Effective Rate Comparison

Global Mining Industry 2008

May 2009 Analysis

Janet Kerr, PwC London

We are once again pleased to present PricewaterhouseCoopers' *Effective Rate Comparison of the Global Mining Industry*.

The global financial crisis of 2008 has had an impact on the mining industry. The steep decline in commodity prices in the second half of the year has created challenging conditions for mining companies in the industry. There is a strong focus on reducing costs in the business and since tax is a significant cost to the business, there is increasing focus on tax and the effective tax rate (ETR).

Tax costs should be properly controlled and managed in the quest to create shareholder value and maximise earnings per share, but many companies also believe that there is a social responsibility to pay their "fair share" of taxes in the jurisdictions in which they conduct operations.

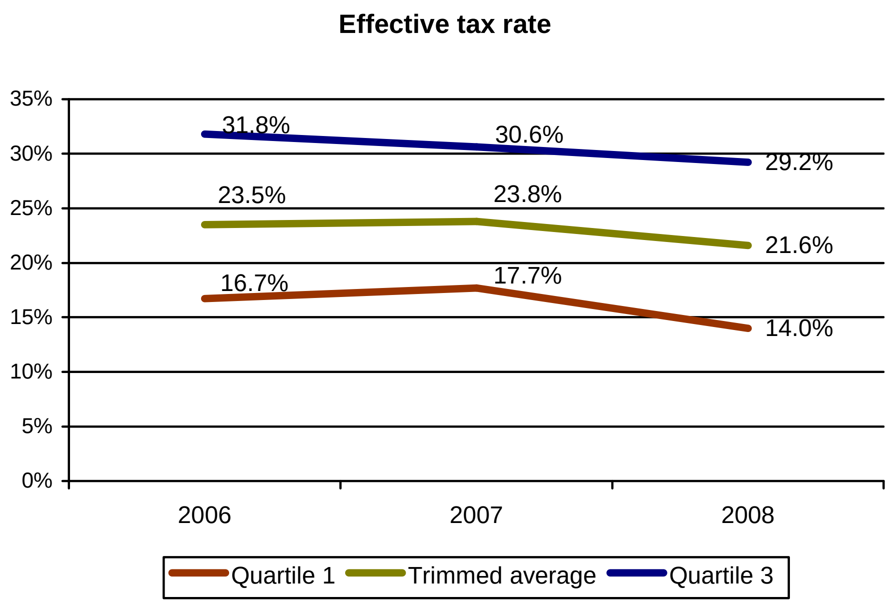
This study compares the ETR and the drivers of that ETR between mining companies. We have included a high level of detail to allow tax departments to extract information on where they stand compared to the peer group. It will allow a Mining company to benchmark itself against its peer group and a bespoke presentation can be prepared for any company on request.

Our financial analysis was based on tax ratios which could be derived from publicly available information. The use of information that was publicly available meant that we could include any listed company, giving us a good overview from which to draw our conclusions. It is important to note that our study shows a high level picture of tax ratios, although an in-depth analysis can also be prepared.

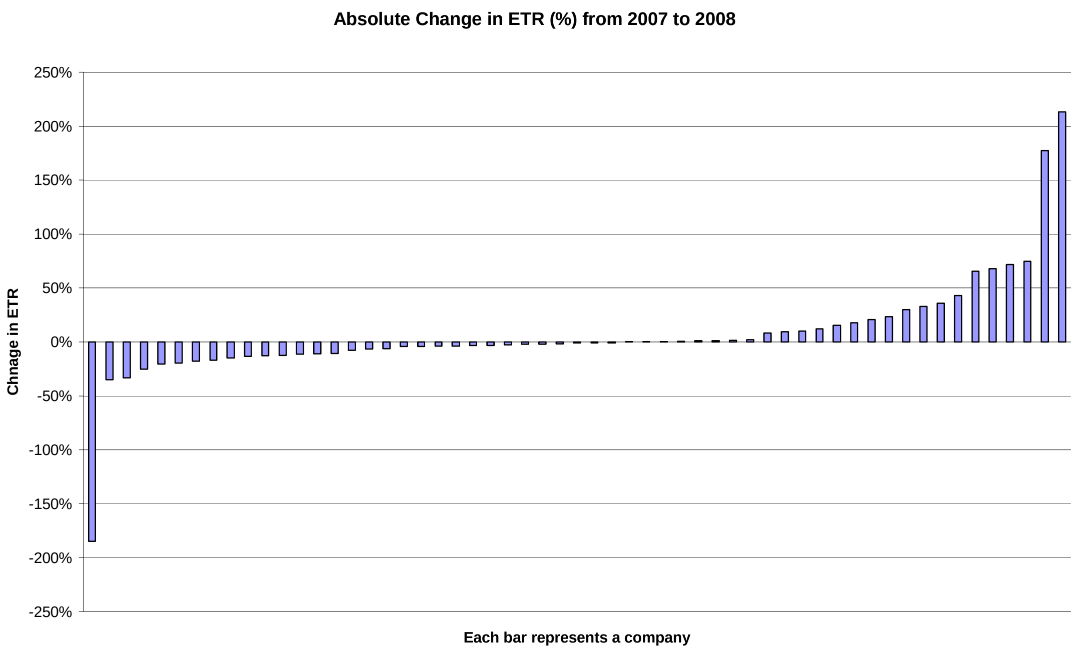
This edition includes 57[1] of the leading global mining companies from the precious metals, coal, base metals, aggregates and other minerals sectors. Data is taken from publicly available financial statements up to December 2008[2]. The following charts demonstrate the range of features of companies in the study.

Key messages

- The effective tax rate for the 57 companies included in the comparison in 2008 was 23.0%, averaged over the last three years. There has been a downward trend in ETR in the average and both quartiles over the three years.



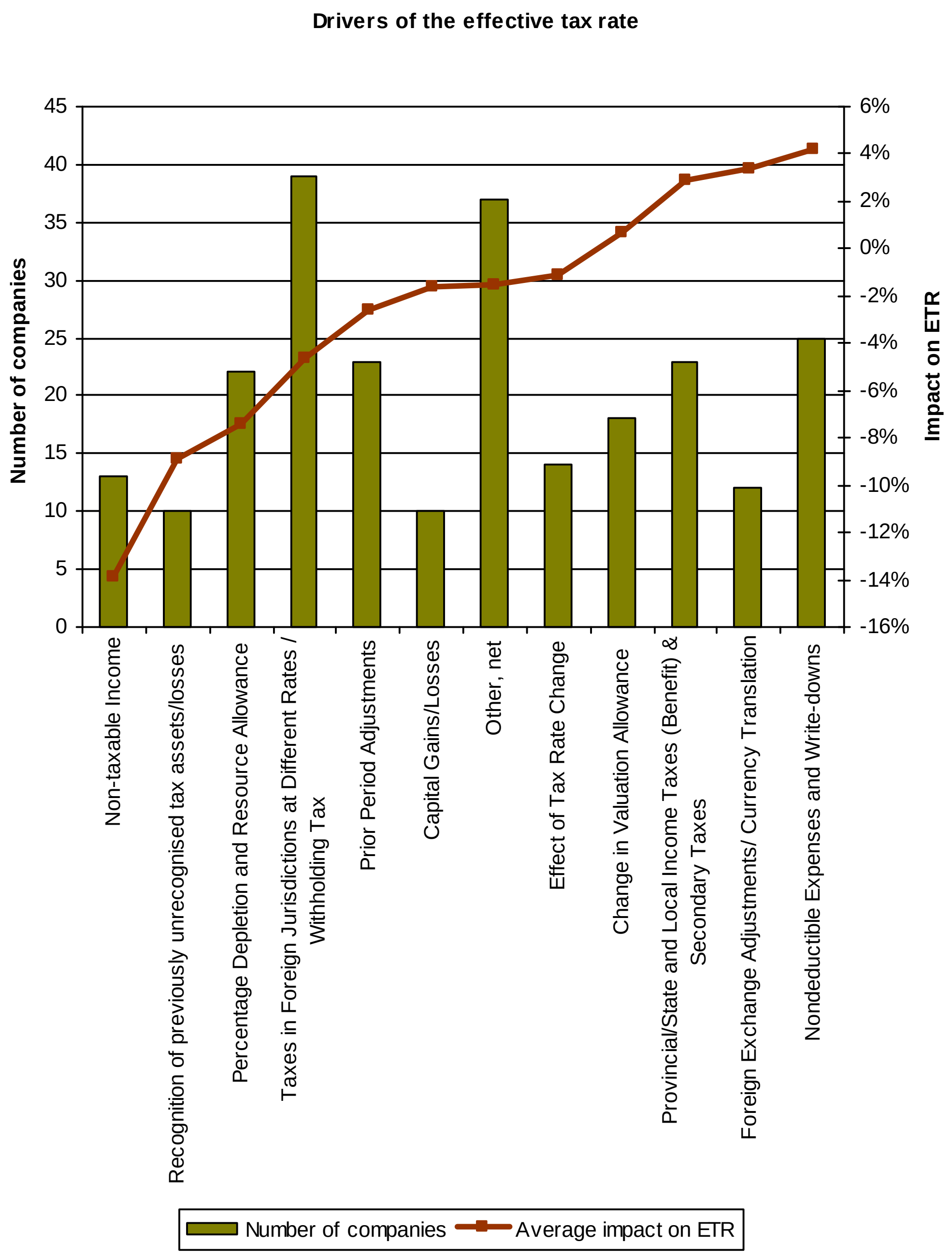
- 31 companies of the 57 surveyed in 2008 (54%) saw a drop in their ETR, compared to 23 out of 52 seeing a reduction in the 2007 study (44%). We found large variations in ETR year on year, demonstrated by the following chart.



- The ETRs in the latest year in the 2007 study fell in the range 0% to 60% (ignoring loss making companies and those with refunds). 2008 ETRs from this years' study fell in the range 0% to 243%, with six ETRs above 60%. This is perhaps a reflection of the economic conditions at the end of 2008 impacting the full year figures for some companies.

- A total of 14 companies suffered an ETR greater than the statutory rate in their home territory. The main factors driving this were foreign exchange effects, tax suffered in foreign jurisdictions and local and secondary taxes.

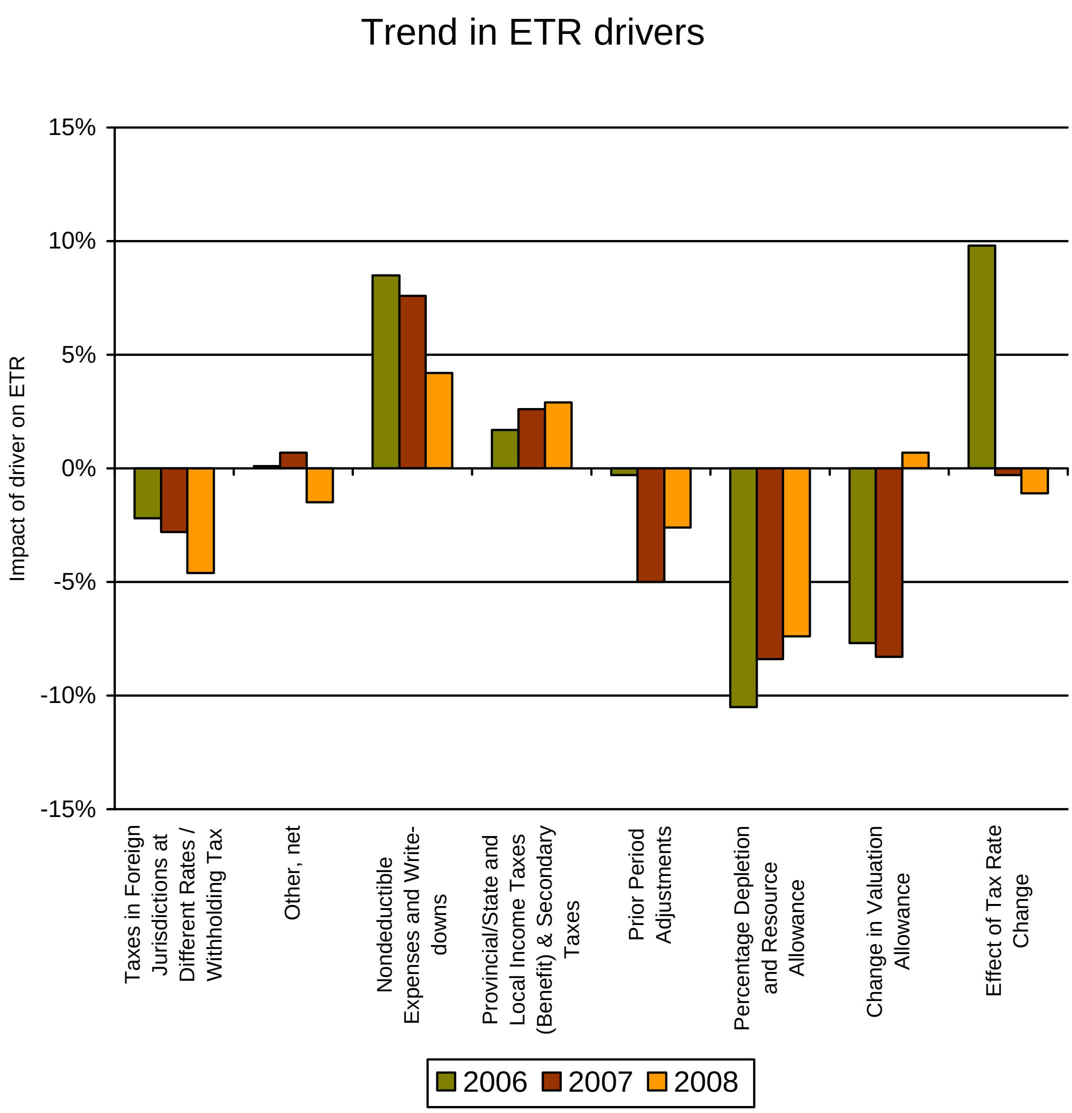
- The chart below shows some of the different drivers of the effective rate and how frequently they can be found in companies' statutory reconciliations. The bars show the number of companies reporting the driver and the line shows the impact of that reconciling item averaged over all companies reporting it.



- As in previous years, the effect of taxes in foreign jurisdictions is the most common driver, with local and secondary taxes also ranking high in the list.

- The favourable driver with the largest impact is 'non-taxable income' and the unfavourable driver with the largest impact is 'non deductible expenses and write downs'. This emphasises the impact of non taxable and non deductible items to mining companies.

- We have prepared this comparison for a number of years and it is interesting to look at the trend in ETR drivers. The graph below shows how the impact of some of the most commonly reported drivers in study companies' tax rates have varied over the past 3 years:

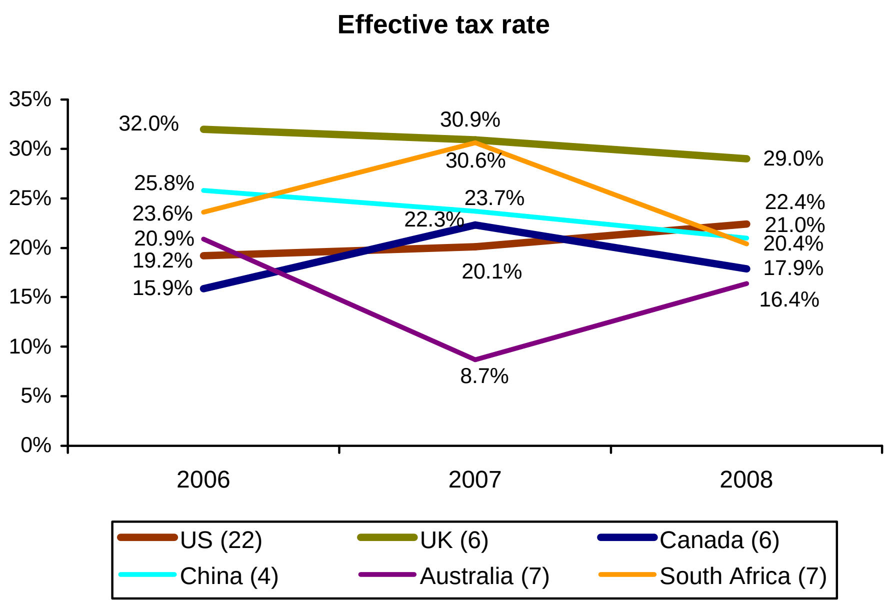


- It is interesting to note how ‘taxes in foreign jurisdictions at different rates/withholding tax’ has become increasingly favourable over the last three years, perhaps a combination of increasingly global focus of international companies and a reduction in statutory rates around the world. The UK rate has reduced from 30% to 28%, the Canadian rate from 36.1% to 33.5%, the South African rate from 36.9% to 34.6% and the Chinese rate from 33% to 25%.

- Change in valuation allowance has been a favourable driver in 2006 and 2007 but this changed in 2008 when it became an unfavourable driver. Although there may be many factors influencing this, the high profitability in the industry in previous years would allow companies to use accumulated losses, a situation which may recur less frequently in 2008.

- The change in tax rate in 2006 is due to a single distorting balance – 8 companies reported this driver in 2006. In 2008, 15 companies reported this driver, most commonly those in South Africa and UK.

- To investigate the impact of headquarter territory in more detail, we reviewed the ETR of those territories where we had sufficient companies.



- The UK and China show a steady reduction in rate with the US showing an increase in rate over the three years. The limited number of companies can result in a distortion of the ratio in some years, but it in four out of the six countries, ETRs in 2008 were lower than those in 2006.

In summary, many effective tax rates appear to have fallen, driven in part by the reduction in statutory rate in a number of territories. However, it is important to note that this study focuses on corporate income tax. A mining company will pay many taxes in addition to corporate income tax and while it is important to manage and balance corporate income tax, other taxes making up a company’s Total Tax Contribution should also be given due attention. For more information on your company’s Total Tax Contribution, please see the report ‘Total Tax Contribution of the Mining Industry, available at the following link.
http://www.pwc.com/extweb/pwcpublications.nsf/docid/AEBE98E49D854C128525758B0067E
CBE

[1]Surveyed companies from 2006 and 2007 will not be exactly the same as 2008.

[2]ETRs quoted are based on trimmed averages of the sample. In a tax benchmarking exercise of this nature, particular ratios may be distorted due to one off, nonrecurring items. Exceptional items, for example, often attract associated tax rates far from the statutory rate. It was necessary to exclude these extreme values, and this was done on a consistent basis by taking a trimmed average of a particular sample. The trimmed average is the average result of the data, set by excluding 15% of the data points from both the top and bottom of the data set. It is a robust estimate of the location of a sample, excluding outlying data points. Quartile 3 is the point below which 75% of the data points in the trimmed sample lie. Quartile 1 is the point below which 25% of the data points lie.

.

Index of Companies in the Study

ALCOA
ALPHA NATURAL RESOURCES
AMCOL
ANGLO AMERICAN
ANGLO PLATINUM
ANGLOGOLD ASHANTI
ANTOFASTA
ARCH COAL
BARRICK GOLD
BHP BILLITON
CAMECO
CHINA COAL ENERGY
CHINA SHENHUA ENERGY COMPANY LIMITED
COAL AND ALLIED
COEUR D'ALENE
COMPASS MINERALS
CONSOL ENERGY
EXXARO
FMC
FREEPORT-MCMORAN
GOLD CORP
GOLD FIELDS
GRANITE CONSTRUCTION
HARMONY
HECLA
HOLCIM
HOTHSCHILD
ILUKA
IMPALA PLATINUM
KAISER
KAZAKHMYS
KGHM POLSKA MIEDZ
KINROSS
LAFARGE S.A.
LIHIR GOLD
LONMIN PLC
MARTIN MARIETTA
MASSEY ENERGY
NACCO
NEWCREST MINING LIMITED
NEWMONT
OIL DRI
OZ MINERALS
PEABODY ENERGY
POTASH
RIO TINTO
SOUTHERN COPPER CORPORATION
ST. BARBARA MINES
STILLWATER
TECK COMINCO
TRANS HEX
VALE INCO
VEDANTA RESOURCES
VULCAN MATERIALS
XSTRATA
YANZHOU COAL MINING COMPANY LIMITED
ZIJIN MINING GROUP

If you have any questions on the report or would like any further information, please contact the editorial team:

Steve Ralbovsky
US Mining Leader
Global Tax Leader, Mining Industry
+1 602 364-8193
steve.ralbovsky@us.pwc.com

Janet Kerr
Senior Manager, Tax Rate Benchmarking
+44 20 7804 7134
janet.kerr@uk.pwc.com