Global Mine* Bulletin

April 2009

Global Mining Leader's message

The 2008 calendar year was a remarkable year for financial markets and also for the mining industry. Our recently released PwC Mining Deals* publication highlights the impact that 2008 had on mining transactions – with the latter half of 2008 producing fewer transactions than would normally be expected as uncertainty took hold. Our first story looks at the findings from this publication and suggests that 2009 will see many transactions, but driven by defensive moves rather than the growth of recent years.

This edition of Global Mine* Bulletin also highlights a number of other reports and surveys recently issued by the PricewaterhouseCoopers global mining team. Junior Mine* provides analysis of the top 100 mining companies on the TSX-V and highlights the dramatic decline in market value of these companies over the five months between July and November 2008.

In a challenging market, maximising each dollar spent is critical. Our report, *Finding cost efficiencies in mining operations through effective value driver modelling,* identifies a number of practical ways that companies can maximise the efficiency of their capital and operating expenditure.

Continuing with the same theme, PwC has released its first analysis of the tax contributions that the mining industry makes to governments around the world. The *Total Tax Contribution study of the global mining industry* looks beyond income tax payments to analyse other contributions that the industry makes to the prosperity of the countries in which it operates. In short, taxes paid by the industry are massive and not always obvious.

Finally we look at two major pieces of new legislation which impact the industry. Indonesia has released its much anticipated new mining laws and we analyse *The good, the bad and the ugly* of the new legislation. The German government has also recently launched a revised *Guarantee Program* which is designed to support the financing of international mining projects that are of strategic importance for the German economy on the basis of long-term offtake contracts.

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

Tim Goldsmith

Tim Goldsmith
Global Mining Leader
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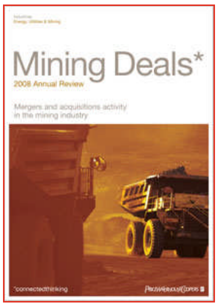

Mining Deals

2008 *Mining Deals** highlights a year of two extremes – record M&A activity in the first half of the year, followed by a sharp decline in transactions in the closing months of the year.

We have recently released our 2008 annual review of *Mining Deals**, which reviews mergers and acquisitions activity in the mining industry. The report examines both the rationale behind the overall trends and looks further into key individual deals.

2008 was characterised as much by the deals that did *not* occur, as well as those that completed. The potentially sector transforming bid by BHP Billiton for Rio Tinto headlines those announced transactions that did not occur, but many others, such as Xstrata's bid for Lonmin, did not complete either.

For much of 2008, companies continued to maintain their faith in commodity prices and deal volume was at, or above, the record levels seen in 2007. However the sudden decline in commodity prices and the collapse of Lehman Brothers in September 2008 sent deal volumes down by 61% in the fourth quarter. Overall for the year 1,666 deals (2007: 1,732) with a total value of US$153.4bn (2007: US$158.9bn) were completed.

2008 was also the year in which we saw a big increase in deals involving Chinese buyers, with the value of such deals rising to US$25.5bn, up from US$6.7bn in 2007. Late 2008 and early 2009 has seen Chinese buyers playing an increasingly important role in transactions in the industry – with the Rio Tinto/Chinalco proposed deal the largest example in the new year.

Looking forward, we expect many transactions in 2009, but these will be driven by mining companies surviving rather than growing. With debt and equity markets extremely challenging for what we used to think of as large and mid-caps, we will undoubtedly see companies look to deals for salvation. The exception to this will be the gold miners who are enjoying their period in the sun!

Copies of the Mining Deals publication can be downloaded from www.pwc.com/mining. For further information on this publication contact Tim Goldsmith: tim.goldsmith@au.pwc.com

Performance Improvement Corner

Finding cost efficiencies in mining operations through effective value driver modelling

The decline in commodity prices has made it more important than ever for companies to understand the complex linkages between operational variables at a mine site and the financial performance of that mine. Increasing this understanding will allow companies to implement a more structured approach to cost effective decision making across all areas of mine production.

During the recent boom, mining the largest quantities of minerals as quickly as possible was more important that minimising the cost of key maintenance or production activities due to the high commodity prices that were available.

Now, however, a renewed focus on acceptable return on investment is taking hold, requiring a closer look at the cost of capital items and operational and maintenance practices. This highlights the importance of finding greater cost efficiencies by modelling the operational drivers of financial performance.

A recently released report by PwC titled *Finding cost efficiencies in mining operations through effective value driver modelling* highlights how mining companies can identify greater cost efficiencies through activities such as:

- Constructing customised value driver models for mining operations
- Understanding the operational drivers of financial performance
- Finding the priority cost reduction opportunities
- Driving financial accountability into operational management and front line staff.

Copies of the report are able to be downloaded from www.pwc.com/au/mining. For more information contact
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Junior Mine*

Review of trends in the TSX-V mining industry

PwC has recently released its review of the top 100 mining companies on the TSX Venture Exchange (TSX-V) by market capitalisation at 30 June 2008. 2008 was a year of contrast for these companies, after strong performance in 2007.

The format has been revised to include additional analysis of the five months between June and November 2008, when the credit crunch hit hard. The importance of this recent analysis is highlighted by the move in total market capitalisation, which declined marginally from $20.2 billion as at 30 June 2007 to $18.1 billion one year later. However by 30 November 2008 the market capitalisation of the top 100 had plummeted to $4.1 billion as the global financial crisis hit this higher-risk sector.

2009 promises to be a challenging year for these junior mining companies, particularly the exploration companies (69%) which face real challenges in obtaining cash in a market of limited debt and equity funding.

For further information on this report contact Paul Murphy: paul.j.murphy@ca.pwc.com or visit www.pwc.com/ca/mining

New Indonesian Mining Law – The Good, The Bad and The Ugly

On 12 January 2009, the Indonesian President gave assent to Indonesia's new law on minerals and coal mining. This law, whose stated aim is to increase investment in the mining sector, is the biggest change in Indonesia's mining regulatory framework in more than 40 years and comes after more than three years of deliberation.

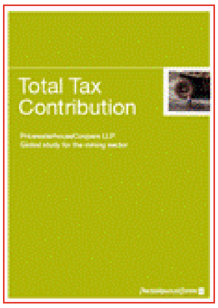
As expected the well-regarded Contract of Work (CoW) system will no longer be available under the new law. Instead both local and foreign investors must apply for a form of mining licence (known as an *Izin Usaha Pertambangan – IUP*). Investors will need to apply for separate exploration and production licences, as opposed to the single CoW process, potentially raising "certainty of conversion issues" which may deter some investors.

There are no provisions dealing with the conversion of *Kuasa Pertambangan* (KP) – licences held by local investors – to IUPs. If KPs automatically become IUPs, foreign investors could take direct equity interests in these concessions which would be a positive outcome.

The new law relies heavily on the yet to be released "implementing regulations" which are required to be issued within one year. Transitional provisions are also unclear, particularly for those entities already operating under CoWs. The transitional provisions state that existing CoWs will be honoured; however the next clause states that their terms must be amended to conform with the provisions of the new law. Thus, uncertainty is still the order of the day; however, the good news is that a large step has occurred, with greater clarity of the proposed laws hopefully to follow.

PwC Indonesia also recently released its tenth annual report on the Indonesian mining sector *mineIndonesia 2008* - 10th annual review of trends in the Indonesian industry.* This report covers financial performance in the industry for 2007 and 2008 as well as the views of senior executives on the new mining law. The report can be accessed at www.pwc.com/id.

For further information on mining Indonesia contact Sacha Winzenried: sacha.winzenried@id.pwc.com or Ali Mardi: ali.mardi@id.pwc.com



Total Tax Contribution study of the global mining industry

Hot off the press is PwC's *Total Tax Contribution study of the Mining Industry*. The study analyses the total taxes of fourteen of the world's largest mining companies, focusing on their largest operations in a variety of countries, using 2007 data.

The purpose of the study is to provide greater transparency of the contribution of mining companies to the public finances of the countries in which they operate. These taxation and other payments are an important contribution to the creation of prosperity and stability in these nations, however the extent of this contribution is not always recognised. Often only corporate income tax is separately disclosed in the financial statements, which can reduce the perceived impact on the public good.

The study has been carried out using the PwC Total Tax Contribution (TTC) Framework.

The key findings of the study are:

- Mining companies make a large economic contribution in the countries where they have mining operations. The fourteen companies participating in the study reported wages and salaries paid to employees of US$13.5bn, and a total contribution to government of US$29bn. The average total contribution to government by a company in a single country was US$743m.
- On average, in any country, corporate income tax represents less than half (48%) of all the taxes and contributions that mining companies bear.
- On average, the companies in the study paid an amount equal to 12.5% of their turnover to government in taxes and other contributions.
- The fourteen companies in the study reported over 400,000 employees in the countries for which they provided data. On average, for each one of these employees, an amount of US$14,875 was paid in employment taxes alone.

Copies of the report can be downloaded from www.pwc.come/uk/mining. For more information please contact:
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German Government establishes guarantee program to facilitate financing of international mining

On 26 February 2009 the German Ministry of Economics and Technology (BMWi) launched a revised Guarantee Program which is designed to support the financing of international mining, as well as oil and gas, projects that are of strategic importance for the German economy.

Under the program, banks may mitigate 90% of the political and commercial risks associated with mining and debt finance by obtaining a so-called "Untied Loan Guarantee", whilst maintaining an uninsured percentage of only 10%. Untied Loan Guarantees are principally available for the financing of international natural resource projects that contribute to the security of crucial commodity and energy supplies to Germany on the basis of long-term off-take contracts. Further preconditions are the technical and economic feasibility of the respective projects as well as their positive impact on the particular host countries.

PwC Germany has advised the German government on the design of the Untied Loan Program as well as the development of a risk-adjusted premium-system and holds an ongoing joint mandate together with Euler-Hermes Kreditversicherungs-AG to administer the program.

Initial applications for Untied Loan Guarantees - predominantly in connection with iron ore and copper projects – have already been submitted to PwC and are currently being evaluated. The geographical focus thus far lies on northern Africa as well as the Americas. The program is, however, neither limited to specific countries nor to the above mentioned metals.

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