

Industries
Energy, Utilities & Mining

Global Mining Capability Statement 2009

Extracting value in partnership with you



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01

Introduction

The mining industry is a truly global industry. Mineral deposits and mine developments are often in remote areas and host governments and other stakeholders often have stringent requirements for mining companies. These requirements on top of normal business challenges, such as commodity price movements, efficiency of operations, optimising taxes, environmental, health and safety, and community needs, ensure that mining is challenging for all industry participants.

We at PricewaterhouseCoopers (PwC) have unprecedented resources to help mining companies understand and manage these challenges. PwC is the world's leading adviser to the mining industry, serving more of the world's top global mining companies than any other professional firm. Leading mining companies recognize the value that we bring to their businesses.

Working with exploration, production and service companies, we help them develop and implement business solutions tailored to the mining sector. We have in excess of 1500 mining professionals across the globe and are present in all significant mining territories. Our strength in serving this truly international sector comes from our skills, our experience and the strong interconnection we maintain among our global industry specialists – our truly international network of professionals.

We want to be involved as you identify issues and work towards solving them. We know you expect to be able to come to us, ask a tough question, and get a useful, thoughtful answer in reply. Our goal is to do more — to help you plan for success. Our experience allows us to help you ask the right questions, not just provide the right answers.



Tim Goldsmith
Global Mining Leader



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Specialized services for mining companies

PricewaterhouseCoopers is a world-class provider of business advice to the mining industry. Our expertise, global coverage and track record with public and private mining companies, governments and industry associations are second to none. Our depth of experience means you can be confident we grasp important industry issues and know how to respond to them. We identify trends and communicate those trends to each other and to you, our clients.

Our global mining practice focuses on delivering professional services to companies of all sizes, across all segments of the industry. We provide industry-specific solutions in the fields of audit and assurance, tax, transactions, performance improvement, human resources and crisis management to help companies address their business and stakeholder issues.



02 Specialized services for mining companies

Audit and assurance

PricewaterhouseCoopers is the leading auditor of major mining companies and junior mining companies around the world.

We currently audit 32% of mining companies worldwide with more than \$1 billion in revenues. We audit 46% of the FT Global 500 mining companies and provide other professional services to the remainder of them. Our leading market share in the mining sector means we serve more mining companies than any other firm, and that our professionals have tremendous industry knowledge gained from this breadth of experience. This industry knowledge results in immediate value to our clients by bringing our in-depth understanding of your business issues to bear.

PwC auditors around the world use a single, global audit methodology, fully compliant with International Auditing Standards and applicable national standards. Our globally consistent approach to the audit means that, regardless of location, PwC people can understand and evaluate your business using a single language and common methods. In turn, that gives you a uniform level of quality in all our audits. This methodology also enables us to quickly organise and deploy the kinds of multinational audit teams often required by our larger mining clients.

In addition to audit services, we offer a full range of assurance services to mining companies, covering areas such as statutory audit, regulatory risk, Sarbanes-Oxley compliance, independent review of controls and processes, sustainability reporting assurance and advice on acquisitions, alliances and disposals.

Representative Audit and Assurance Clients	
AK ALROSA	Katanga
Barrick Gold	KGHm Polska Miedt
Central Asia Metals	Namakwa Diamonds
Chalco	Newmont Mining
China Coal	OceanaGold
Consolidated Minerals	RAG Aktiengesellschaft
Dwyka Resources	Rio Tinto
Eurasia Natural Resources (ENRC)	Samco Resources
First Quantum Minerals	Southern Copper
Franco-Nevada	Straits Resources
Goldfields	Talvivaara
Grupo Mexico	Teck
Harmony Gold Mining	UK Coal
Impala Platinum Holdings	Vale

Representative Advisory and Tax Clients	
Anglo American	Kumba Resources
AngloGold Ashanti	Lonmin
Antofagasta	Minmetals
Arch Coal	NMDC
Aricom	Norilsk Nickel
Avocet Mining	Newcrest Mining
BHP Billiton	OZ Minerals
Cameco	Peabody Energy
Centerra Gold	Peter Hambro Mining
Cerrejon Coal	Polyus Gold
Coal India	Singareni Collieries
Codelco	SUEK
Evrzholding	Uranium Corporation of India
Hochschild	Vedanta group companies
Industrias Penoles	Xstrata
Inmet Mining	Yamana Gold
Kazakhmys	Yanzhou Coal Mining

02 Specialized services for mining companies

Advisory services

Our advisory services put companies and other mining sector stakeholders at the leading edge. Our insight into rapidly changing mining environments helps companies improve their performance and competitiveness.

Through our deep understanding of finance, risk management/compliance, sustainability, climate change, IT systems, operations and human resources, we can identify and implement cost-saving initiatives, improve management and control, improve performance, identify and manage risk, improve quality and deliver greater financial effectiveness.

We combine our expertise in overall performance and financial improvement with expertise in key industry-specific areas such as financial and geopolitical risk, and climate change.

We also seek to maximise the value and effectiveness of companies' internal audit processes by advising and assisting in the development of internal audit and risk management plans and methodologies, including assessing whether the internal audit function is delivering effectively to stakeholders. We provide internal audit resource solutions, including full outsourcing or complementing in-house functions utilising experienced professionals with strong mining industry experience.

We are well-known in the marketplace for our skills in assisting with and executing all types of financial transactions. We help our clients in mergers and acquisitions, including financial and operational due diligence, accessing the capital markets and valuing, negotiating and structuring deals. We also assist with divestments and development of exit strategies.

Post acquisition, our merger integration specialists can assist with the planning and the execution of the integration efforts. Our advisory services also include crisis management, dispute analysis and litigation support, investigations and forensic services.

02 Specialized services for mining companies

Tax services

We have the strongest international network of any professional services firm, with over 19,000 dedicated tax specialists in 149 countries. This means that we can support you both locally and globally, wherever you require tax advice.

Our tax professionals solve challenging issues, anticipate changes that can impact your tax situation and financial statements, and keep you apprised of federal, local, state/provincial, foreign and international proposed tax law and regulations as they pertain to your company's operations. Our network of international tax structuring professionals can enable you to structure your international business in a tax-efficient manner, both locally and globally. We can help you construct effective cross-border strategies and manage your global structural tax rate. We will also keep you abreast of new developments in the international arena that affect your business.

Early tax planning for mergers and acquisitions is essential to reduce both the actual transaction tax costs and the long term sustainable tax rate following the transaction. PwC has the largest network of M&A tax specialists in the world and we can offer you expert deal structuring and financing advice at all points throughout the deal cycle. We deliver value through quantitative analysis, rigorous implementation and leading edge structuring techniques, carrying out pre-acquisition due diligence, ensuring tax efficient deal structuring, and post-deal integration.

Intercompany transactions across borders are growing rapidly and are becoming much more complex. At PwC, we have a strong international network of dedicated transfer pricing specialists with advanced training in economics, accounting, law and project management, ready to work with you. Our industry and tax authority experience and highly developed capabilities enable us to develop innovative approaches for mining industry participants, including negotiation of advance pricing agreements with all jurisdictions governing a transaction.

We provide tax compliance services to the industry on income taxes, non-income taxes such as VAT/GST, property taxes and other levies, and we are the industry leader in US MLP partner information processing. We also consult on mining tax issues, helping to maximize deductions and determine the risk on mining tax issues. Our international network gives us full and immediate access to mining tax experts around the world. Their knowledge of the industry means no time is spent providing industry background. Our teams get right to work on the task at hand.

In summary, we have a global full-service tax department which includes our mining industry experts. These tax resources are always available to assist in any aspect with regard to tax planning, compliance, dispute resolution, lobbying, legislation analysis, income tax accounting and expatriate individual income tax assistance.

Tax structuring a major mining deal

An emerging international mining company was about to sell a one-third stake in its primary South American mine to a foreign miner/investor. The acquirer required a certain structure because of home country foreign tax credit regulations and the selling company had a large hedge position that had to be isolated in order to complete the transaction. PwC international tax specialists from six countries came together in a matter of days and worked out a structure with the client over the ensuing few weeks. Their work, which included requesting and receiving private tax rulings in some countries, allowed the deal to be understood by all parties (including third party lenders who had to consent to the deal), to be risk assessed, and to be closed in the necessary short timeframe. The engagement team's knowledge of the selling company was important, but the ability to assemble the right international specialists in a matter of days was crucial to the success of the plan.

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The right service for your challenges

An unparalleled period of soaring commodity prices and economic growth has given way to slowdown and recession. The big question is whether the sudden downturn represents a relatively short-term interruption in growth, or whether it is the signal of a more long-run recession. Mining companies have to balance short-term responses with long-term strategy, weighing the long timescales needed for major infrastructure projects, such as mine development, against sharp downturns in prices and demand.

The mining industry, at first thought to be somewhat insulated from the debt crisis, is now fully impacted amid falling demand, tumbling commodity prices, high operating and capital costs and falling share prices. New mines will be rare. Under-performing mines, or those with cost over-runs will be carefully scrutinized for potential closure.

Cash conservation and cost management is the order of the day. Mid and lower tier companies will need further debt/equity to fund development but face constraints in sourcing funds. There will be opportunities for cash rich companies to look beyond the downturn to make strategic acquisitions at bargain prices.

If they are not to be targets, cash strapped companies will need to consider joint ventures with cashed up local or international players, especially from China and India. Companies will need to be rigorous in their option analysis and risk evaluation. Postponement or cancellation can increase costs and leave companies exposed in an upturn.

PricewaterhouseCoopers delivers a range of services to help mining companies address the many challenges they face today and to help them prepare for an upturn in the future.



03 The right service for your challenges

Industry transactions

High levels of transactions across all segments of the sector involving industry players of all sizes seeking deals all over the world continue to rapidly change the face of the global mining industry. The industry's biggest companies have and will continue to seek opportunities to further distinguish their market leading scale.

The global economic slow down has presented emerging economies with the opportunity to acquire assets/companies at reduced prices in order to expand the size/scope of their operations and secure much needed resources to fuel their burgeoning economic engines driving rapid growth. The challenges brought by the global financial crisis require companies to obtain access to new technologies and competencies, streamline their operations and asset portfolios, and consider novel and sometimes radical solutions to address their financing needs.

The demands of the global market have been pushing the mining sector to evolve and the pressing need to explore undeveloped areas, restart stalled operations, and strategically restructure will continue to push companies to consider all available funding sources, form new ventures, invest in consortiums, acquire competitors, and dispose or acquire specific assets.

Whether it be the ongoing expansion of the super-majors, the consolidation in the middle and lower tiers, integration of downstream operations in metals or power segments, or the search for resources by emerging economy players, the mining industry is poised to see more and more transaction activity off the back of already unprecedented deal volume in recent years.

Being in a position to anticipate deal opportunities or threats from competitors will be critical for any mining company navigating today's very dynamic global mining market. Responding quickly and appropriately to these deal opportunities, bridging language, legal and cultural gaps, and building the most realistic business case for a transaction decision can be challenging. At the same time, heightened transaction risks arise when there is insufficient time to learn all pertinent facts, a cultural nuance or practice is misinterpreted, or the consequences of a hostile bid are not fully understood.

How PricewaterhouseCoopers can help

When doing any deal, it is invaluable to have a trusted advisor who can walk in your shoes and collaborate with you throughout the deal process -- one that truly understands the issues relevant to your situation, is experienced in structuring deals, knows how to manage your risk, and has resources on the ground in all locations the deal touches.

At the heart of the PricewaterhouseCoopers global mining network, there is a well connected deal team of transactions specialists and mining industry market experts from key mining territories from around the world. Drawing from deep experience built from years of assisting mining companies on deals of all sizes around the world, our team is best placed to assist our clients with all aspects of the deal value chain from identifying and evaluating investment opportunities, to best in class execution of deals, post-deal advisory to help make deals successful, through to harvesting value from investments. Our global mining team leverages the multi-disciplinary expertise from across the firm and we collaborate with every client to focus on the commercial aspects of the deal and help our clients reach their goals.

On the buy side, we help acquirers to identify potential targets, evaluate assets/companies, improve their M&A process and set post-close priorities. After a deal closes, we counsel a company on key post-deal integration matters including key employee retention and enhancing operations by improving the internal controls governing a target's financial, IT, back office, supply chain and customer management systems and processes.

On the sell side, we help clients identify assets for disposal, resolve carve-out issues, assess the quality of earnings, determine the impact of transition/removal issues, assist in the coordination and structure of the data room, and advise purchase agreements and closing.

03 The right service for your challenges

Industry transactions

For clients who are potential targets, our transaction specialists can prepare reviews on the client's own business in advance of any bid to provide insight into the strategic, operational, and financial vulnerability of the client and identify possible "white knights." This allows a client to maintain a state of readiness and allow for a more effective response if a bid should arise. We can also perform "dummy" assignments for companies that are exposed to a potential take-over bid.

Valuation of a Russian mining company

We performed a valuation of one of the largest iron ore mining and processing operations in Russia at the request of the client's shareholders. Several valuation methodologies were applied, including the Market Approach and Income Approach (based on the Adjusted Present Value Model of DCF methodology) and a valuation report was prepared on the market value of the equity of the client. The report was prepared for the client's internal management purposes and as part of its strategic review process.

Advice on purchase of coal company

PwC advised a mining company in its bid to purchase a coal company. We provided advice on how to structure and use a financial model to undertake an investment appraisal. We also reviewed the financial model and advised the company on changes to be made to the model. As a result of our advice, the company was able to use the model to assess how much to bid for the coal company and, despite intense competition, were successful in acquiring a controlling stake.

03 The right service for your challenges

Improving performance and operational effectiveness

As a mature industry, mining companies must achieve enhanced profitability, in large part, through best in class performance and disciplined cost control as market demand for their products strongly fluctuates. At any point in time, commodity prices may be high or low, but management teams know that commodity price levels are cyclical. In the face of fluctuating demand and cyclical pricing, operating an efficient and streamlined business, as well as squeezing costs, is critical.

Industry consolidation in mining has created large companies who are still discovering synergies to be achieved from merger and acquisition activity. Compliance costs for environmental remediation and enhanced safety standards have trimmed already thin margins. Achieving internal efficiencies ahead of the competition is a key challenge. Investing in medium and longer term process improvements and cost control measures makes good business sense whether prices and demand are high or low.

How PricewaterhouseCoopers can help

PwC possesses significant knowledge in the areas of cost reduction, sourcing and shared services analysis, IT effectiveness, as well as crisis management to help companies achieve best in class performance. Our expertise, combined with the hard data and benchmarking capability of our pre-eminent Global Best Practices™ tool, allows us to help companies achieve best in class performance. Our services include:

- Vendor selection and management
- Supply chain considerations
- Contract audits
- Sourcing and shared services
- IT effectiveness
- Risk management
- Cost management
- Service management
- Outsourcing analysis
- IT alignment
- Crisis management
- Business recovery
- Dispute analysis and investigations

Cost reduction through continuous improvement

PwC helped a coal company with far flung mining operations to reduce the company's cost base by pursuing continuous improvement initiatives. The company was looking to develop a structured approach to continuous improvement that draws on best practice, including elements of the six sigma approach, as and where appropriate. In the short term, the company was seeking to establish and position the broader continuous improvement program, adopt a disciplined approach to project selection, build continuous improvement capability by training a small group of young leaders, and demonstrate the benefits associated with having a clear framework and structured approach. PwC's Performance Improvement practice worked with the company's leadership team to craft a program tailored specifically to meet their requirements.

Improving productivity in mining processes

Our mining specialists, working with a well known global company, provided insight into the potential of their mining processes and identified latent capacity and productivity opportunities. The complete mining processes were reviewed, from exploration, through mine planning, extraction activities and processing delivery and payment activities. In a recent assignment, production at a coal mine was increased 50% in 18 months using existing equipment and crews without any additional cost.

03 The right service for your challenges

Financing and managing capital projects

As with other aspects of the mining industry, the sheer scale of change in the outlook for capital programmes is truly astonishing. Prior to 2008, the financing issue was how to find the right capital structures in an environment of healthy operational cash flows, while a series of industry bottlenecks were impacting the miners' ability to bring new supply on stream.

Since the summer of 2008, the environment has been one of restricted access to all types of finance as the global financial crisis persists – from IPOs to any refinancing facility. In addition, lower commodities prices have significantly reduced operational cash flows and, therefore, the companies' ability to self-finance capital programmes. It is on the demand side, however, where China's post-Olympic industrial slump has hit miners the most, raising questions about the logic of bringing new supply into the market.

Due to differences in the scale and nature of their capex programmes, the downturn's impact on majors, mid-tier producers and juniors varies; therefore they face different challenges. In addition, the cash flow positions of most juniors are weaker than those of mid-tier producers due to lack of sellable output, making them even more vulnerable.

Most majors have been cutting back on capital programmes mainly by delaying projects, but in some cases shelving entire projects. Although the capex cutbacks are mostly driven by the need to preserve cash, they are also the result of uncertainties in the short- to medium-term supply-demand balance. On the other hand, the crisis has presented miners, particularly the majors, with opportunities to review and reduce development costs as the slump in demand works its way through the suppliers' value chain. Mobile equipment suppliers have been receiving requests for delayed deliveries and even order cancellations.

As for juniors, the majority of their capital programmes are subject to financing and therefore their challenges are even greater in the current financial environment. Most juniors have reduced development costs substantially and entered in to "hibernation mode" to weather the storm.

How PricewaterhouseCoopers can help

Mining companies face dealing with an extremely uncertain short-to medium-term environment, so finding the right balance for their capital programmes will not be an easy task. PWC is well positioned to help miners find this balance by focusing on:

- Increasing the frequency and scope of pipeline reviews (usually done yearly), as value is more volatile.
- Building greater levels of flexibility into projects, including options and flexible contractual terms with suppliers, so programmes can easily be slowed or accelerated depending on market developments.
- Updating budgets for projects in execution as commodities-related costs and contractors rates have come down.
- Updating their capital programme governance framework, including reporting practices, to reflect these new industry realities.
- Finding new sources of financing by increasing links with JV partners or customers.

PricewaterhouseCoopers' Global Mining group includes professionals across a broad range of technical skills, including valuation, strategy, performance improvement, corporate finance, taxation and transactions, with extensive experience assisting mining companies with complex issues.

03 The right service for your challenges

Financing and managing capital projects

Capital productivity programme for a major new iron ore producer in Western Australia

Issue

Our client was seeking to identify ways to substantially reduce the capex budget estimations in their definitive feasibility study (DFS) while maintaining planned production levels.

PwC approach

Using PricewaterhouseCoopers' proprietary Capital Productivity Improvement (CPI) methodology, the project team worked with the client's in-house and contract engineers to: 1) identify the major drivers of capital; 2) document underlying design assumptions and decisions driving capex and compare these to customer requirements; 3) generate ideas that challenged design assumptions and/or existing technical solutions; and 4) validate ideas to a stage where they could be written into a revised feasibility study.

Results and benefits

The project was able to deliver approximately a 30% reduction in capex estimates that were signed off by the consulting engineer in a 13-week CPI programme.

Capital productivity programme for a large new precious metal producer in Western Australia

Issue

Our client was seeking to substantially reduce their definitive feasibility study (DFS) capex budget estimations of the utilities aspect of a large new precious metal mining project.

PwC approach

Using PricewaterhouseCoopers' proprietary Capital Productivity Improvement (CPI) methodology, the project team worked with the client's in-house and contract engineers to define design assumptions and capital drivers, before running idea generation sessions with technical experts in each field to identify and validate alternative process and design decisions to reduce capex requirements without compromising total life cycle cost.

Results and benefits

The project was able to deliver approximately a 26% reduction in utilities capex estimates that were signed off by the consulting engineer in a 10-week CPI programme.

03 The right service for your challenges

Managing risk

The global mining sector has experienced dramatic changes over the past five years. A sustained period of high commodity prices has been followed by falling industrial demand for raw material inputs, recent sharp corrections in all commodity prices, constraints on access to capital and the subsequent need for reassessment of corporate strategies.

This correction has followed a period of unprecedented global merger and acquisition activity. The previous high commodity prices, buoyant market capitalisations and optimism about the industry's long-term growth and profitability had previously seen mining companies embarking on ambitious long-term growth strategies. Consolidation through acquisition has been increasingly viewed as a way for mining companies to overcome record high exploration costs, achieve production synergies through scale, circumvent protracted exploration and greenfield mining regulatory processes, and address specific mining skills shortages. Major capital investment decisions are being made in this increasingly volatile operating and price environment, where future returns on the capital invested are increasingly uncertain.

Given these attributes of their operating environment, global mining companies are placing increasingly higher priority on the need for effective corporate risk management.

How PricewaterhouseCoopers can help

Risk is about uncertainty around expected business outcomes e.g. the potential impact of a diverse array of events that may enhance or impede an organisation's ability to achieve its identified business objectives. Risk can also be viewed as a hazard (the threat of adverse business outcomes) but also as opportunity (the possibility that opportunity is not adequately leveraged).

Shareholder value will be assessed by management sustained performance¹ across a number of strategic and operational KPI's:

- Identifying and execution of 'net-present value (NPV) positive' mining investments i.e. growing the global reserve base

- Meeting industry operational benchmarks in ore extraction, processing, asset management, logistics etc
- Growing overall mining revenues
- Managing variable and fixed cost bases
- Managing tax exposure
- Ensuring a safe working environment
- Managing increasing tougher environmental and emissions regulatory requirements
- Accessing capital and managing cashflow and liquidity requirements
- Identifying and managing global political instability

It is managing potential variance to "expected" or "projected" outcomes in these operational targets that is the core focus of risk management.

Risk management in its many manifestations, is ultimately about building the appropriate culture, processes and infrastructure for effective risk identification, measurement, mitigation and monitoring to optimise business outcomes.

Rather than being reactive, risk management should be proactive and focused on optimising risk driven opportunities, growth and returns as opposed to just avoiding risk. PwC's approach to risk management focuses on all of these dimensions of risk.

Whether key risks are strategic, commercial, financial (market, credit, liquidity) or operational (multiple dimensions), investment or business segment specific, PwC risk specialists can work with you to identify nature of risk exposures, quantify risk impact and establish an appropriate operating risk management framework. We focus on how risk management can be effectively integrated with existing core business functions (e.g. commercial operations, planning, budgeting, reporting) to protect and enhance shareholder value.

03 The right service for your challenges

Managing risk

Strategy for managing market risk

PwC assisted a large Latin American-based mining company in analysing and formulating its companywide strategy for managing market risk, including foreign exchange, commodity prices, interest rates, freight rates, etc. We worked with the company's risk management personnel to develop a sophisticated model. The results of this modelling were used to consider the potential impact of market risk on key financial ratios and to draw conclusions about the company's capacity for risk. The objectives and risk appetite of key stakeholders including equity holders, debt holders and internal business unit and JV management were explicitly considered.

Tax advice on Chinese investments

PwC provided taxation advice to a global mining company for its investments in China, including:

- Performing a holding structure review of the company's investment structure in China.
- Conducting research on the related preferential tax treatment available to a particular project for its coal subsidiary.
- Performing PRC individual income tax filing for expatriate employees in Shanghai.
- Conducting a customs health check of imported capital equipment.

03 The right service for your challenges

Recruiting and retaining a skilled workforce

Mining companies have large workforces with diverse skills and operations, often in numerous locations across the world. Relocating employees (and their families) overseas, often to developing countries where both living and working conditions are challenging, adds a further dimension and complexity to recruiting and retaining a workforce with the requisite skills and experience. The aging workforce, downturn in students from mining fields such as mining engineering and geology, and socio-political challenges such as HIV in the workforce and legislation regarding black empowerment present just a few of the HR challenges that mining companies are facing.

The above issues were difficult enough to deal with in bull markets, but the global economic downturn presents further business challenges around production, capital efficiency and cost-savings (including managing headcount). The ability to recruit strategically and retain key employees and scarce skills in mining companies is more important now than ever and is imperative to the future of the industry.

How PricewaterhouseCoopers can help

With more than 5,000 experts in over 100 countries, PwC's human resource network forms one of the world's largest HR advisory organisations. Our multi-disciplinary approach allows us to advise clients on all aspects of people management. Access to our Saratoga modelling capability and vast databank of workforce and HR metrics allows us to underpin our expertise with hard data. Saratoga is highly recognized as a world leader in the field of HR metrics and analysis, dedicated to the premise that intelligent measurement is fundamental to performance improvement.

Our HR advisory services include:

- Employee communications
- Employee financial planning
- Employment law
- Health and welfare benefits
- HR strategy
- International assignments
- Performance management
- Retirement
- Reward and share plans

Linking long-term incentives to key value drivers that management can control and influence

The issue

One of the world's largest mining companies recognized that its executive long-term incentive plans were not providing "bang for buck". Employees perceived the performance targets (relative TSR) to be a lottery that they could not influence. While the company incurred a significant cost even if the plans did not pay out. As commodity prices started to soften and the global economy deteriorated, it became clear that the company needed to focus on the key value drivers within management's control and influence particularly improvements in production, cost-savings and capital efficiency. At the same time they wanted to simplify remuneration arrangements and to provide a strong retention hand-cuff. The latter was particularly important for retaining junior and middle management with scarce mining skills who were working in difficult locations and who may otherwise decide that the economic downturn was an opportunity to move their families to safer and more stable locations.

Approach

We focused on gaining a clear understanding of what and how value is created in the company and how these value drivers were captured in the management information reports and key decision-making processes such as budgeting and capital allocation. Working closely with the Remuneration Committee, CEO and key members of the executive management team, we developed a value added performance measure methodology and helped the Company re-evaluate its remuneration policy by clearly defining the purpose of each of the various elements of the total compensation package. We then designed a new long-term incentive plan consistent with this policy for up to 1,000 employees.

The outcome

Our work helped the company to establish a robust methodology and clearer understanding within the organisation of how management's day-to-day decisions could drive long-term value added performance irrespective of short-term volatile fluctuations in commodity and FX prices. The remuneration arrangements were simplified by consolidating some of the various annual, deferred and long-term incentive plans. At junior and middle management levels, it was felt that the new long-term incentive plan was more retentive while, at more senior levels, the relevance and transparency of the performance measures was considered to be more motivating.

03 The right service for your challenges

Recruiting and retaining a skilled workforce

How a leading mining company successfully introduced an all employee global share plan designed to align employees' interests with shareholders whilst providing a global employee common benefit

The issue

Since incorporation in 2001, the company had never had an all employee plan, although it has three executive share plans. Since 2001, the company has been very successful, delivering outstanding returns to shareholders. In this context, attracting and retaining employees was, and is, extremely important to the company. The company looked to PwC to provide assistance in addressing the design and implementation of its first all-employee global plan in April 2007, and to provide advice on the communication and technology challenges that such a plan attracts.

Our approach

We initially concentrated on establishing the company's goals in wanting to implement an all-employee global plan which would initially be offered to the company's 39,000 eligible employees in approximately 30 countries. Working closely with the company's group reward function, we were able to establish that the principal objectives of the plan were (i) the alignment of employees' interests with shareholders; (ii) a common benefit for all employees regardless of where they were located, the role they performed or the business in which they worked; (iii) the plan should be tax neutral across the globe to employees in all grades, with special attention given to employees in remote locations; and (iv) the plan was to form a key component in the remuneration package in attracting and retaining employees, whilst being easy to understand and simple to administer.

With these objectives in mind, we worked with the company to design and implement a global employee share purchase plan. By making employees contribute towards the plan (as opposed to offering free shares), employee interests were more closely aligned with shareholders. In return for this commitment, the company would match the number of shares purchased on a one for one basis. In jurisdictions where it was not possible or practical to offer shares, a cash plan (which mirrored the share plan) was implemented.

In addition, the company was extremely keen to ensure that the plan was understood by employees, whose native language in many cases was not English, and where a large number of employees were in remote areas where traditional communication methods often are unreliable or unavailable.

We provided advice on the tax aspects of the plan and worked in close conjunction with those drafting the rules of the plan to ensure that the company's objectives were met. In addition, we assisted the company with the drafting of the communication material, which comprised an HR toolkit including presentations with country-specific examples, posters, brochures and Q&A booklets. All these were translated locally and were designed to be easily understood.

The outcome

Our work helped the company establish its first all employee global share plan which met all the company's objectives. It was first offered to all 39,000 employees in April 2007 and by April 2008, 40 per cent. of eligible employees globally had elected to join the plan. The plan is considered unique in the resources industry and has helped establish the company as an employer of choice, assisting in attracting and retaining employees whilst at the same time aligning their interests with those of shareholders. The plan has also won industry awards for creating global shareholders, achieving corporate unity on a global basis and for its unique communications strategy.

03 The right service for your challenges

Recruiting and retaining a skilled workforce

How a leading mining company aligned its compensation policies with strategic business objectives

The issue

Senior executives responsible for the performance of a major mining company recognized that, after many years of expansion – through both organic growth and acquisition – the company's ability to manage its workforce efficiently was beginning to threaten its operational agility. Though the company employed more than 18,000 employees and 16,000 subcontracted workers, it did not have a unified approach to their total compensation systems and terms and incentives differed even for jobs with equivalent responsibilities. Standard requests, such as for job changes or location transfers, took much longer to process than they should have. The company turned to PwC for assistance.

Our approach

We focused first on gaining a clear understanding of the company's primary objectives and the specific challenges the company faced. Working closely with the CEO and key members of the executive management team, as well as with union and various staff-level representatives, we developed an employee classification system based on the value that individual roles and positions contributed to the company's overall business performance. In order to develop this system, we drew on our extensive experience in the mining industry, our first-hand knowledge of the company's strategic objectives and operations, and our expertise in areas such as HR management, reward planning, and change and programme management. With the data we hold, we were also able to benchmark the job positions in the company against those in the job market that were attracting employees away from the company e.g. geological mining and metallurgy experts.

The outcome

Our work helped the company to establish a single, integrated, business-aligned total compensation model to apply across its 18,000-member workforce. This new model is an important tool for negotiating with their employee unions to standardize compensation and benefits packages across the entire company.

With a much simpler and standardized system in place, administrative costs and process inefficiencies declined. Response times necessary to process standard requests improved. Further, with clear insight into how each level of specialization and type of work adds value to the company's business goals, executives are in a much better position today to make the workforce planning decisions most closely aligned with their goals and expectations for business performance.

03 The right service for your challenges

Addressing sustainability issues

Leading mining companies are successfully integrating sustainability into their overall strategies by:

- Building trust with their key stakeholders through balanced reporting on their activities
- Actively managing their risks
- Maximising the positive effects of their operations
- Embracing a growing body of international best practice on non-financial matters

There has also been an increase in the regulation of the mining industry in relation to issues such as:

- Local economic development
- Beneficiation (specifically in South Africa)
- Environmental management
- Climate change strategies

Sustainable development practices have the potential to leave a legacy of positive impact long after the life cycle of a mine has ended. Financial markets also are increasingly assigning a greater value to effective risk management of non-financial issues.

How PricewaterhouseCoopers can help

Our sustainable business solutions team works with mining companies across the world to align corporate governance and non-financial management including operating systems and processes, performance reports and mechanisms to meet the needs and expectations of stakeholders. Solutions include: Sustainability strategy development (e.g. responding to regulatory requirements)

- Stakeholder engagement (e.g. analysts, host communities, NGO's)
- Country risk assessments (including human rights)
- Certification (ISO 14001, 9001)
- Performance benchmarking
- Evaluation of environmental risks and liabilities
- Environmental liability audits and due diligence engagements
- Climate change (including climate change strategies and emission trading advice)
- Non-financial report assurance
- Non-financial annual report development

Measuring and reporting GHG emissions

A major non-ferrous mining/metals company in the US wanted an independent review of their systems, processes and controls for measuring and reporting company-wide greenhouse gas emissions. Eventually, the company intends to take advantage of emissions trading, and was interested in better understanding the design and implementation of these controls as preparation for third-party assurance, and to identify any opportunities for improvement.

PwC's work consisted of understanding the corporate-level systems for greenhouse gas emissions reporting and testing the implementation of these by conducting site visits to verify the input data and emissions reductions calculations at each site. PwC used the information collected during these visits to advise the client on the necessary internal controls improvements that the company needed to implement to better ensure that these reporting systems could withstand the rigor of a third-party assurance engagement.

Assessing HSE related risks of a target company

PwC was asked by a global natural resources company to assist in an investigation of the Health, Safety and Environment (HSE) related risks and liabilities associated with a Russian target, in advance of its acquisition. PwC put together a team comprising industry experts, experienced in working for western clients in Russia and local experts from our teams in that territory. Within two months of notification, we completed a three-week programme of fieldwork, including visiting affiliates in Romania and Bulgaria. The report we submitted to the Board provided the client with a comprehensive appreciation of the likely costs associated with upgrading the acquired assets from a HSE controls perspective to meet both local and international legal requirements.

03 The right service for your challenges

Complying with regulatory and reporting requirements

Mining companies face a complex regulatory and reporting environment that is complicated further by their geopolitical, environmental and safety concerns. With public, press, government and investor scrutiny of organisations growing in the wake of multiple financial scandals and widely publicised ethical lapses, senior management and boards of directors are increasingly compelled to ensure they have embedded processes in their operations to help protect their corporate reputation and brand image, not to mention to comply with government regulations, such as those required by Sarbanes-Oxley.

Such protection has a direct impact on the organisation in terms of retaining shareholder value and a customer base that is sensitive to trust issues in the current environment. As a result, many organisations are now striving to create and maintain a culture of integrity-driven performance as well as high levels of control.

In addition, many companies around the world now or soon will have to prepare their accounts in accordance with International Financial Reporting Standards (IFRS). This presents challenges for companies across all industries, but gives rise to some particular difficulties for those in the mining sector.

- There is a broad range of mining specific issues for which IFRS contains little or no guidance.
- There are a number of standards for which mineral products have specifically been scoped out.
- There is a long list of topics for which the guidance within IFRS is difficult to apply to the mining industry, for example, the determination of functional currency; the treatment of commissioning costs when new mines are entering production; the application of impairment rules, particularly in periods of unusually high or low commodity prices and exchange rates; etc.

How PricewaterhouseCoopers can help

PricewaterhouseCoopers is dedicated to helping our clients achieve integrity-driven performance. We assist them in creating a framework for effectively managing key governance, risk and compliance activities. Our governance, risk and compliance specialists have knowledge in a range of these areas – from pro-active business culture management to risk, control & fraud prevention and value management, to internal audit, sustainability and technology management. All of these come together to help clients envision, improve, operate and sustain a fundamental culture of business integrity and control.

We have helped our mining clients with:

- Capital efficiency – the failure to achieve cost reduction or overrun capital budgets;
- Internal control failure;
- Poor risk management processes;
- Safety, health and environmental concerns;
- Legal and regulatory compliance, specifically mining charter compliance;
- Operating cost efficiency – including IT failure and consequent business interruption;
- Corporate governance practices and stakeholder relations;
- Contract management; and
- Fraud and corruption prevention.

PricewaterhouseCoopers teams around the world have worked with an impressive list of mining clients in implementing IFRS, and have considerable experience in helping mining companies to deal with the challenges described above.

To combine our collective experiences, and promote consistency across our clients, we have established a mining IFRS group comprising mining specialists from key territories where IFRS is currently being adopted or already applies.

The group has developed mining-specific solutions for a wide range of accounting issues and plays a key role in resolving new issues that emerge amongst our mining clients.

03 The right service for your challenges

Complying with regulatory and reporting requirements

While IFRS financial statements are currently or will shortly be required of many mining companies, a good number of them must now comply with US GAAP. Even though the SEC and the IASB are working towards convergence or US acceptance of IFRS principles, there are divergent practices with respect to many significant US mining GAAP issues.

The Mining SEC Working Group, formed by PwC and more than a dozen global mining companies in 2003, has been able to influence US GAAP through FASB EITF deliberations in the past and is now working directly with the SEC, at the SEC's request, to address several key matters.

This unprecedented access allows the industry to have direct input about the ramifications of current and proposed US GAAP interpretations, allowing the standard setters and the regulators to get a realistic impression of the effects of potential interpretations before they are implemented. This information should lead to GAAP that is more universally accepted and understood.

Optimising the financial reporting process

PwC has implemented a number of projects relating to the optimisation of financial reporting process for a number of companies, including one of the largest steel & mining companies in Russia, a global top ten aluminium company and a large Ukrainian steel producer. Using our SmartClose methodology, a PwC team reviewed and documented the existing IFRS reporting processes, identified and analysed key bottlenecks and control weaknesses and developed recommendations for improvement based on best practices tailored to the companies' requirements.

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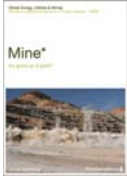
Out front on industry issues

Our commitment to the industry goes beyond our services. Each year we prepare industry specific reports on issues of key strategic importance to our mining clients and the challenges that lie ahead. Our extensive thought leadership programme draws on the insights of our worldwide network of industry specialists, as well as mining industry executives. From conducting schools of mine, to topical seminars, to global surveys, we keep our clients informed on industry issues.

Visit www.pwc.com/mining to download or order hard copies of these reports.



04 Out front on industry issues



Mine*
Is an annual report that provides a consolidated view of the performance of the global mining industry and discussion on global trends. It discusses the outlook for the industry and highlights significant challenges. Now in its fifth year, Mine* has grown to be one of the leading in-depth analytical reviews of the mining industry today.



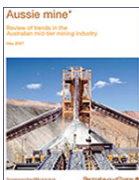
Mining Deals* Annual Review
analyses deal activity in the global mining industry. We examine both the rationale behind the overall trends and look at the key individual deals. We look at the year under review, the context of the preceding two years, and ahead to the future direction of deal-making in the sector.



Global mine* bulletin
Is PwC's Mining sector quarterly client e-newsletter. It covers events and trends occurring within the global mining industry, with a special focus on performance improvement and emerging countries.



Junior Mine – Review of Trends in the AIM Mining Industry
Is a consolidated view of the UK's junior mining industry, as represented by 50 of the largest mining companies listed on AIM. These 50 companies comprise more than 90% of the AIM mining companies by market capitalisation and are engaged in exploration and mining in many countries around the world. This is an annual report.



Aussie mine – Review of trends in the mid-tier mining industry
Is an annual report that aggregates and analyses the results of the largest 50 mining companies listed on the Australian Stock Exchange with market capitalisation below \$5 billion as of 31 December.



Junior mine – Review of trends in the TSX-V mining industry
is an annual report that examines the financial position of the top 100 of the 900+ junior mining companies on the TSX Venture Exchange (TSX-V) based on market capitalization as of 30 September. The companies included in the report represent over half of the TSX-V mining industry.



Gold Price Survey
Summarises the responses of over 40 of the world's leading gold mining companies to a 15-question survey on the prices that the gold producers have used to place a dollar figure on the value of their gold deposits, carrying values, and factors that influenced their determination. This is an annual report.



Financial reporting in the mining industry – International Financial Reporting Standards 2007
Provides a comprehensive analysis of financial reporting in the global mining industry, setting out the major accounting practices adopted by the mining industry under IFRS with respect to issues of particular relevance to the mining sector or to issues whose treatment in international practice has varied historically.



Effective Tax Rates Comparison of the Global Mining Industry
Is a semi-annual study comparing effective tax rates of mining companies every year since 2003 to provide a tool for benchmarking the financial impact of taxes on the global mining industry's financial position.



Total Tax Contribution Study for the global Mining Sector
Uses data on taxes and other contributions to Governments from 13 of the largest mining companies worldwide, by market cap, to provide greater transparency over the tax footprint and the contribution of the mining sector to the public finances of the countries where they operate.

05

PwC's global mining leaders



05 PwC's global mining leaders

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