

Global Mine* Bulletin

August 2008

Mine* – As good as it gets?

Performance Improvement
Corner – Cost Control

Country focus – Carbon Pollution
Reduction Scheme in Australia

Aussie Mine*



The global mining world looks quite different today than it did a year ago. This is of course also true for the whole business world, however, we saw mining initially buck this trend. At the moment we seem to have rapidly moved to a state where the industry is working at least on two levels – those with long life, low cost, existing operations and those that don't.

It was with this backdrop that we recently released our flagship global publication, "Mine* – As good as it gets?" This document created significant global media interest, particularly around whether PwC were suggesting the end of the mining boom was nigh. This was not the case, as detailed further in our first article.

As you will note from our first article, the most significant industry issue around the world is cost control. This is the focus of the Performance Improvement Corner, covered in the second article. It is interesting to observe the comments of my consulting experts as to how they see the significant deterioration of the quality of mine effectiveness & efficiency. The hard earned gains in the 1990's have been diluted over the last 5 years in the rush to maximise quantity.

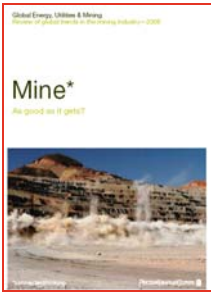
This edition of Global Mine* Bulletin has a strong Australia focus with the country focus talking about the proposed Carbon Pollution Reduction Scheme which will be a major challenge to the mining sector. We also take a look at "Aussie Mine", a summary of the mid tier and junior Australian mining industry which was released in June. This was the third of the trilogy; following Junior mine publications covering Toronto and the London AIM market. As with the other publications, 2007 was a wonderful year, however, there can be little doubt that 2008 will be far more testing.

I trust you will find this edition informative and useful, please feel free to pass on any thoughts you might have for future editions to me.



Tim Goldsmith
Global Mining Leader
PricewaterhouseCoopers





Mine* – As good as it gets?

PricewaterhouseCoopers releases the fifth annual review on global trends in the mining industry. These reviews provide a comprehensive analysis of the financial performance and position of the global mining industry.

The recently released “Mine* – As good as it gets?” looks at the performance of the 40 leading global mining companies as measured by market capitalisation for the year ended 31 December 2007. It also looks at issues that will impact the future of the industry. It also summarises views of a number of CEO’s of these majors, particularly with respect to their thoughts on the future.

The first blush through the findings look spectacular – market capitalisation rose significantly, profits were up and total shareholder returns more than doubled on average. On closer inspection, however, the major issue of cost inflation emerges.

For the first time in the 5 years that we have compiled “Mine*” the increase in operating costs of 38% exceeded the increase in revenue of 32%. Whilst profits in absolute terms still increased to a combined US\$80 billion for the top 40 companies, the profit margins reduced from 28% to 26%. Whilst these margins are still at levels that most industries would kill for, the warning of cost increases impacting the outlook is clear for all to see.

Indeed the supply challenges of developing new projects on time and on budget, or even producing at consistent costs appears out of the reach of most. Therefore, whilst demand for many minerals suggests prices will stay “stronger for longer,”

the real issue is whether the cost of production enables a good margin to be achieved.

To be fair, as reflected in the figures presented in “Mine* – As good as it gets?” the industries largest companies have many/ most of the tier 1, low cost, long life mines, so they are not suffering as much from the challenges as some of the mid tier and junior miners around the world. Having said that, the cost increases are biting into margins, and are ignored at your peril.

Copies of the Mine* publication can be downloaded from www.pwc.com/mining. For further information on this publication contact Tim Goldsmith - tim.goldsmith@au.pwc.com or Jason Burkitt - jason.burkitt@uk.pwc.com

Performance Improvement corner

Cost control – the burning platform for miners

In the 1990s when supply was exceeding demand and commodity prices were low, efficient and effective, mining operations were essential and many hard earned wins to reduce costs were exploited by mining companies around the world.

Fast forward 10 years, and we have been at a place where maximising production was a far greater driver of company performance than minimising costs. Following the comments from the previous article, it seems that the more successful companies going forward will combine both attributes, however, this is not as easy as it sounds – certainly we didn’t hear many mining companies suggest that they would lose the hard earned efficiencies of the 90’s in the pursuit of volume, however, this is what we see when we are called in to assist with cost control.

The point to be made here is that the industry has cycles and the objectives of each mine needs to

take this into account and sustainably move the levers to increase/ reduce operations/ costs in an effective manner.



Again, easily said, but judging by our experiences, rarely achieved. This is made even harder when there is a paucity of good people. Indeed, many operations have people in management roles that were not blooded in the tough years of the 1990’s and therefore lack an element of discipline instilled into the experienced through the school of hard knocks. Many operations may still be able to weather the storm with the quality of the ore body but this

may not maximise effectiveness and efficiency.

Our experts assisting mining companies understand the stage of the industry, determine the appropriate strategies based on the companies assets and determine the appropriate systems and processes. They then assist in reviewing reporting requirements to ensure the key KPI’s, say, are appropriate for the strategy that the company has adopted. They also assist in reviewing processes for effectiveness and efficiency. They retain independence to make the hard calls, but more importantly work alongside company employees and enable the employees to learn and grow so that the improvements are sustained. Our experts suggest that on average they add more value today than ever before, primarily due to the cycle we are within.

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Country focus

Carbon Pollution Reduction Scheme in Australia

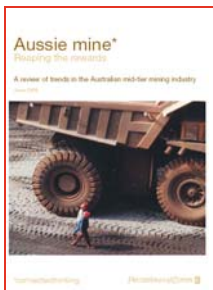
Having been one of the slowest countries to ratify Kyoto, Australia is attempting to establish carbon reduction plans that will lead the world. In essence, the Government have released a Green Paper on the design of a Carbon Pollution Reduction Scheme for Australia which would be implemented (including a cost for carbon) in 2010. A White Paper regarding scheme design and reduction targets under the scheme are proposed for release in December this year.

The impact of the Carbon Pollution Reduction Scheme will see carbon intensive inputs attract some element of a carbon cost. The effect being that the scheme can be expected to increase the cost of doing business in Australia.

For an industry such as the mining sector, which typically sells its production on a global stage as a price taker, it will be another cost to take into account, together with further administrative burden to ensure compliance / reporting.

Some industries have been recognised as requiring assistance, however, exactly what this will mean and how it will be shared around is not yet clear.

For further information on Carbon Pollution Reduction Scheme in Australia contact Justin Portelli - justin.portelli@au.pwc.com



Aussie mine*

This report focuses on the results of the largest 50 mining companies listed on the Australian Stock Exchange with a market capitalisation of less than \$5 billion at 31 December 2007 (the "Mid-tier 50").

We released "Aussie mine* – Reaping the rewards" in June. This report analyses the performance of the top 50 Australian listed mining companies with a market capitalisation below AU\$5 billion for the year ended 31 December 2007. There is also a detailed analysis on exploration expenditure in Australia, status of climate change and an interview with the Chief Executive Officer of New Hope Corporation.

Essentially the year ended 31 December 2007 was spectacular for the Australian mid tier and junior

miners. Their share price performance exceeded the Australian Share market by 10 times and interest was high. Transactions were everywhere and we certainly saw much interest in the sector from China and other emerging markets. All in all, a very upbeat year.

2008 is not shaping up so easily. The global turmoil in the financial sector has certainly hit this part of the industry hard. Indeed, many of the participants had performed a great job of evaluating prospects; however, in today's world their financing is

much more challenging. Equity is not much easier and a number that have gone that route have seen their share price savaged.

The mid tier and junior sector in Australia have always been entrepreneurial and will no doubt negotiate their way through choppy waters and emerge the other side as a stronger company.

Copies of the Aussie mine* publication can be downloaded from www.pwc.com/mining. For further information on this publication contact Wayne Huf - wayne.huf@au.pwc.com Tim Goldsmith - tim.goldsmith@au.pwc.com

Contacting PwC

For more information on this publication or how PricewaterhouseCoopers can assist you in managing value and reporting, please speak to your current PricewaterhouseCoopers contact or telephone/ e-mail the individuals below who will put you in contact with the right person.

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