

Global Mine* Bulletin

January 2009

The Global Financial Crisis and the mining industry

Performance Improvement Corner – Effective Project Stage Gating

Performance Improvement Corner II – Improving Safety Performance

2008 Global Gold Price Survey



It is difficult to comprehend the change the mining world has been through in the last few months. Liquidity and the credit crunch in the western world are certainly part of the reason; however, the slow down in demand from China has been an equally important aspect.

The challenge to us all from this is how we better understand the daily events in China such that we can see events like those of the last few months more clearly before they occur. At this stage, I'm afraid that I offer the question, yet not the response.

As half of the planet continues through its industrial revolution (ably led by China for the last 30 years), the long-term commodity needs suggest that market fundamentals are not being followed. Add to this the rapid supply side response to the current situation and it looks as though this "bust" period will exacerbate the next "boom" – the sooner this happens the better!

The impact of the credit crunch on mining companies is the first story in this Global Mine* Bulletin. Certainly, no one is immune from the impacts – with even BHP Billiton changing plans and dropping its potentially industry transforming Rio Tinto conditional offer. We will look more closely at 2008 mining transactions in the next Global Mine* Bulletin.

The Performance Improvement Corner this month highlights two recent reports issued by PwC, one with information on how to avoid cost blow-outs and lost time on capital projects and the second on the ability to improve safety performance through enhanced reporting.

I trust that you will find this issue informative and useful. I would be pleased to receive any comments or discussion on contents or feedback on areas you wish to have covered in future editions.

2009 promises to be an interesting and challenging year for the industry and I look forward to continued engagement with you as the world addresses the challenges arising from the global financial crisis.

Tim Goldsmith
Global Mining Leader
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The Global Financial Crisis and the Mining Industry

Sub-prime became the credit contagion and has now become the Global Financial Crisis (“GFC”) and has left almost no one immune from its impacts. The GFC has savaged commodity prices and raised a number of issues for mining companies.

The table below lists some key areas where mining companies have felt the impact of the GFC and potential responses available.

Issue	Possible Impact	Potential Response
Access to funds	<ul style="list-style-type: none"> Debt and equity markets effectively closed in many jurisdictions Postponement or decline in number of capital raisings Declining terms or inability to refinance existing bank lines 	<ul style="list-style-type: none"> Consider alternative investors – there are still some willing investors in parts of the world Maintain and strengthen relationships with banks Commence discussions on renewals/refinancing early Evaluate possible strategic partnerships
Cost control	<ul style="list-style-type: none"> Increasing focus on cost management Need for organisational efficiency Deferral of non-essential costs 	<ul style="list-style-type: none"> Focus on cost efficiency and effectiveness strategies Development projects scrutinised to ensure they will generate positive cash flows throughout the economic cycle Review group structures / overheads and consider simplification or cost reduction Improve mining efficiencies – back to the mantra of relentless pursuit of lower operating costs
Project management / capital work in progress	<ul style="list-style-type: none"> Review of current capital projects – use of funds critical Impact on business operations and market perceptions 	<ul style="list-style-type: none"> Project risk reviews - consider risk and cost of postponement potential short-term change in demand for contractors – improve project economics
Hedging	<ul style="list-style-type: none"> Possible losses through substantial volatility in currencies and commodity pricing Income statement fluctuations 	<ul style="list-style-type: none"> Consider hedging strategy to ensure appropriateness in current economic conditions Ensure risks and costs of the strategy are considered. Are the counterparties able to honour their commitments?
Operational risk	<ul style="list-style-type: none"> Safety of depositing institutions / insurance providers Soundness of key suppliers 	<ul style="list-style-type: none"> Consider business critical suppliers and ensure appropriate back-up measures in place Relationships with alternative suppliers for key activities

For further details please contact your country mining leader identified at the back of this bulletin. Alternatively, please contact Michael Happell - michael.happell@au.pwc.com or Tim Goldsmith - tim.goldsmith@au.pwc.com



Performance Improvement Corner

Avoiding cost blow-outs and lost time on mining capital projects through effective project stage gating

With focus turning to cost management as a result of the global financial crisis, PwC's report which provides methods to avoid cost blow-outs and lost time on capital projects couldn't have come at a better time.

The report highlights the challenges mining companies have faced in delivering benefits of major capital projects in relation to scope, cost, schedule and business benefit. It identifies a number of methods for capital project management, with particular emphasis on the use of effective stage gating. The five key areas of focus identified to improve the likelihood of project success are;

1. **Implementing a phased project evaluation process** which ensures investment decisions are made based on sound financial, social, environmental and sustainable development analysis
2. **Effectively managing project portfolios**, enabling a company to compare and prioritise projects based on strategic fit and risk
3. **Front end loading** key elements of project evaluation
4. **Determining a contracting strategy early** in the project evaluation process, incorporating a sound risk management approach
5. **Learning from successes and mistakes** and ensuring these are documented

Copies of the report can be downloaded from www.pwc.com/au/mining. For more information on effective project stage gating please contact Brian Gillespie - brian.gillespie@au.pwc.com, Jane Couchman - jane.couchman@au.pwc.com or Anjuli Steffen - anjuli.steffen@au.pwc.com



Performance Improvement Corner II

Improving safety performance in the mining industry through enhanced reporting

PwC Australia recently released a report on the ability to improve safety performance in the Australian mining industry through enhanced reporting. While the report was focussed on the Australian industry, the insights are applicable to most countries.

The report highlights the reduced level of mining fatalities and the progress over the past decade where incident rates have reduced by 95%.

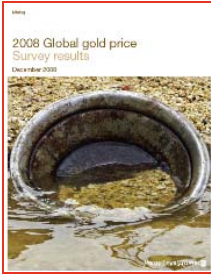
The results have been driven by improvements in safety procedures and risk management techniques used to identify, measure and address safety hazards.

Notwithstanding this, the industry has not achieved its goal of zero harm. The report identifies 12 opportunities to improve performance further.

These opportunities have been identified in three main areas:

1. Using meaningful safety indicators
2. Identifying high-risk areas
3. Sharing information

Copies of the report including details about each area can be downloaded from www.pwc.com/mining. For more information please contact Brian Gillespie - brian.gillespie@au.pwc.com, Lina Riege - lina.riege@au.pwc.com or Erik Ekevall, erik.ekevall@au.pwc.com



2008 Global Gold Price Survey

Despite current market conditions and commodity prices, 2008 was a strong year for gold.

PwC has recently released the results of our 2008 Global Gold Price Survey. The survey polled 45 leading gold mining companies in North America, Australia and South Africa and examines the gold price the gold mining companies have used to assess asset carrying values and reserve determinations and the

issues that have influenced the disclosures they are planning in their 2008 annual report.

Headlining the results were the average gold price indicated by respondents for reserve calculations of US\$734 and for assessment of asset carrying values of US\$751.

The gold price has averaged over US\$800 for the year and while the price has fluctuated significantly, it hasn't experienced the sharp decline of many other commodity prices.

Copies of the Global Gold Price Survey can be downloaded from www.pwc.com/ca/mining. For further information please contact Paul Murphy - paul.j.murphy@ca.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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