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**Secret deal threatens big miners;
BHP Billiton and Rio Tinto at risk after shadowy middleman strikes
backdoor pact in Guinea**

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ONE of the most resource-rich countries in Africa has struck a secret deal that could hand billions of dollars of mining assets belonging to companies such as BHP Billiton and Rio Tinto to a shadowy middleman, The Sunday Times has learnt.

The agreement between Guinea and Walter Hennig, a South African-based businessman who traded diamonds in Angola and the Democratic Republic of Congo, will be embarrassing for Tony Blair. The former prime minister recently agreed to be an adviser to Guinea through his Africa Governance Initiative.

George Soros, the billionaire trader, has also agreed to help Alpha Condé, the president, to overhaul the country's mining industry.

The desperately poor country plans to use its natural resources to pull itself out of poverty. Condé became its first democratically elected president in 2010 and is now luring western investors. Guinea has the world's largest reserves of bauxite, the aluminium ore, and is home to Simandou, a huge undeveloped iron ore deposit.

Last September, the country passed a new mining code. It established a commission to review deals struck during the chaotic days between the end of dictatorship in 2008 and Condé coming to power.

It also gave the state mining company the right to take 15% of every mine in the country free of charge - plus a further 20% at market rates.

The asset transfer plan led to protests by some companies, which believe the move will discourage investment.

Documents seen by The Sunday Times show that last April, five months before the code became law, Mohamed Lamine Fofana, the mining minister, agreed a \$25m (£16m) loan with Palladino Capital, an

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investment vehicle registered in the British Virgin Islands.

The deal was signed by Fofana, Kerfalla Yansane, the finance minister, and Samuel Mebiane, listed as "proxy holder" for Palladino. Hennig set up Palladino Holdings in 2003 as a vehicle for "mining, energy and other assets in Africa".

Crucially, the terms of the loan include a provision that if the cash-strapped government defaults, Palladino can convert the debt into a 30% stake in the operations of the national mining company. This would potentially be worth billions. Simandou alone - owned by Rio Tinto, China's state giant Chinalco, resources tycoon Beny Steinmetz and Vale, the Brazilian iron ore group - is worth at least \$10 billion.

BHP Billiton, steel group Arcelor Mittal and Rusal, the Russian aluminium producer, all have assets in the country affected by the new code.

The Palladino agreement was signed less than a month after Hennig signed a memorandum of understanding under which another vehicle, Floras Bell, would become a "partner" with the government in the mining industry. Hennig did not return calls.

The government of Guinea said: "Strict procedures are in place and prescribed in law for the regulation of dealings related to mineral interests in the country. All governmental bodies, representatives, agents and ministries are expected at all times to comply with such procedures."

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