

Deloitte.

Survey of
Mining Executives and
Mining Analysts

A common understanding

Audit . Tax . Consulting . Financial Advisory.

A large pile of dark, jagged rocks or coal dominates the lower half of the image. On top of the pile, there is a complex metal structure, possibly a conveyor belt system or a piece of mining machinery, with various platforms and railings. The background is a clear, bright blue sky.

Foreword

We are pleased to present our first survey of South African Mining Executives and Mining Analysts. This survey continues the global Deloitte tradition of an in-depth analysis and comprehensive coverage of the critical issues facing the South African mining industry today.

We hope that you will find the information relevant and helpful in identifying the key mining trends as well as providing context to help you benchmark your company's key issues.

The response to the survey underscores the substantial interest in the key issues in the South African mining industry. We received responses from some of South Africa's largest petrochemical, coal, gold, platinum and metals & minerals mining houses as well as from several leading global and South African mining analysts. Participants in the survey included Chief Executive Officers, Chief Operating Officers, Chief Financial Officers and Heads of Strategy. We would like to thank the executives and the analysts involved for their investment of time to provide the survey responses.

This survey was conducted with the assistance of a network of Deloitte professionals who comprise our Strategy, Innovations and Operations practice. We would also like to thank these practitioners for their assistance with, and contributions to, the survey.

If you have any questions, comments or would like to discuss this survey further, please do not hesitate to contact one of the Deloitte representatives listed at the end of this report.

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Key Themes

South African mining executives appear optimistic about the future of the industry, but voiced concern about how to maintain their growth given some key challenges such as skills development and HIV/AIDS. The leaders of the mining industry agree the future looks very positive given the strong upswing in commodity prices however, they are concerned about how to maintain this growth.

An overwhelming concern is achieving the balance between maintaining productivity levels and achieving growth targets, as the focus is primarily on growth. Finding and developing highly skilled employees also remains a general concern across the group. Further, as expected, HIV/AIDS remains a key challenge for deep level miners in Africa.

Analysts tend to agree with the executives yet feel that beneficiation appeared to be more of a buzz-word than a reality and could destroy value unless properly implemented.

These are the findings of the 2006 Deloitte Mining and Metals Executive and Analysts Survey. The survey was conducted via a series of face-to-face and telephonic interviews with local mining executives from the gold, platinum group metals, coal, iron-ore, manganese, copper and basemetals segments and analysts from the USA, Europe, South Africa and Australia to develop an understanding of industry sentiment on business trends and macro-economic conditions. Subsequent surveys will update the findings, identify trends and probe further into common themes.

What follows is a theme-by-theme discussion of the results with more detailed information where the feedback differed between executives and analysts.

Key themes:

1. We're growing: but can we maintain and/or improve productivity?
2. The executive agenda: how do we grow in emerging economies?
3. Managing HIV/AIDS costs.
4. We are not sure what to do when commodity prices come down.
5. Finding and retaining core skills is becoming more difficult.

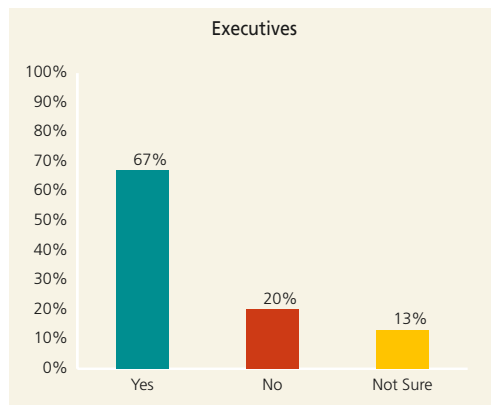
We're growing: but can we maintain and/or improve productivity?

67% of executives interviewed believe the high commodity prices were masking relatively poor or declining productivity. Executives cited rapid expansion coupled with the lack of a sound continuous improvement strategy as a key reason for not focusing on sustaining optimal productivity.

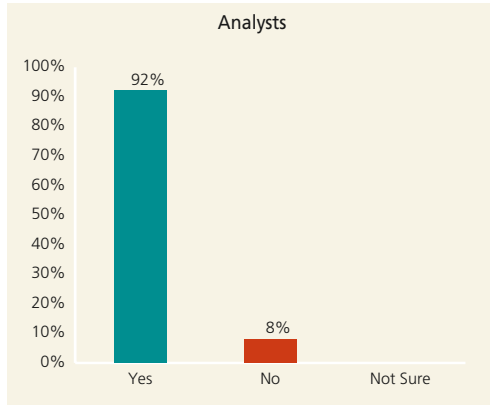
Analysts were overwhelming in their belief that poor productivity was a consistent problem across the entire mining industry. They believed the precious metals industry performed worst overall in terms of productivity. Analysts disagreed about the role of gold in the catalytic industry and believed platinum would be the dominant supply input for at least the next 10 years.

There is a greater need to understand the key operational processes that drive the value in the operation.

Do you believe that growth has increased at the expense of productivity?



For more on how to improve productivity in your operations, read "Improving Productivity in Mining" in *Deloitte on Mining*.



Executive – “We do not have a true understanding of the operational processes driving value in the business.”

Analyst – “Given the fact that not all mining companies are performing well within the high commodity price environment, it is very apparent some companies do not clearly understand their businesses or are unable to execute initiatives.”

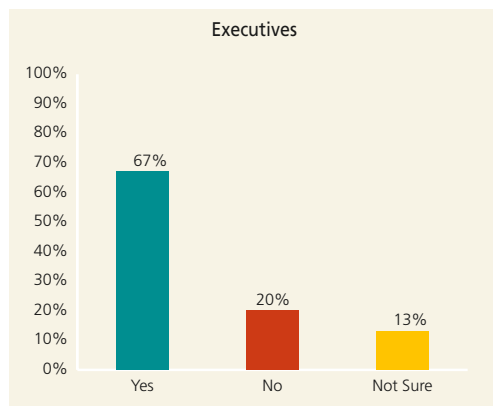
The executive agenda: how do we grow in emerging economies?

An overwhelming number of executives, 83%, believe there are uncertainties around growth in emerging economies. Specific examples include the problem of contract enforcement in Angola and Russia.

Analysts tended to agree with executives but they disagreed on where and how the risks would manifest themselves. Analysts believed the risks in emerging markets could be contained, but companies were making speculative investments in some locations. Very few analysts cited risks in Africa (with the exception of HIV/AIDS).

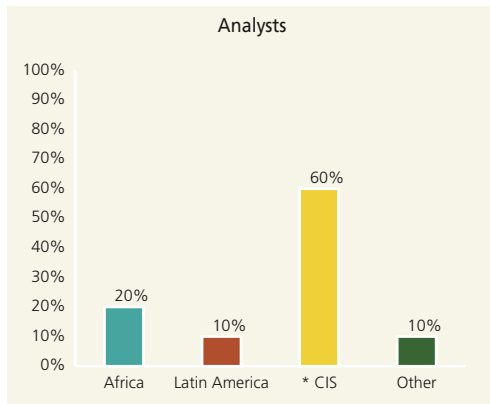
Beneficiation was specifically mentioned as an initiative which could destroy value in the short to medium term. Focused innovation programmes will ensure growth in emerging economies.

How clear is your growth strategy in emerging economies?



For more on managing institutional risks in emerging economies, read “Institutional Voids of Operating in High Risk Emerging Economies” in *Deloitte on Mining*.

Which regions do you think pose the greatest risk for mining companies?



For more on the economics of beneficiation, read “Beneficiation and the classic cash trap” in *Deloitte on Mining*.

* CIS = Commonwealth of Independent States

Executive – “Risks like contract enforcement on land claims is not just a problem in South Africa. In Angola we have seen companies experience similar problems.”

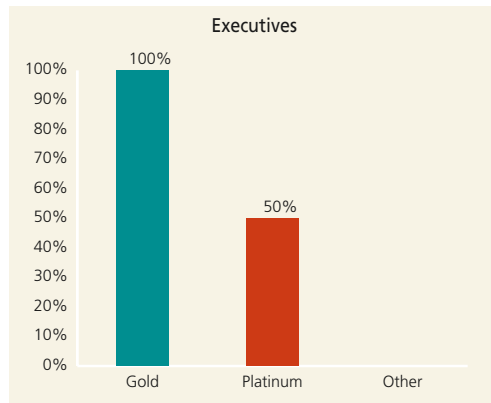
Analyst – “The risk most companies face is as a result of their own actions – and not the market.”

Managing HIV/AIDS costs

Executives in labour intensive deep level mining agreed that the impact of HIV/AIDS was felt throughout their business. An extreme case of 80%-100% infection rate was cited as an example at selected mining complexes. Mining executives are highly dependant on external health care service providers for addressing the epidemic in terms of awareness and treatment. Further to this, there is no insurance against the loss of working hours, personnel and production.

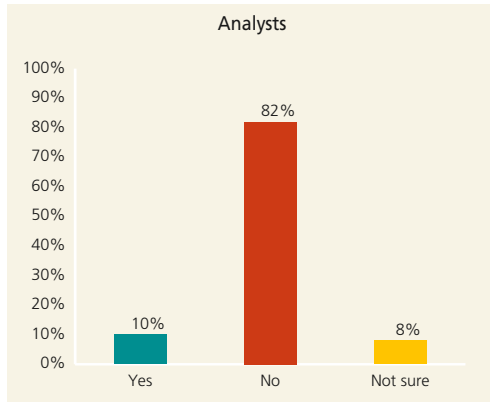
Analysts agreed with the executives but again disagreed on key areas. There was general consensus about the lack of transparency on infection rates and total costs. 96% of analysts felt that not enough or the wrong initiatives were pursued to address the epidemic.

Is HIV/AIDS considered a significant problem by your management team?



For more information on how to cut HIV/AIDS costs with impacting health and performance, read “Cutting and trading away the cost of HIV/AIDS” in *Deloitte on Mining*.

Do you think mining companies have a complete understanding of the total costs of HIV/AIDS?



For more information on how to manage a pension fund to reduce volatility of returns, read “Super Pension Funds” in *Deloitte on Mining*.

Executive – “We do not know if what we are doing is working. We just have to trust what our external medical providers tell us – the results will come out soon enough.”

Analysts – “HIV/AIDS is currently not the largest cost in any given year. However I am pretty sure once we find a more accurate way of measuring the cost impact it will be the largest over a 30-40 year horizon.”

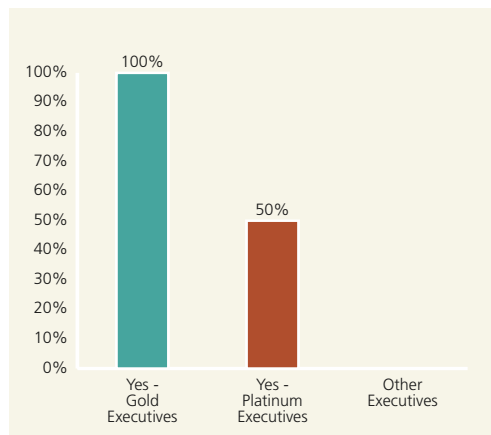
“If we look at pension fund problems in the US, mining companies do not give me any comfort that they have considered this side of the risk – the security of future payouts.”

We are not sure what to do when commodity prices come down

Half the executives felt that not enough was being done to prepare the business for any drop in commodity prices. Several executives agreed that China's role as an overall supplier to the West was misunderstood as there was uncertainty to which direction China's economy will swing.

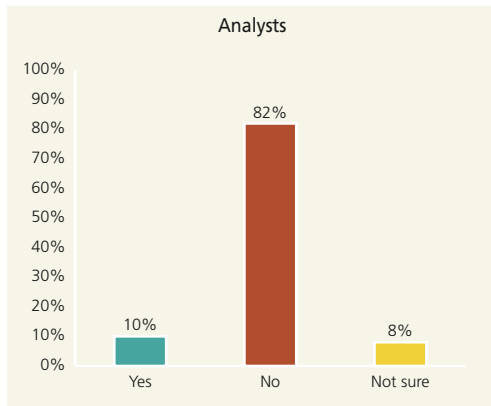
Analysts agreed with the executives. Gold analysts were divided about how the industry could respond to lower commodity prices. A similar divergent view existed on the role of China – half agreed that China was a supplier to the West, while the other half agreed but were uncertain of the future role of the Chinese economy. A US based team of analysts believed the US, fuelled by the Hispanic population, would still drive significant growth over the medium to long term.

Do you have a plan in place when commodity prices come down?



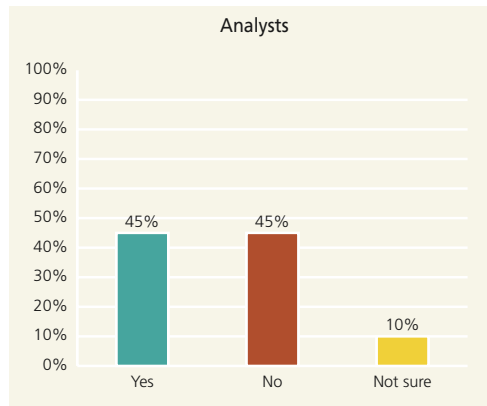
For more information on the role of China in the global economy, read “Sino-Myopia” in *Deloitte on Mining*.

Do you think the role of China on commodity prices is understood?



Executive – “We believe the bullish nature of the market is sustainable.”

Do you think the US or China will drive commodity consumption in the future?



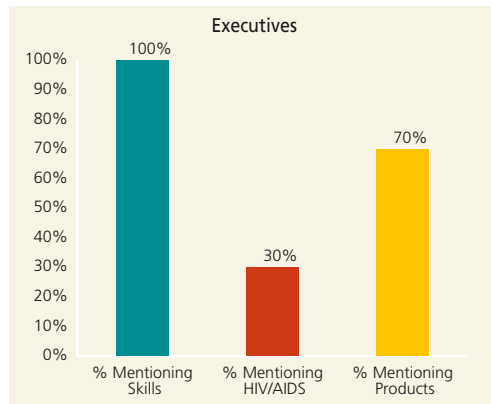
Analyst – “Executives forget about the cyclical nature of the market during a bullish market.”

Finding and retaining core skills is becoming more difficult

All executives mentioned it was becoming more difficult to find and retain specialised skills. Special mention was made of the costs associated with managing employees in emerging markets.

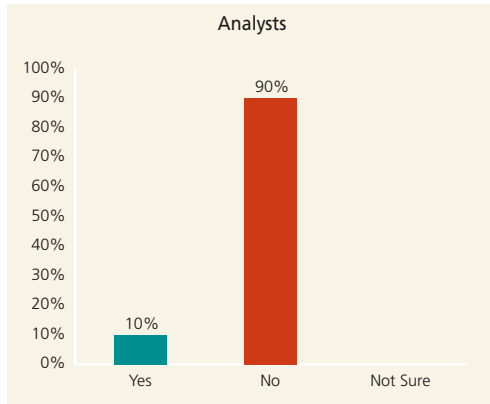
No analyst mentioned skills and employee retention as a key issue. The only labour impact mentioned was HIV/AIDS. Analysts, however, do believe the dynamics of labour movement will change as skilled workers move between countries when demand patterns change.

What are the top three issues impacting your business for which you may or may not have a solution?



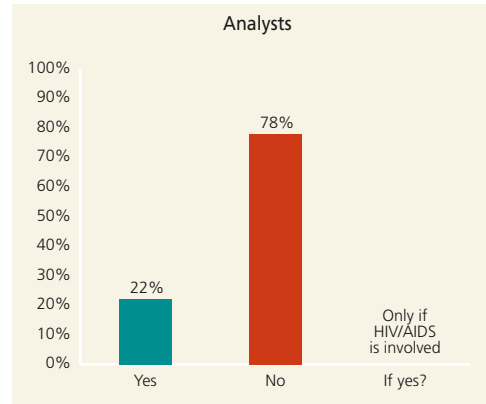
For more on labour costs and risk in emerging economics, read "Institutional Voids of Operating in High Risk Emerging Economies" in *Deloitte on Mining*.

Do you think labour retention and development is a key issue in mining?



Executive – “It is becoming more and more costly to find and retain the right people – especially in places like South America and Papua New Guinea.”

Have labour issues ever impacted your valuation of a mining company?



Analyst – “Everyone talks about the skills problem and the worsening situation. Yet it is no better or worse than it was two, five or 10 years ago.”

Conclusion

All of the themes highlighted in this document have a direct impact on the mining industry, its people and commerce. Whilst these key findings are important to mines across South Africa and in some case across the globe, we do understand that there may be new issues arising in the future. We endeavour to enter into future surveys with the aim of updating findings and adding to the current findings. Our team of professionals look forward to communicating these new findings to you in the future. We trust that you have found value in the information provided in this survey. Should you have any questions, comments and or suggestions please contact the authors listed at the end of this publication

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