

# Effective Rate Comparison

## Global Mining Industry 2007

May 2008 Analysis

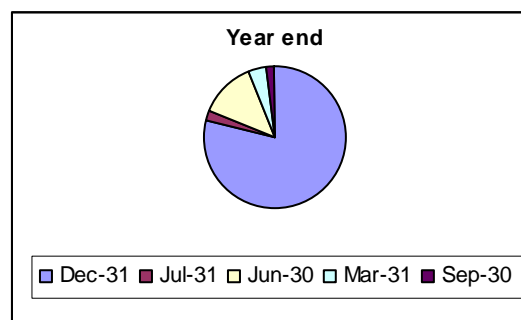
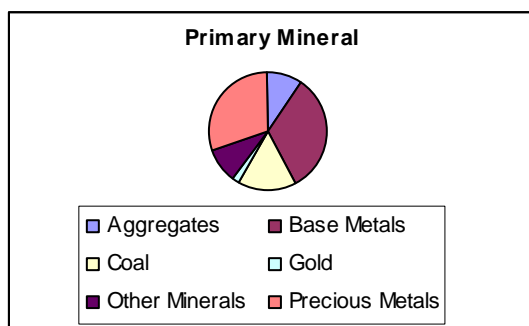
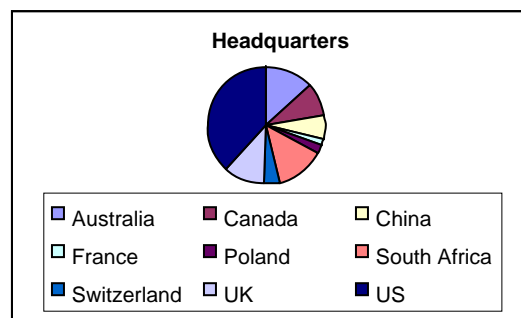
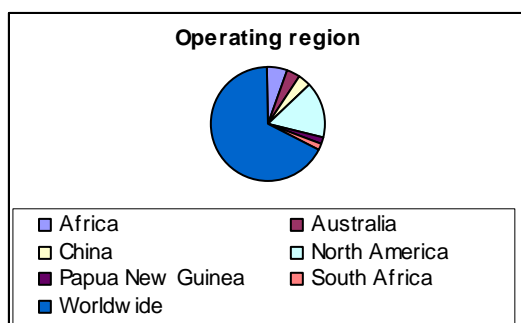
*Janet Kerr, PwC London*

We are once again pleased to present PricewaterhouseCoopers' *Effective Rate Comparison of the Global Mining Industry*.

Tax disclosures in annual reports are an important insight into a company's tax affairs with the effective tax rate being the headline rate commonly quoted by chief financial officers when discussing their company's tax affairs in the annual report. In addition, tax is increasingly found on Board Room agendas with directors taking a greater interest in their company's tax strategy and how it is being identified and managed. This study will give some insight to tax departments as they review their tax strategy, provide information on where they stand compared to their peer group and allow them to compare the drivers of their effective tax rate with other mining companies.

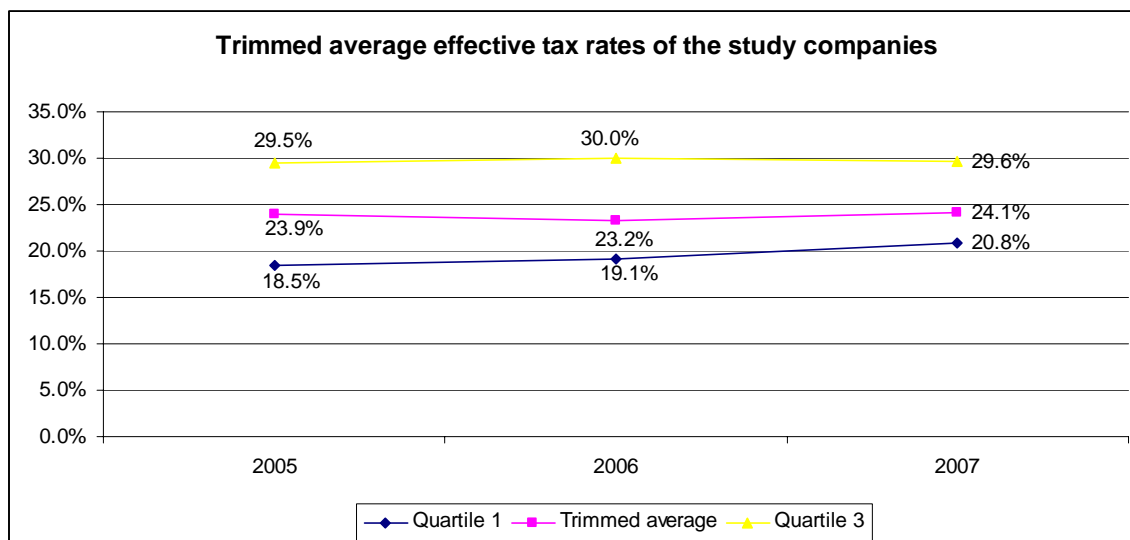
The Effective Rate Comparison highlights the range of effective tax rates in the mining industry and helps companies identify both upward and downward drivers of the effective tax rate in their peer group companies.

This edition includes 52<sup>1</sup> of the leading global mining companies from the precious metals, coal, gold, base metals, aggregates and other minerals sectors. Data is taken from publicly available financial statements up to December 2007<sup>2</sup>. The following charts demonstrate the range of features of companies in the study:



## Key Findings

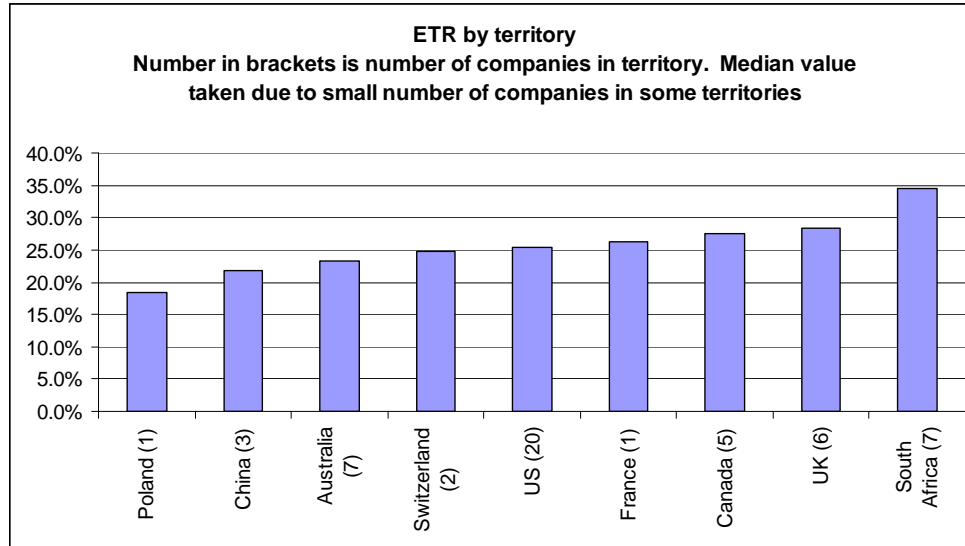
- The effective tax rate (ETR<sup>2</sup>) for the 52 companies included in this study, averaged over the 3 years of the study, is 23.7%. The ETR has remained largely constant between 2005 and 2007 in the upper quartile<sup>2</sup> and the trimmed average<sup>2</sup> and increased by 2.3% in the lower quartile<sup>2</sup>.



- 23 of the 52 companies have had a decrease in ETR compared to 2006 and 29 companies have had an increase in ETR. The average decrease in ETR for the 23 companies between 2006 and 2007 is 0.7%; the average increase is 1.6%.
- Only 12 companies (23%) of the companies surveyed had ETRs above their statutory rate. The main unfavorable drivers pushing ETRs above statutory rates were provincial state, local & secondary taxes and non deductible expenses and writedowns.
- The chart below shows the drivers reported most often by the study companies and their average impact.

Description of reconciling items	Number of companies	Average impact
Taxes in Foreign Jurisdictions at Different Rates / Withholding Tax	40	-2.8%
Other, Net	34	0.7%
Percentage Depletion and Resource Allowance	23	-8.4%
Prior Period Adjustments	21	-5.0%
Provincial/State and Local Income Taxes (Benefit) & Secondary Taxes	20	2.6%
Change in Valuation Allowance/Recognition of Tax Assets (net)	20	-8.3%
Nondeductible Expenses and Write-downs	20	7.6%
Effect of Tax Rate Change	16	-0.3%
Items Having No Tax Effect or Non-taxable Income	14	-1.2%
Losses Unbenefited	10	12.5%

- ETRs vary by headquarter territory as shown on the chart below. The study contains a differing number of companies headquartered in each territory and in some cases, this will influence the ETR. Those companies in the study which are headquartered in South Africa tended to have higher ETRs than those headquartered in China and the US.



- The main drivers by headquarter territory are shown below:

Main drivers by headquarter territory		Average impact of driver
China	Taxes in Foreign Jurisdictions at Different Rates / Withholding Tax	-11.8%
Australia	Research, Investment and Development Allowance	-4.5%
	Prior Period Adjustments	-13.4%
United States	Percentage Depletion and Resource Allowance	-12.0%
	Change in Valuation Allowance/Recognition of Tax Assets (net)	-12.0%
Canada	Taxes in Foreign Jurisdictions at Different Rates / Withholding Tax	-10.2%
	Change in Valuation Allowance/Recognition of Tax Assets (net)	-6.2%
South Africa	Provincial/State and Local Income Taxes (Benefit) & Secondary Taxes	4.2%
	Nondeductible Expenses and Write-downs	4.0%

- Seven of the companies surveyed had rates that were negative, four as a result of tax refunds and 3 as a result of losses. All other ratios fell within the range 0% to 60%. In 2006, the maximum ETR was 107%. Perhaps this means that the recent years of higher income throughout the industry have allowed anomalies, such as unused net operating losses, to work their way through the various financial statements, thereby 'normalizing' effective rates into an expected range.

<sup>1</sup> Surveyed companies from 2005 and 2006 will not be exactly the same as 2007.

<sup>2</sup> ETRs quoted are based on trimmed averages of the sample. In a tax benchmarking exercise of this nature, particular ratios may be distorted due to one off, nonrecurring items. Exceptional items, for example, often attract associated tax at rates far from the statutory rate. It was necessary to exclude these extreme values, and this was done on a consistent basis by taking a trimmed average of a particular sample. The trimmed average is the average result of the data, set by excluding 15% of the data points from both the top and bottom of the data set. It is a robust estimate of the location of a sample, excluding outlying data points. Quartile 3 is the point below which 75% of the data points in the trimmed sample lie. Quartile 1 is the point below which 25% of the the data points lie.

## Index of Companies in the Study

ALCOA  
AMCOL  
ANGLO AMERICAN  
ANGLO PLATINUM  
ANGLOGOLD ASHANTI  
ANTOFASTA  
ARCH COAL  
BARRICK GOLD  
BHP BILLITON  
CAMECO  
CHINA SHENHUA ENERGY COMPANY LIMITED  
COAL AND ALLIED  
COEUR D'ALENE  
COMPASS MINERALS  
CONSOL ENERGY  
EXXARO  
FMC  
FREEPORT-MCMORAN  
GOLD CORP  
GOLD FIELDS  
GRANITE CONSTRUCTION  
HARMONY  
HECLA  
HOLCIM  
ILUKA  
IMPALA PLATINUM  
KAISER  
KAZAKHMYS  
KGHM POLSKA MIEDZ  
LAFARGE S.A.  
LIHIR GOLD  
LONMIN PLC  
MASSEY ENERGY  
NACCO  
NEWCREST MINING LIMITED  
NEWMONT  
OIL DRI  
PEABODY ENERGY  
POTASH  
RIO TINTO  
SOUTHERN COPPER CORPORATION  
ST. BARBARA MINES  
STILLWATER  
TECK COMINCO  
TRANS HEX  
VALE  
VEDANTA RESOURCES  
VULCAN MATERIALS  
XSTRATA  
YANZHOU COAL MINING COMPANY LIMITED  
ZIJIN MINING GROUP  
ZINIFEX

If you have any questions on the report or would like any further information, please contact the editorial team:

**Steve Ralbovsky**

US Mining Leader  
Global Tax Leader, Mining Industry  
+1 602 364-8193  
steve.ralbovsky@us.pwc.com

**Janet Kerr**

Senior Manager, Tax Rate Benchmarking  
+44 20 7804 7134  
janet.kerr@uk.pwc.com

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