Global Mine* Bulletin

September 2009

The world continues, it seems, to feel its way through the trough of the Global Economic Crisis. However, governments, analysts and commentators are starting to ask whether we have seen the bottom, and are things on the rise again?

Certainly there are some lead indicators, such as the price of copper and oil; however, many are still concerned as to the ongoing impact of higher unemployment on economies around the globe.

In the mining sector the worst does seem to be behind us, with the ‘green shoots of recovery’ very much apparent across the global industry. Confidence is returning and the challenges of the past year are becoming the opportunities for the next stage of growth. Clearly this is an outcome we all desire for the sector, so may those green shoots continue to grow!

This edition of Global Mine* Bulletin focuses on our recently published flagship mining thought leadership piece, Mine – When the going gets tough…. Our sixth analysis of the global industry, through a review of the Top 40 mining companies, provides the stark contrast of some amazing reported financial data (historical) with challenging decisions and cut-backs in response to the fall in commodity prices and demand (forward looking).

An article on the commodity of the future -- water -- has been reproduced from Mine in this bulletin.

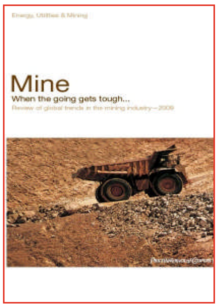
We also interview Meera Pau from the PwC London Sustainability and Climate Change team, who tells us what constitutes a day in her life.

The International Accounting Standards Board (IASB) has recently taken the unusual step of releasing a Discussion Paper on their proposed new accounting standard for extractive activities. This is sure to generate much discussion and we provide an analysis of the key matters raised.

As always, I trust you will find this informative and useful. I welcome any feedback or comments on areas covered or on which you would like us to focus in the future.

Tim Goldsmith

Tim Goldsmith
Global Mining Leader
PricewaterhouseCoopers



Mine*

Review of global trends in the mining industry – 2009

PwC has recently released its flagship mining thought leadership publication **Mine** – **When the going gets tough...**. This sixth addition of Mine provides a comprehensive analysis of the financial trends of the global mining industry as represented by the largest Top 40 mining companies by market capitalisation.

In last year's report, PwC posed the question whether that was 'as good as it gets?' 2008 started where 2007 had left off, and threatened to answer the question with a resounding 'No'. Companies in the industry benefitted from strong commodity prices. Despite the strong financial results, 2008 was definitely a year of two parts with the good times quickly turning bad as the global economic crisis took hold in the last quarter and commodity prices went into freefall.

Mine also highlights the challenges facing the leading CEOs in **A view from the top**. The discussion highlights that the economic conditions have created two kinds of companies; the 'haves' and the 'have nots', and actions will depend on which type of company the CEO is leading.

The financial results for the industry remained spectacular; revenues increased by 23% year-on-year, and cash flows from operations were up a huge 25%, exceeding US$100 billion for the first time. Operating cost increases, however, exceeded revenue growth for the second consecutive year, eroding profit margins, and 50% of the Top 40 recorded impairment charges totalling US$31 billion. 2009 presents a tough road ahead, requiring companies to control costs and be flexible in managing through this downturn.

Q1 2009 also saw 14 of the Top 40 announce mine closures, production cuts or moves to place mines on care and maintenance. $13 billion of capital expenditure has been deferred or cancelled. Combined, this has led to more than 40,000 planned redundancies across the industry.

The boom encouraged the industry to invest heavily in capital projects and grow the top line. In these more cautious times, the ability to turn the cost tap on and off quickly may be the difference between success and failure.

Success in the long term will depend on how the mining industry reacts when the going gets tough.

Copies of Mine – "When the going gets tough…" can be downloaded from www.pwc.com/mining. For further information on this publication contact Jason Burkitt: Jason.e.burkitt@uk.pwc.com

Potential changes to financial reporting for mining and oil & gas entities

There is currently little guidance on the accounting for exploration, development and production of minerals and oil & gas under International Financial Reporting Standards (IFRS). On 10 August, the International Accounting Standards Board (IASB) published a draft discussion paper (DP) on accounting for extractive industries. The draft DP is the first step in the IASB's plan to develop a new standard for accounting for extractive assets, which would replace the current guidance in IFRS 6 *Exploration for and evaluation of mineral resources* (equivalent to AASB 6).

The DP considers the financial reporting issues for extractive activities and provides views on the definitions of reserves and resources for financial reporting purposes, the basis for recognising mineral and oil & gas assets, initial and subsequent measurement of mineral and oil & gas assets, and disclosures.

The five key recommendations in the draft discussion paper include:

1. A single financial reporting model should be available for all mining and oil & gas activities. Currently there is divergence in practice in the accounting for exploration, development and production of minerals and oil & gas because IFRS 6 allowed entities adopting IFRS to continue to apply their existing accounting policies.

2. Reserves and resources definitions for financial reporting should be the definitions developed by the Committee for Mineral Reserves International Reporting Standards and the equivalent definitions of the Society of Petroleum Engineers. Currently IFRS reporters adopt their own national codes and definitions, which can make it difficult for users of entities' accounts to compare information. For example, in Australia entities apply the JORC guidelines, but these guidelines may not be applied by entities in other countries.

3. Mineral and oil & gas assets should be recognised when an entity has acquired the legal right to explore. Under the draft DP, information gained from exploration and evaluation activities, as well as development activities, would represent enhancement of the exploration / reserves and resources asset. Current practice in this area is diverse with entities expensing the costs in a number of different ways. Under the draft DP, there would be more capitalisation of costs. Entities would need to assess their assets for impairment whenever evidence is available to suggest that full recovery of the carrying amount of an exploration asset is unlikely. This differs from the impairment rules under IAS 36.

4. Mineral and oil & gas assets should continue to be measured at historical cost, supplemented by disclosure of the volume and current value of reserves.

5. Significantly more detailed disclosures should be required about:

i. Either the current value or fair value measurement of proved and probable reserves, by major geographical region. If this requirement is endorsed by the IASB, it would present resources entities with a significant disclosure challenge.
ii. Reserve quantities (by commodity and by country or project where material).
iii. Production revenues by commodity
iv. Costs disaggregated in the same way as reserve quantities, with a five-year track record of exploration costs, development costs, and production costs.

The draft DP is available at www.iasb.org (see Projects / Extractive activities). The formal discussion paper is expected to be issued in Q1 2010, with a six-month comment period. That gives entities approximately 12 months from now to analyse and digest the recommendations, assess the practical consequences, and respond to the IASB. (No CR)Now is the time to start to explore the impact on your business.

PwC will be hosting roundtable events in a number of locations to discuss what effect the DP will have.

Please contact your local PwC contact For more information on the DP, please contact Tim Goldsmith: tim.goldsmith@au.pwc.com, Jason Burkitt: Jason.e.burkitt@uk.pwc.com, or Debbie Smith: Debbie.smith@au.pwc.com

A Day in the Life of Meera Pau, PwC Sustainability and Climate Change team member

We have conducted an interview with Meera Pau, who is driving PwC UK sustainability services to the mining and metals industry. Read about the work Meera and her team are doing particularly in the area of sustainability.

What is your job title?
I am a manager in the Sustainability and Climate Change team at PwC in London.

And what does a typical day in your job involve?
Well, there are two sides to the work: internal and external. On the external side, I work with companies to identify and manage the risks and opportunities associated with sustainability. This can include environmental, social, economic and governance issues, and it is about creating better value for the company and society at large. The work can range from on-site assessments (I've been to Kazakhstan and Mexico in the last year) to creating benchmarking tools and strategies for companies to improve their performance relating to sustainability. Some of my work also involves reporting, from preparing both internal and external (company) reports all the way through to providing assurance over sustainability reporting.

Then there is the work our team does internally for PwC. This really involves working with other departments to help embed sustainability into the different services the company offers. For example, in their latest Total Tax Contribution framework, the PwC tax team included information on environmental taxes.

So, more specifically, how do you work with the mining industry?
The size of our team – 70 partners and staff – allows us to develop industry specialisms. I've worked specifically with the mining industry for the past two years or so.

One recent client wanted to understand how their mine portfolio was performing (environmentally and socially) against other mines, and against benchmark criteria. To help them achieve this we designed a tool to assess performance. This involved site visits to assess the projects, as well as a lot of telephone interview work to assess how the mines compared to their peers. Through this we were able to determine how the company could learn from industry best practice and its own best-performing sites, and how it could be innovative in its approach to sustainability.

Another company we work with wanted to define its sustainability strategy. So, we ran a set of five high-level workshops with their senior management to clarify what sustainability means for the business, what key areas they want to make progress on, and what indicators the company needs to use.

What made you chose this area of work? What drew you to sustainability and mining?
I joined PwC about seven years ago and completed my accountancy qualification, so I came from a business background rather than a technical one. But, I became really fascinated by the opportunity I saw for companies to do business in a more sustainable way, to better serve the company and wider society at large. I was really interested in this win-win situation. I think mining is really the extreme end of that principle. The impacts of mining can be huge, but then so can the opportunities.

But, I joined the PwC mining team following a client assignment a few years back, so it was a great opportunity to use that knowledge and specialise within this sector on sustainability issues.

What changes would you like to see in the area of sustainability in the next five to ten years?
Well, the mining industry has been innovative in some ways when it comes to sustainability, particularly from the operational side. Mining companies have been doing it longer and better than other sectors because they've had to, for one reason, to maintain their social licence to operate. I think other industries can learn from this.

But, the development of operational sustainability reporting has been led by regulators, and I think we will start to see more push from further up the value chain and from customers as they start to look for more sustainable products and production processes. Consumer demand for sustainable products can only increase as awareness of the issues of climate change increases all the time. Clients and the industry are also looking harder at their suppliers' records on the sustainability agenda, as a prerequisite for working with them.

The issue of sustainability in the supply chain will be an important issue in the coming years and may well be what distinguishes great performance. The sustainability agenda has progressed a lot over the past few years, and I believe that, within five to ten years, far from been a separate agenda item on the board's discussion, it will be part of business as usual.

If you would like to learn more, please contact Meera Pau:Meera.pau@uk.pwc.com

Thirsty Work: An Article on the Effect of the Scarcity of Water in the Mining Industry

Water is essential to mining production and with water becoming more and more scarce, more companies could be caught in a drought. Explore this further below.

Water security is fast rising up the agenda as a critical business issue, with companies becoming aware that water availability, linked to changing climate and increasing consumption, could have a significant impact on their direct operations, supply chains, and the communities where they operate. How companies plan and respond today could have significant implications for future business success."
Geoff Lane, Sustainability and Climate Change Partner, PricewaterhouseCoopers

According to the International Monetary Fund, more than half of the worlds available freshwater is already in use and, by some estimates, it could increase to as much as 90% by 2025.

Water is essential to mining and metals production. Production involves activities that can require significant volumes of water for processing and cooling and without access to high volumes of fresh water, neither of these critical processes can take place.

In addition, the by-product of many mining processes is water, which raises water quality issues for the surrounding environment. The water in the energy supply chain, required for cooling water or hydro-electric power, should not be underestimated as a potential threat to production.

Accordingly, the industry faces three significant types of risk with regard to water: physical, regulatory and reputational.

- Physical risks: reduced water supply could interrupt production due to insufficient process water. Equally, a failure to meet discharge requirements for wastewater or any major incident (e.g. dam failure or leaching into groundwater) could also close a plant.
- Regulatory risks: potential for higher prices for water or fewer abstraction licenses.
- Reputational risks: conflict with local communities over access to water and concerns raised by shareholders. For example, gold mining operations have been subject to campaigns over extraction of glacial waters in Chile and from aquifers in water-stressed Nevada, demonstrating it is not just an issue in the developing world.

Despite the risks, this trend also presents significant opportunities. Companies that develop efficient solutions and commodities or products with a low water footprint will be increasingly in demand. But to do so, water needs to be treated in its own unique way.

Is water another carbon?

Despite water beginning to be seen as significant an issue as carbon by some companies, it cannot be treated in the same way. Whereas carbon can be traded in certain markets, water cannot readily be transferred between basins and therefore solutions must be sought within the region.

Some companies are considering concepts such as ‘water neutrality’ and ‘water trading’, but these remain at the concept stage. Apart from water being a more localised issue than carbon, it is also potentially a more serious issue. Loss of water supply is a ‘show-stopper’ for mining operations, which is difficult to overcome at short notice.

Where’s the catch?

Local factors make it difficult to manage water at a global level. An operation may be able to happily co-exist in a catchment area with plentiful resources and limited other water consumers; yet the same operation would have significant environmental and social impacts in another more sensitive location.
Traditionally, water shortages have been tackled with an engineering solution to increase supply or improve efficiency, however a technological approach may not always be the most cost effective or sustainable solution.
The private sector is now looking at improving catchment management, through working with local farmers or landowners to maintain water levels and introduce more efficient agricultural practices. This can work out more economical than a major capital investment in upgrading facilities.

A corporate or a local issue?

While solutions for water access problems may not be delivered at a corporate level, a global approach to risk assessments should be adopted across operations, with key questions being raised before investments are approved. Companies should consider the following at site-level:

- Is there adequate information on the key sources of water demand and supply in the region?
- Have water risk assessments been conducted at a site level?
- How will climate change affect the watershed and is there an adaptation strategy?
- Does someone have clear responsibility for water issues?
- Has the right balance between managing water and energy costs been achieved?
- Has there been appropriate engagement with the right stakeholders on water issues?
- How would future water shortages affect production or the value of asset?

Reporting gaps

Mining companies are already developing strategies to manage water risks and reporting on their performance in some areas, including:

- Corporate water footprints.
- Levels of water recycling.
- Water intensity of products.
- Water balance at site level.
- Site-specific water management plans and efficiency targets.
- Stakeholder engagement programmes and research.
- Case studies on water partnerships.

While information on water use is essential for managing operations, there is a trend emerging for a greater focus on strategy and risks, rather than simply disclosing overall levels of consumption and recycling without any local context. In February 2009, the US CERES coalition of responsible investors published a report with the Pacific Institute outlining the growing risks from water scarcity facing various sectors, including mining. Greater disclosure is likely to be requested from mining companies regarding assessment of water risks and the strategy for managing them, given the potential impacts water could have on the industry. Importantly, as the race to secure water supplies heats up, there will be benefits for those who have developed their understanding about the water catchments they are operating in, and identifying the most efficient solutions.

Thirsty Work has also been published in Mining Environmental Magazine.

For further information in relation to the challenges of water shortage please contact Geoff Lane: Geoff.lane@au.pwc.com

Winds of change for Indonesian mining sector

Indonesia passed a new mining law in December 2008, the biggest change to mining regulation in the country in over 40 years. The new mining law represents a significant overhaul of regulations for the sector, including replacement of the well respected Contract of Work system for foreign investment, with a licence based system.

Initial reactions to the new law were not good, with several multi-billion dollar greenfield projects seeking contracts of work being abandoned. The fact that the passing of the new law coincided with the onset of the global economic downturn did not help. However, recent increased activity from both foreign and domestic players (particularly in the coal sector) indicates that investors may be getting comfortable with the terms of the new law.

One reason may be the uncharacteristically swift action of the government in drafting implementing regulations for the new law. The new law requires a raft of government regulations to flesh out the details of the law, and prior experience has shown that these could take years to draft. However, within six months of the passing the new law, drafts of the four key regulations had been circulated to stakeholders within the industry, and we understand that these drafts have now been submitted to parliament for review, and could be issued before the end of 2009. This would be a significant step towards allaying some of the lingering concerns of investors with the details of the new law.

Some of the significant matters covered by the key implementing regulations are:

- Mining permits – process for granting exploration and exploitation permits, including tender procedures
- Domestic obligations – requirement to meet domestic market needs prior to export (particularly relevant for coal producers) and local content rules
- Coal and minerals processing – requirement to conduct some form of downstream processing (crushing/washing likely to be sufficient for coal)
- Mineral pricing – government will set minimum prices for exported minerals and coal (ostensibly to limit transfer pricing)
- Foreign divestment requirements – likely to be 20% divestment requirement for foreign parties owning 100% of a project
- Mining areas – procedures for determination of areas open for mining and those designated as state reserve areas
- Reclamation and post-mining activities – covers the obligations of mining companies with respect to rehabilitation and mine closure.

PricewaterhouseCoopers Indonesia will continue to monitor the progress of the draft implementing regulations, and plans to issue a comprehensive analysis of the impact on investors once the regulations are issued.

Further analysis of the new mining law, and other Indonesian mining issues, can be accessed at www.pwc.com/id or by contacting Sacha Winzenried, PwC Indonesia Mining Leader at sacha.winzenried@id.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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