to "The King of Oil", a book about Rich by journalist Daniel Ammann.

In the book -- written after interviews with Rich – the trader admits supplying oil to apartheid South Africa, bribing officials in countries such as Nigeria and assisting Mossad, Israel's intelligence agency. In the time of the Shah, Rich says, he engineered a deal for a secret pipeline through which Iran could pump oil to Israel.

"(Rich) was faster and more aggressive than his competitors," Ammann told Reuters last year. "He was able to recognise trends and seize opportunities before other traders. And he went where others feared to tread -- geographically and morally. Trust and loyalty are very important to him. In many deals he wouldn't rely on contracts but on the idea that 'my word is my bond'."

Living as a fugitive put a strain on Rich, but according to Ammann, it was a business blunder in 1992 that paved the way for the power struggle that ended his connection with the trading house he had founded. Rich spent more than $1 billion trying in vain to control the zinc market. His bid failed and with $172 million in losses, the firm was close to collapse. Rich was ultimately forced to sell out to his management and hand over control to a former metals trader, the German Willy Strothotte.

The forced sale, in 1994, netted Rich a reported $480 million. He picked up an extra $120 million when the firm was revalued

and he learned its new owners had broken their side of the deal by secretly selling on around 20 percent of the stock. Fifteen years ago, then, his majority stake in the company translated into about $600 million. Today the company is worth $60 billion, according to Liberum Capital.

The company was reborn under Strothotte as Glencore. It has never said where the name comes from but some have speculated it might be an amalgam of the first two letters of the words "global, energy, commodities and resources".

The firm continued to trade, make money -- and occasionally become implicated in controversial dealings. It was one of dozens accused of paying kickbacks to Iraq in 2005 by a commission that probed the United Nation's Oil for Food programme. But while Dutch-based rival Vitol was fined $17.5 million after pleading guilty, a preliminary judicial investigation into Glencore by Switzerland's attorney-general found a "lack of culpable information". Glencore maintained that if any payments were made by agents it did not know or approve of them.

The impulse to seize opportunities that others don't see, or decide to avoid, lives on. Could a flotation shed unwanted light on the business methods that have so far stayed under the radar?

A SIGNATURE DEAL

GLENCORE'S CHRISTMAS SWOOP ON Katanga Mining was something of a signature deal for the firm, proof that it can use its role as the trading world's biggest middleman to its advantage. The company is always on the prowl for opportunities to sell producers' output. But it also likes to set things up so that when markets tumble, it's ready to buy those same producers outright.

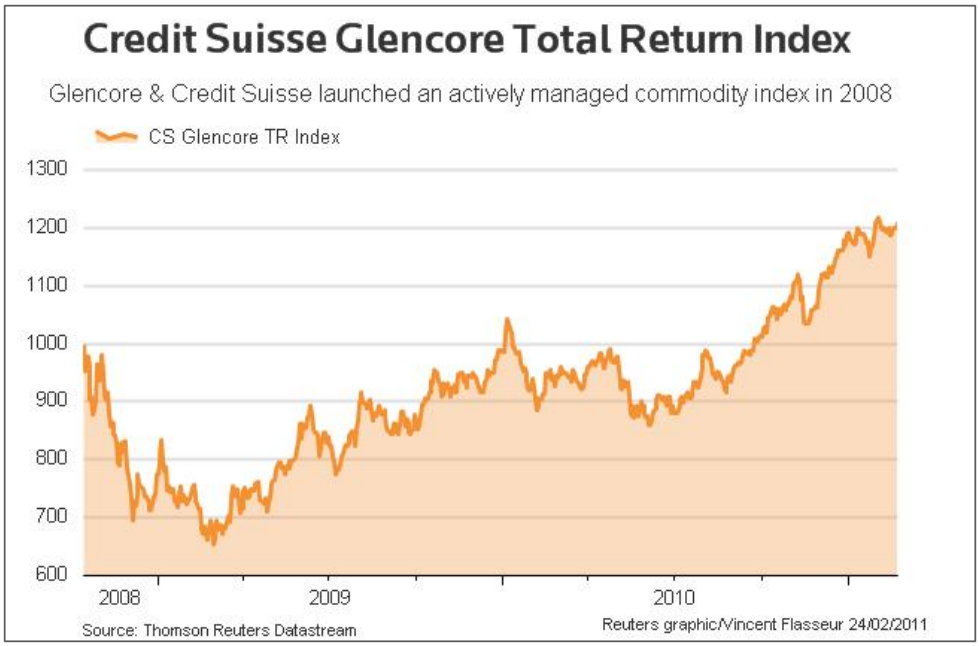
Katanga had just the right combination of elements: relationships built over time, a project in need of funds and an exclusive marketing agreement, and the scope for equity participation. The losers, in this case, would be the company's minority shareholders, most of whose holdings were diluted by over 800 percent.

The acquisition was the culmination of 18 months of deal-making in Congo, where the first freely elected government in four decades had embarked on a sweeping review of mining licenses granted by previous regimes.

Workers in Congo's southeast copper belt had battled for two years to rebuild what had once been Africa's richest copper mines, but were now littered with rusted hulks. In 2007, when markets had been riding high on cheap credit and commodity prices boomed, Katanga had been the subject of a $1.4 billion hostile takeover bid by a company led by former England cricketer Phil Edmonds. It had the potential to become the world's biggest producer of cobalt -- used in batteries, jet turbines and electroplating.

As the credit crisis began to bite, metals prices tanked and risky companies around the world found it ever tougher to raise finance.

Where others saw risks, though, Glencore



TRADING RIVALS

Bunge: White Plains, New York; employs 25,000 people in more than 30 countries. Full-year 2009 sales -- $41.9 billion; Full-year 2009 net income -- $361 million ($1.1 billion in 2008)

Noble: Hong Kong; 11,000 employees in 38 countries; 2009 full-year revenue $31.2 billion; 2009 full-year net profit $556 million

Shell: The Hague, The Netherlands; employs 101,000 in 90 countries; 2009 revenue $278.2 billion; 2009 income $12.7 billion

BP: London; employs 80,300 (end-December 2009); 2009 revenues $239 billion; 2009 net profit $16.6 billion

BHP Billiton: Melbourne, Australia; employs 40,990 in 25 countries (June 2009); 2009 revenue $50.2 billion; 2009 profit $10.7 billion

The NYSE crude oil pit, 2008.
REUTERS/ Jeff Zelevansky

Cargill: Minneapolis, United States; employs 131,000 in 66 countries; $2.6 billion net earnings for fiscal 2010, ended May 31. $107.9 billion full-year revenues for fiscal 2010.

Louis Dreyfus Group: 20 percent employee-owned, controlled by Robert Louis-Dreyfus trust; 34,000 employees in 55 countries; number one cotton and rice merchant worldwide

Vitol: trading in Switzerland, also big offices in Houston, London, Moscow, Rotterdam, Singapore; 2009 full-year revenues: $143 billion (vs $191 billion in 2008); 260 active employee shareholders

Mercuria: Geneva; 750 employees worldwide; 2008 revenues $47 billion

Trafigura: Netherlands; 1,900 employees in 44 countries; 2009 turnover $47.3 billion

INFLUENCE: Glencore's connections helped it Democratic Republic of Congo, whose president Joseph Kabila is pictured in 2010
REUTERS/Emmanuel Kwitema

scented opportunity. In June 2007, Glencore and partner Dan Gertler, an Israeli mining magnate, paid 300 million pounds for a quarter-stake in mining company Nikanor, which was seeking to revive derelict copper mines next to Katanga's. That deal gave Glencore exclusive rights to sell all Nikanor's output -- an "offtake" agreement.

Offtake deals are common in risky projects like mining, where banks are reluctant to lend because of uncertainty about how they will be repaid. An offtake ensures a miner has customers before it starts digging, and provides a guaranteed source of raw materials to a trader, which can also act as security if the trader provides finance.

"EVERYBODY GOT TAKEN DOWN. IT'S A SAD STORY."

By investing in Nikanor, Glencore consolidated a powerful partnership: half of the stake it bought was on behalf of a trust linked to Gertler, an old Congo hand who industry sources say has close ties to government officials including President Joseph Kabila.

Katanga's mines were just months from producing copper and cobalt again. The mining company had spent the summer of 2007 fighting off a hostile bid from Central African Mining and Exploration Company (CAMEC), headed by Edmonds, the former cricketer. After searching fruitlessly for a "white knight" -- a big miner willing to pay top dollar to fend off CAMEC -- Katanga turned to Glencore.

The trading company was ready to oblige. In October it agreed to a 10-year offtake deal and a loan of $150 million that could be converted into Katanga shares. Just one month later, Katanga and its neighbour Nikanor merged, giving Glencore 8.5 percent of the enlarged firm.

In June 2008, with the global financial crisis deepening, Katanga Chief Executive Art Ditto resigned for "personal reasons". Glencore, exercising a clause from its earlier Nikanor purchase, appointed a caretaker chief executive. It was then that Katanga embarked on its increasingly desperate search for new funds.

Issuing a statement that said it was "in serious financial difficulty", Katanga struck its deal with Glencore, which added $100 million plus outstanding interest to its earlier loan, to give a total of $265 million. The Swiss trading firm subsequently sold on about a quarter of the loans to RP Capital, a hedge fund also linked to Gertler. Then in a linked deal that closed in July 2009, Katanga's debt burden was slashed by swapping the loans for shares alongside a $250 million rights issue. Most of that equity, too, went to Glencore.

Now Glencore had a mining complex with the potential to be Africa's biggest copper producer. To approve the arrangement, Katanga had used Toronto stock exchange rules that exempt companies in financial distress from a shareholder vote. That left most of Katanga's minority shareholdings facing a virtual wipeout from the heavy dilution, a measure they voted through in a subsequent shareholders' meeting.

"Everybody got taken down. There were a couple of savvy guys who got out early, but most people got taken for a ride. It's a sad story," said analyst Cailey Barker with Numis Securities in London.

Barker says Katanga had little choice but to accept Glencore's terms since it was probably a couple of weeks away from bankruptcy. "The only person that was left was Glencore," Barker said. "They said we'll get involved, but we'll take our pound of flesh."

This sort of deal -- with the right to convert debt into equity in the tail -- has proved pivotal to Glencore as it has built up its mining assets. Analyst Michael Rawlinson at Liberum Capital, who was previously an investment banker for JP Morgan Cazenove and has worked on deals

MEMBERS OF THE BOARD

Ivan Glasenberg, 54
Chief Executive; Joined 1984; Director of Xstrata Plc, Director of United Company Rusal

Willy Strothotte, 66
Chairman; Joined in 1978; Vice President of Asturiana de Zinc SA, Director of Century Aluminum Co, Director of KKR Financial, Director and Chairman of Xstrata Plc

Steven Kalmin, 40
Chief Financial Officer; Joined in 1999; Director of e-OSN.com Pte Ltd, Microsteel (Proprietary) Limited Director of Boroglen Ltd, Director of ENYO Holding Limited

Alex Beard, 43
Director, Crude Oil/Oil products;Joined in 1995

Steven Blumgart, 37
Co-Director, Alumina/Aluminum; Joined in 1998; Limited director of GlobalHubCo, Director of UC Rusal Alumina Jamaica Ltd, director of OAO Rusal, member of the executive committees of aluminum partner of Jamaica Partnership and West Indies Alumina Company

Gary Fegel, 37
Co-Director, Alumina/Aluminum; Joined in 2001

Daniel Mate, 47
Co-Director, Zinc/Copper/Lead; Joined in 1988; Director of Volcan Compania Minera, Recyclex and Samref Overseas SA, Director of Katanga Mining, director of Kinsevere Mining Resources, director of Mutanda Mining, Director of Southern African Metal Refiners Congo

Telis Mistakidis, 49
Co-Director, Zinc/Copper/Lead; Joined in 1993; Director of Recylex SA, Director of Samref Overseas, Director of Katanga Mining Limited, Director of Kinsevere Mining Resources, Director Mutanda Mining, Director of Southern African Metal Refiners Congo

Christian Wolfensberger, 40
Co-Director, Ferroalloys/Nickel/Cobalt; Joined in 1995

Stuart Cutler, 50
Co-Director, Ferroalloys/Nickel/Cobalt; Joined in 1995

Tor Peterson, 46
Director, Coal/Coke; Joined in 1992

Chris Mahoney, 52
Director, Agricultural Products; Joined in 1998

WHAT'S THE DEAL? RUSAL CEO Oleg Deripaska, left, with Glencore CEO Ivan Glasenberg at a Moscow news conference announcing a three-way tie to create Russia's biggest aluminum producer, 2006. Glencore took a minority stake **REUTERS/Grigory Dukor**

in Congo for Nikanor, says the fact Glencore was on the spot is key.

"If you're someone like Rio (Tinto) or Anglo (American), often in these early-stage places you have no reason to be there, you haven't got any assets there," he says. "But if you're Glencore, you source concentrate and product from these places, you have trading relationships. They're on the ground first, so they see these opportunities first."

Glencore is constantly cutting similar deals, some of the biggest of which it already has in place with its Swiss neighbour and close affiliate Xstrata. In the space of two weeks recently, Glencore agreed offtake deals with London Mining for its Sierra Leone iron ore production and Mwana Africa for nickel output in Zimbabwe. The deals often come with, or are followed by, a financing arrangement: U.S. PolyMet Mining Corp, for instance sealed an arrangement in January that involves Glencore buying shares with the right to convert the company's debt into equity.

A NECESSARY EVIL

PEOPLE FAMILIAR WITH THE IPO planning say Glencore's top managers have yet to give a final sign-off to a float, though Citigroup, Morgan Stanley and Credit Suisse are all working on the potential transaction. The earliest possible date for a launch would be April, after first-quarter results are compiled.

It's inevitable that the timing will attract attention.

"It's almost guaranteed that when they decide to list, everyone will say they're calling the top of metals market," says analyst Tom Gidley-Kitchin at Charles Stanley in London. "Like Goldman, people will ask, 'Why are they selling now?'"

As one mining industry source puts it: "We all know that Glencore never leaves any crumbs on the table."

Like Goldman, which floated in 1999, Glencore wants the permanent capital that comes with a listing. In a private partnership, payouts to departing partners shrink the capital base, but public companies' equity remains intact even if the shares change hands at dizzying speeds.

Raising public capital would help Glencore pay out any retiring employees, whose compensation is now set to be disbursed over five years from the firm's $20 billion book value.

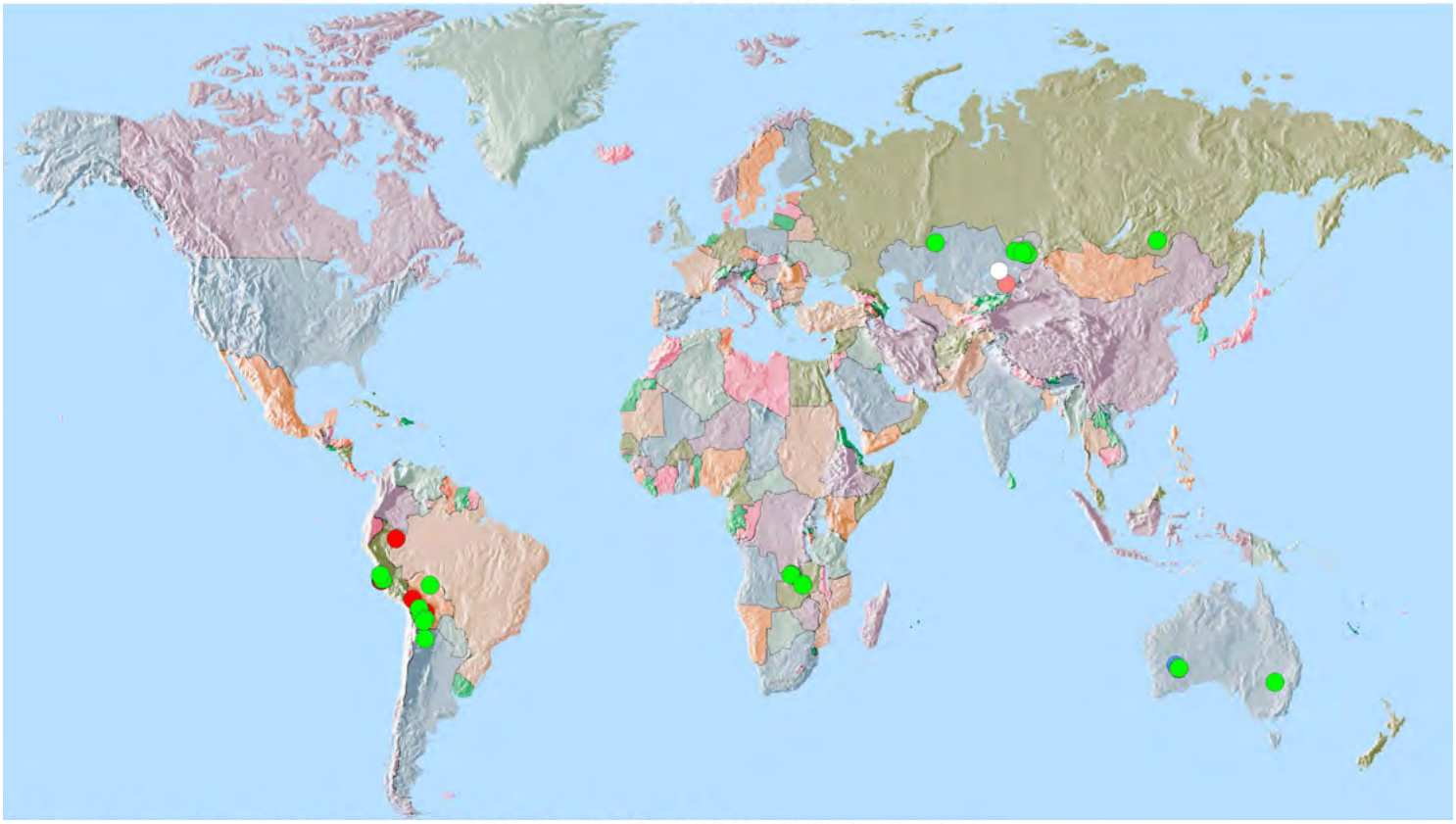
New equity would also reassure the big credit rating agencies, which rate Glencore debt a notch or two above "junk". The more flexible capital structure that comes with a listing should also allow it to make really meaty acquisitions.

It has long been Glasenberg's ambition to merge Glencore with London-listed Xstrata, industry sources say. The companies are already so close that the Financial Times' influential Lex column has dubbed them the "Tweedledum and Tweedledee" of their industry. Glencore owns 34.4 percent of Xstrata stock, they share a chairman, Willy Strothoffe; and Xstrata's assets could, in a

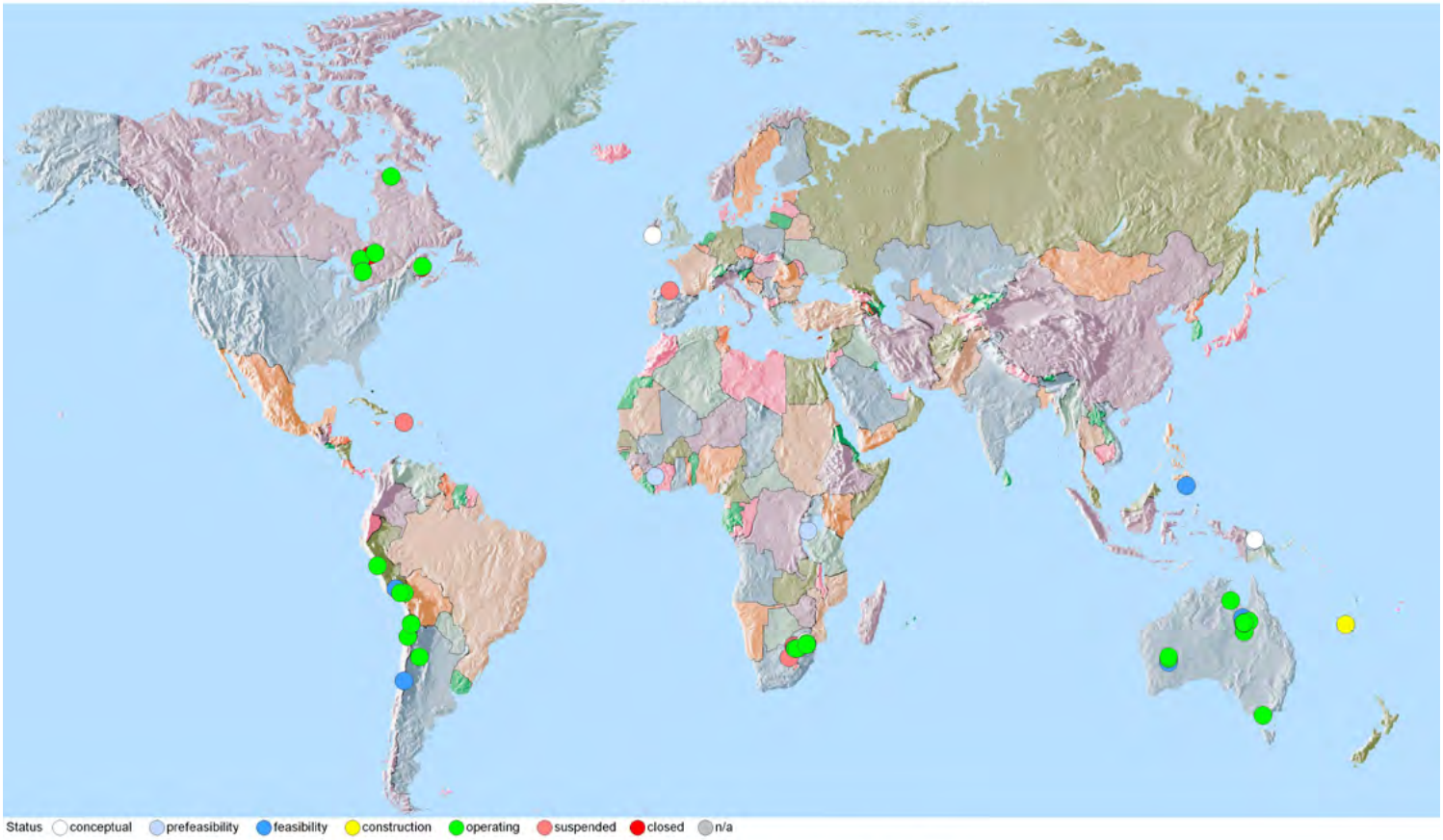
Story continues on page 9

POWERHOUSE

Mines of the world. Filter: Controlled by: GLENCORE.



Mines of the world. Filter: Controlled by: XSTRATA.



Source: Raw Materials Data. Copyright: Raw Materials Group, Stockholm, 2011

stroke, fill the gaps in Glencore's portfolio to create a mining and trading powerhouse.

But when speculation surfaced last year around a Glencore-Xstrata merger, Xstrata shareholders opposed it, arguing a valuation for Glencore should be set by market forces, not agreed to behind closed doors. "It's very difficult to value Glencore because you just don't know enough about it. That's why most investors would prefer an IPO -- which will give you more visibility," one of the top 10 biggest institutional investors in Xstrata told Reuters last year.

Perhaps to force things to a head, Glencore in December 2009 set the clock ticking on a change in its set-up by issuing a convertible bond. A year after picking up Katanga, the firm sold $2.2 billion in bonds that can convert into shares to a select band of investors, including energy-focused private equity firm First Reserve, Singaporean sovereign wealth fund GIC, China's Zijin Mining Group, financier Nathaniel Rothschild plus U.S. fund managers BlackRock, Fidelity and Capital Group.

The convertibles pay a staid interest rate of 5 percent a year until they mature in 2014, but carry extra incentives for Glencore to transform itself. If by December 2012 Glencore has not floated or merged with another company, bondholders can sell their bonds back to Glencore at a price which would give investors an annualised return of 20 percent -- in line with the sort of returns you might expect from equities. This payment could take place from mid-2013, though Glencore will not be penalised if markets turn lower and an IPO is not attractive.

TWEEDLEDUM AND TWEEDLEDEE: An IPO may be the prelude to a Glencore merger with Xstrata **REUTERS/ Christian Hartmann Michael Buholzer**

ROBUST DIALOGUE

INDUSTRY SOURCES EXPECT MERGER talks to begin about six months after the IPO. If Glencore and Xstrata do not combine forces, the two could end up competing for mining assets. That would heighten the increasingly tense relationship between their brash, strong-willed South African CEOs: Glasenberg and Xstrata's Mick Davis.

"You would expect any dialogue between them to be very robust – both of them have black-and-white views on value," says an industry source who knows both men.

Beyond Xstrata, Glencore's ambitions could soar. As a blue-chip name it would be able to compete against BHP Billiton and Rio Tinto for some of the biggest deals around.

One recent rumour, according to Liberum's Rawlinson, is that Glencore might make a play for Kazakh miner ENRC, a London-listed FTSE-100 company with a market value of $21 billion -- too big to swallow now, but feasible once Glencore could issue shares as payment. Other majors would likely regard ENRC, which focuses on emerging nations including Congo, as too risky.

"I don't think any other firm would dare look at them, but Glencore would," said Rawlinson. "They know how to deal with Congo, they know how to deal with oligarchs and they already operate in Kazakhstan. So, there's a perfect example of how they'll do stuff that other people won't."

HANDCUFFS AND RISKS

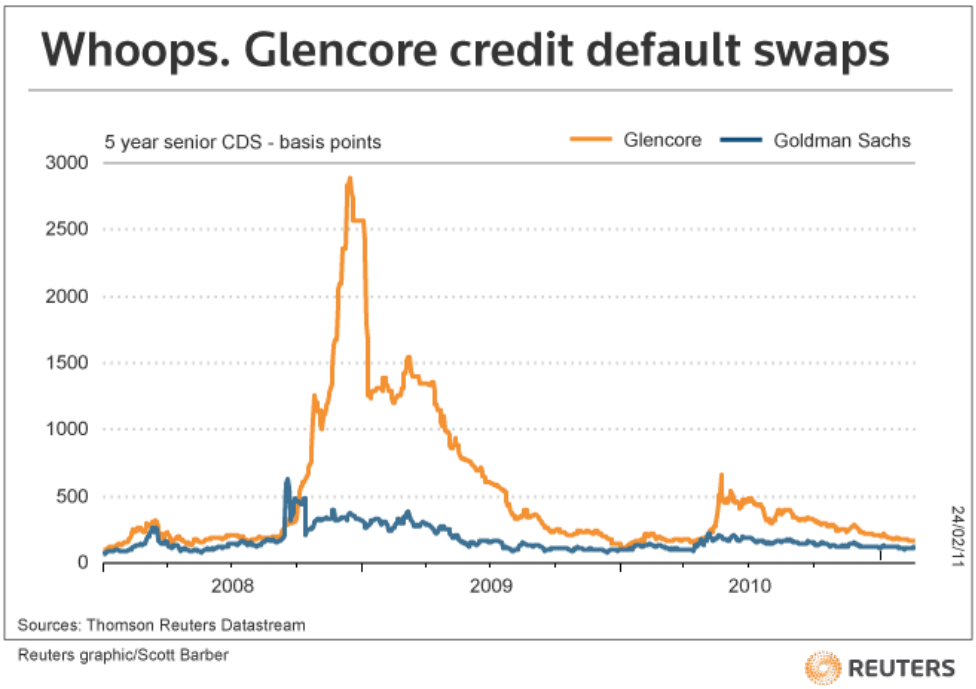
BUT A LISTING WOULD also bring a host of issues to grapple with. For one thing, Glencore will have to reassure investors that its prized traders won't just cash in and take off. People in the industry point out that traders who have accumulated large fortunes without any public attention may prefer to keep working in a private environment -- perhaps at a competitor, or a trading house they set up themselves.

"I think there could be serious concerns about what happens when the very senior management receives shares," says Jonathan Pitkanen, head of investment grade research at fund manager Threadneedle. "I would expect that key individuals would have to enter into some form of golden handcuffs so they are tied to that business for an extended period of time."

There are other risks in exposing a secretive, agile business to the scrutiny of public ownership.

Glasenberg can be affable to those he knows, but he cherishes his privacy and dreads the day an IPO will force him to step into the limelight, industry sources say.

The firm would also need to appoint independent directors to its board, and would likely search for a chairman with top credentials in financial circles but no existing



links to Glencore. In that light, the company's most significant departure could be Strothotte, 66, who joined in 1977 and ran the metals and minerals division before replacing Rich as CEO in 1993.

"Clearly there's going to be a sea-change once they are publicly listed, given the requirements of listings first of all, plus the complexity that you have within Glencore as well," says Pitkanen.

A big part of that would be the requirement to publicly share information that Glencore now gives only to its banks and bond investors.

Currently, "Glencore is a private company and our communications policy with the media reflects this status," the firm said in a statement to Reuters. "Full financial disclosure is made to all of the company's shareholders, bondholders, banks, rating agencies and other key stakeholders. Glencore publicly discloses aspects of the company's financial performance on a six monthly basis."

"HOPEFULLY LISTING WILL BRING MORE TRANSPARENCY, WHICH IS GOOD NEWS."

Could the glare of a public listing be less dramatic than some fear? Resource groups such as BP, which houses one of the world's biggest oil trading operations, have managed to juggle public life without revealing too much about exactly what their trading arms are up to. Gidley-Kitchen says that like many banks, a listed Glencore should also manage to keep most details of its trader compensation under the radar: "Goldmans and Barclays Capital managed to avoid revealing absolutely everything that they are doing and I would think Glencore would be able to do the same."

ACTIVIST RISKS

BUT THAT WOULDN'T STOP activists from digging. Gavin Hayman, director of campaigns at activist group Global Witness, says information disclosed as a result of an IPO could help environmental and corruption campaigners keep track of what Glencore is doing in far-flung corners of the globe.

"Trading companies like Glencore are notoriously opaque, even by the standards of an opaque sector like natural resources. They deal with a part of the chain that is particularly prone to mismanagement, corruption and diversion," Hayman says. "Hopefully listing will bring more transparency and allow greater scrutiny of its operations, which is good news."

POLITICAL RISK: Above, not everything goes Glencore's way. Bolivia's government seized control of its Vinto smelter complex in 2007. Below, Glencore-owned PASAR, a copper producer in the Philippines, in 2005 **REUTERS/Jose Luis Quintana, Cheryl Ravelo**

In one example, officials in Zambia believe pollution from Glencore's Mopani mines is causing acid rain and health problems in an area where 5 million people live. The Environmental Council of Zambia has said it is looking into "a number of complaints" regarding pollution from Mopani, but has not penalised the company for any wrongdoing.

"Smelting operations release sulphur dioxide and other pollutants which have severely affected residents with various skin, eye and respiratory diseases. Because of mining waste Mufulira has acidic and poisoned water," Mufulira town clerk Charles Mwandila told Reuters in an interview.

Mopani says it has already significantly improved environmental performance since privatisation, and is following a clear and agreed plan to make further progress. "Investment to improve environmental performance has already amounted to some $300 million with another $150 million of investment planned."

Glencore's huge coal operation in Colombia, Prodeco, was fined a total of nearly $700,000 in 2009 for several environmental violations, including waste disposal without a permit and producing coal without an environmental management plan. Xstrata had to pay the fines during its temporary ownership in 2009, but said the violations occurred before it took over. Prodeco said the violations themselves took place years earlier, before it acquired and ran the network of mines. Xstrata, like many major mining groups, has experience in meeting demands for tough green standards and says it put in place an environmental management system at Prodeco before handing the mines back to Glencore in early 2010.

In Ecuador, the current government has tried to reduce the role played by middle

men such as Glencore with state oil company Petroecuador, says Fernando Villavicencio, a Quito-based oil sector analyst. "Glencore has not been transparent in its business in Ecuador," Villavicencio said. The company "had been a favorite of almost all the democratic governments of Ecuador. It won almost all the contracts it competed for. They signed contracts with apparently low differentials, only to renegotiate the contracts in the middle of their terms, arguing that their costs had risen. Petroecuador usually went along with it." Tenders such as those in Ecuador are public and subject to extensions and negotiations which are expressly written into contracts, according to Glencore.

WHO WON'T BUY?

TO READY IT FOR PUBLIC LIFE, Glencore is preparing a sustainability report to bring it into line with mining majors and using Finsbury, a public relations firm whose clients include Royal Dutch Shell and Rio Tinto, for strategic advice. Former Shell spokesman Simon Buerk has been taken on to reinforce in-house communications.

But no matter what Glencore does, some investors will steer clear.

Mike Fox, head of UK equities at Co-operative Asset Management and the manager of two sustainable funds, says ethical investing can embrace the natural resources sector -- his funds have stakes in BG Group, the natural gas producer, and Lonmin, whose platinum is used in catalytic converters – but that it would be difficult to hold shares in many oil and mining companies: "Sustainable investors will always have an issue with the very fundamental nature of these businesses," he says.

Glencore's size alone, though, would mean scores of pension funds that track the FTSE index buy the stock. It would also pick up automatic demand from tracker funds that mimic the index or the wider FTSE All-Share. A Swiss banker with knowledge of the plans puts it simply: "All the funds will have to participate."

Glencore's arrival in the FTSE would intensify the London exchange's shift into natural resource firms. Fox says the increasing domination by a single sector is a "big headache" for smaller British investors who want a diversified portfolio. "It concerns me as much from a financial perspective as a moral perspective," he says. "Customers will not expect that when they invest in a mainstream UK growth fund that a third of their money will end up in commodities."

While commodities remain hot, though, that's unlikely to change. As Glencore ponders a float, Katanga Mining is reaping the benefit of the surging markets and its wealthy, powerful owner. After losing $108 million in 2009, it posted an annual profit of $265 million in 2010.

(Additional reporting by Kylie MacLellan and Karen Norton in London, Jason Rhodes and Martin de Sa'Pinto in Zurich, David Sheppard and Joe Giannone in New York, Santiago Silva in Quito and Chris Mfula in Lusaka; Editing by Sara Ledwith and Simon Robinson)

LONDON'S BIGGEST IPOS

COMPANY	INDUSTRY	YEAR	DEAL SIZE ($ MLN)
OAO Rosneft*	Energy	2006	10,656
Water Holding Companies**	Utilities	1989	8,199
Bank VTB*	Banking	2007	7,988
British Gas	Utilities	1986	7,610
Halifax	Banking	1997	6,813

**London-listed Global Depositary Receipts (GDRs) for Russian issuers*
*** Privatisation of Britain's ten regional water and sewerage companies*
Source: Thomson Reuters data

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COVER PHOTO: Glencore's headquarters in Baar, near Zurich, 2010 **REUTERS/CHRISTIAN HARTMANN**

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