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# *Raising finance for mining companies*

## Reporting and governance challenges

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**pwc**

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## *Presenter*

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# *Agenda*

## **Market update**

Corporate reporting

Corporate governance

Conclusions

# Current trends

Natural resources sector remains one of the most active for deal activity

Resource nationalism driving listing decisions

China industrialisation fuelling commodities demand

Secondary and dual listings in HK, success mixed



Increasing competition between key financial centres



Governments seeking to raise funds via privatisations



Africa becoming increasingly hot destination



Increased activity from PE, SWFs and SOEs

Popularity of oil, gold, copper and coal



Spin-offs and demergers



Cross-border listings of emerging market companies

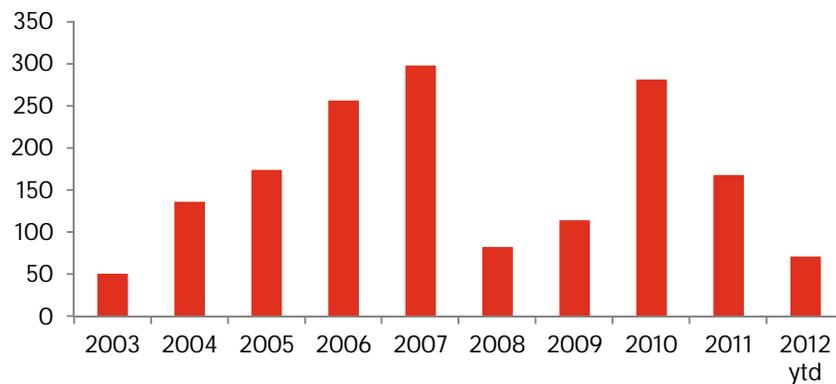


## ***IPO activity is expected to increase in Q1-Q2 2013*** **... despite limited activity in 2012**

- Global capital markets still depressed with H1 2012 activity lower than H1 2011
- Americas lead by proceeds, boosted by jumbo IPO of Facebook (\$16bn)
- IPO pipeline continues to grow, although many companies resort to seeing alternative forms of financing

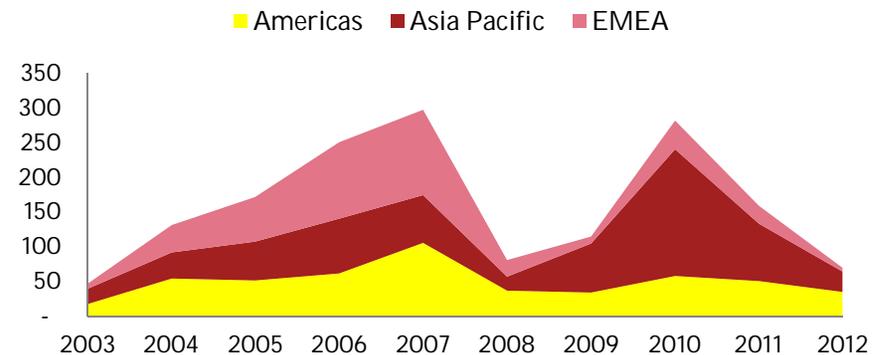
**Mining and metals companies raised \$23bn in IPOs in 2011-2012**

**Global IPO proceeds (\$bn)**

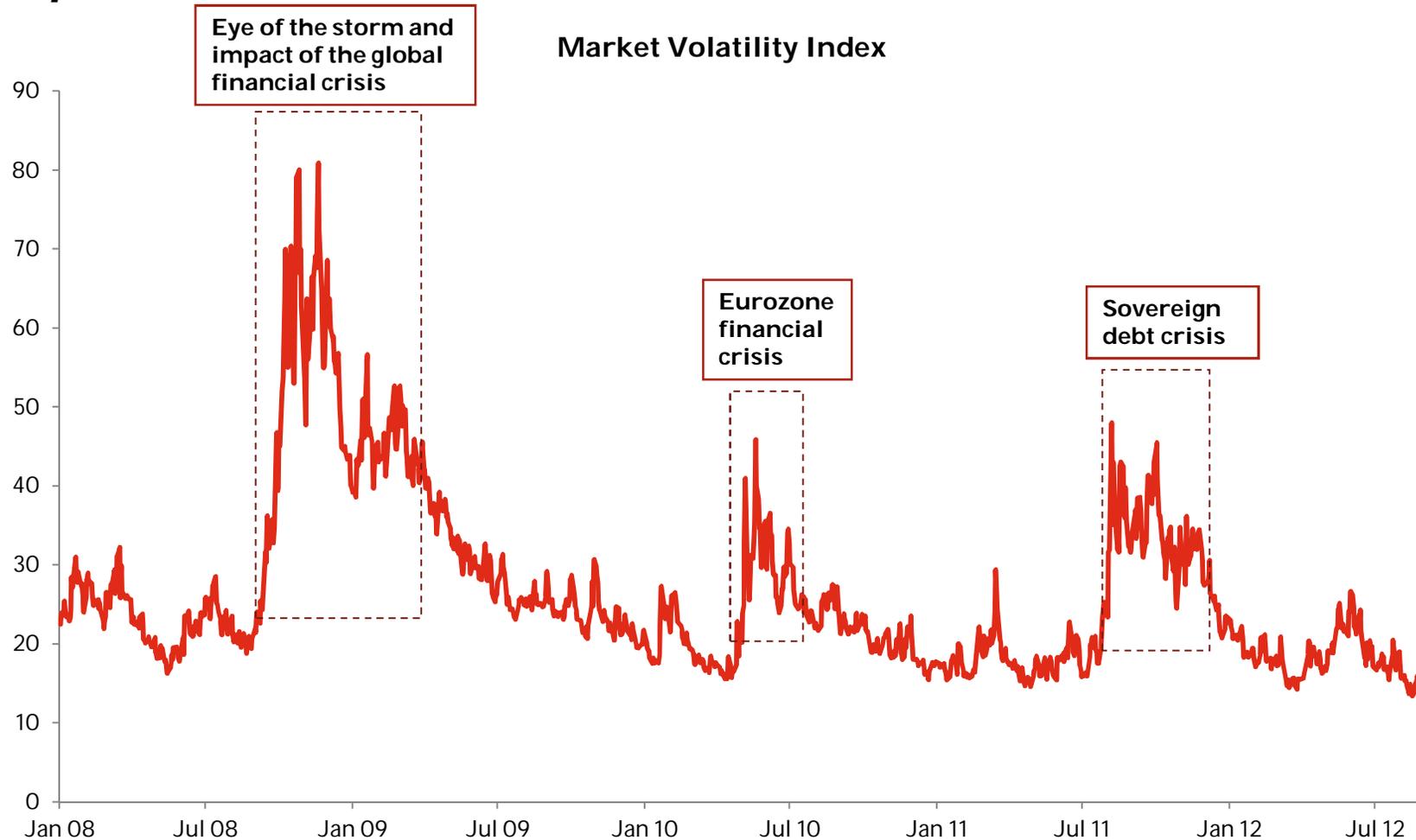


Source: Dealogic

**IPO proceeds by region (\$bn)**



***Although volatility has returned to normal, softening commodity prices and investor risk aversion continue to depress markets***



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## ***Outlook***

- With strong long-term demand fundamentals and looming supply challenges for many metals, resource sector remains one of the hottest for deal activity
- Mining IPO pipeline remains strong, although alternative sources of financing increasingly sought:
  - ✓ continuing popularity of gold, copper and coal
  - ✓ spin-offs of assets by major mining & energy groups, eg diamond assets of Rio Tinto and BHP Billiton
  - ✓ increasing number of mid-tier producers attracting Asian strategic investors
  - ✓ further privatisation of fully or partly state-owned assets, including Russia, Mongolia, Kazakhstan
- Increasing competition among key financial centres for IPO candidates, eg promotion of Hong Kong as a listing venue for resource sector, first mining IPOs in Singapore
- Continued economic uncertainty and subdued equity markets in short term
- Attractive environment for M&A with strong balance sheets, favourable fundamentals and lower valuations

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## ***Considerations for resources companies in Mongolia***

- Continuing world economic issues means financing projects (equity/debt/private investors) today remains difficult
- Mongolia currently not as attractive as it was 2 years ago – timing of renewed focus?
- Meeting challenges today vs long term strategy
- Quality is key
  
- ....investment in setting up a well run business today will ensure you are ready and help maximise value when the opportunity for investment arises

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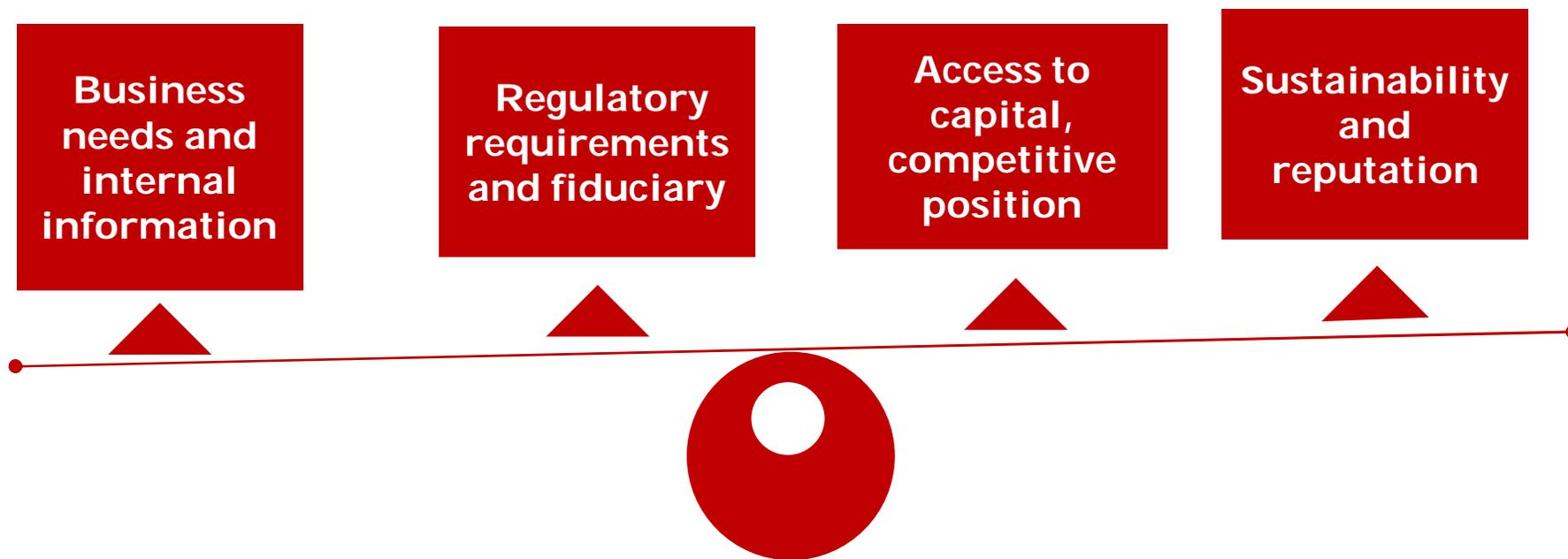
Market update

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## *Corporate reporting and balancing different priorities*



## *What does the market expect?*

<b>Investors</b>	<ul style="list-style-type: none"><li>▪ Keep promises made during the IPO process</li><li>▪ Manage investor expectations – communication is key</li></ul>
<b>Analysts</b>	<ul style="list-style-type: none"><li>▪ Be prepared for market scrutiny and the need to explain/defend actions (more pressure)</li><li>▪ Ensure all parts of the business are focused on the same areas (i.e. tell the same story)</li><li>▪ Be aware of what information analysts are interested in</li></ul>
<b>Regulators</b>	<ul style="list-style-type: none"><li>▪ Consistent, timely and detailed disclosure of financial and operational information</li><li>▪ Fair and equal treatment of shareholders</li></ul>
<b>Media</b>	<ul style="list-style-type: none"><li>▪ Results announcements</li><li>▪ Regular corporate news flow</li><li>▪ Bad news / poor public perception will affect the Company's market capitalisation</li></ul>

- Share price movement will often be outside the Company's control
- Being well prepared in advance, and communicating within the Group, will help to cope with external stakeholder expectations

## *Transitioning from private to public from a financial reporting perspective*

	Private		Public
<b>Structure</b>	A collection of legacy businesses	→	Efficient tax and legal structure
<b>Financial history</b>	Local GAAP	→	IFRS
<b>Financial control and governance</b>	Informal, owner managed	→	Robust governance framework
<b>Taxation</b>	Unidentified exposures	→	Compliance and disclosure
<b>Business planning &amp; forecasting</b>	Cash based annual budget	→	Reliable working capital forecasts, longer-term strategic plans
<b>Management information</b>	Standalone local GAAP	→	Integrated IFRS, well defined KPIs
<b>Related party transactions</b>	Opaque and confusing	→	Transparent and arms length
<b>Legal title to assets</b>	Assumed	→	Confirmed

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## ***Mining specific corporate reporting issues***

- Resources/reserves reporting
- Production
- Health & safety
- Sustainability
  - ▶ Determining your key KPIs
  - ▶ Benchmarking with competitors
  - ▶ Investor expectations
  - ▶ Government and legal requirements

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## ***Critical accounting issues for mining companies***

- Accounting for exploration and evaluation activities
- Valuation and potential impairment of licences
- Presentation of mining reserves
- Development phase pre-production revenue and costs
- Depreciation of development assets
- Stripping costs
- Timing of reaching of production
- Revenue recognition
- Decommissioning liabilities
- Taxation issues

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# ***Agenda***

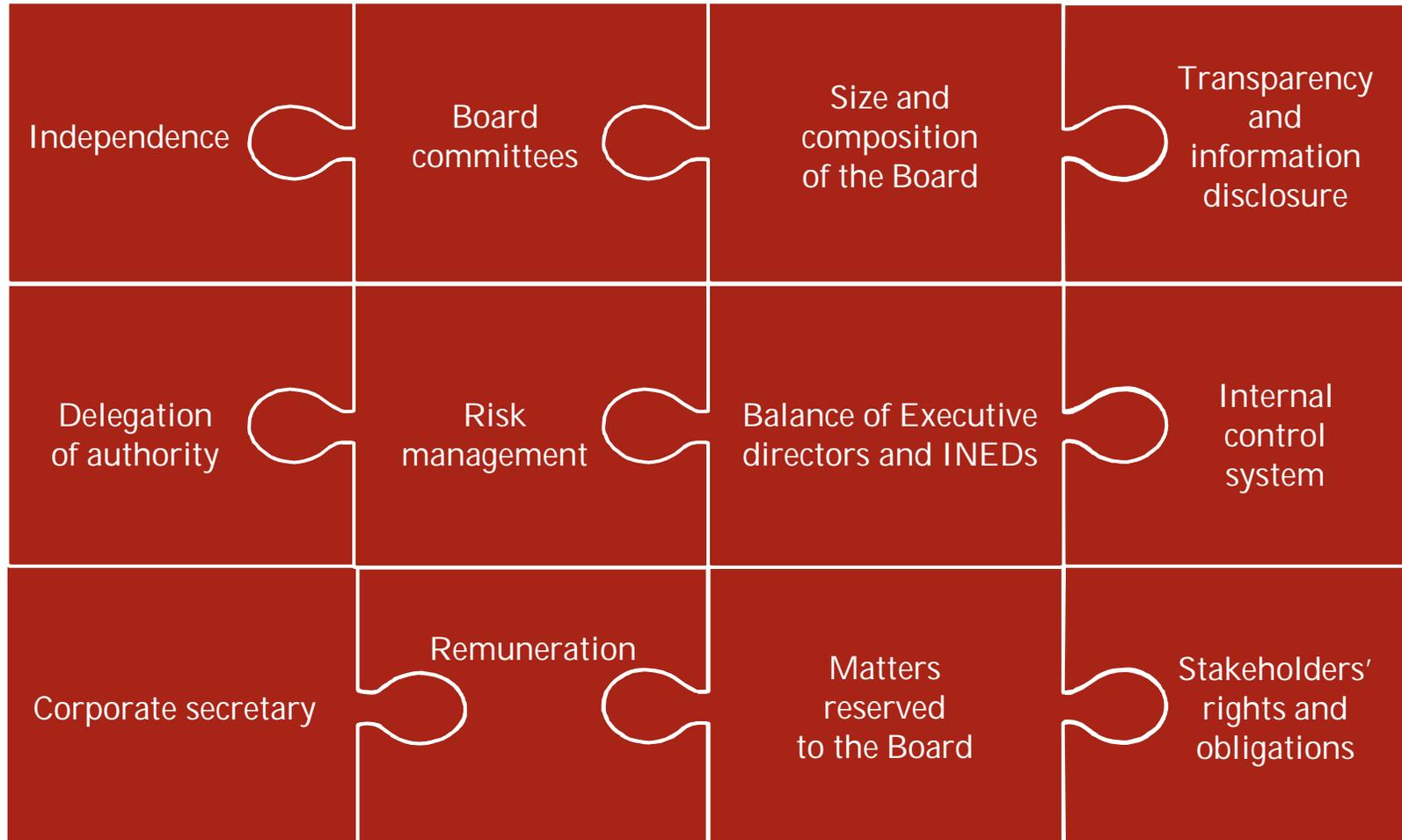
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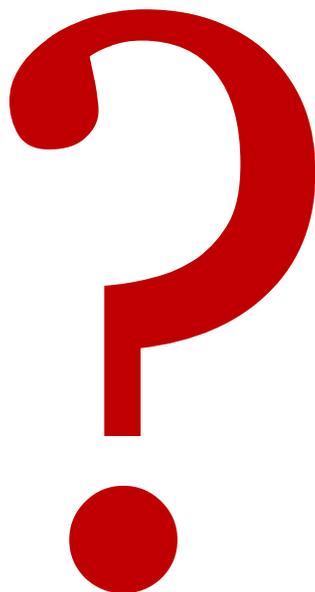
## *Key components of corporate governance*



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## *Internal control and governance system*

### Key questions



- How comfortable are you that your internal controls framework is effective and delivers **value to the business**?
- Is your **risk assessment process** part of business as usual?
- Are your policies and procedures addressing appropriate risks and business focus areas? Are they aligned to the **key business principles**?
- How do you **monitor** effectiveness of and compliance with the policies and procedures?
- Is there **a standardised approach** to policies and procedures across the group?
- Do you have **senior executive support** to ensure that messages are communicated and enforced appropriately?

## ***Benchmarking against the key attributes of a successful public company***

Clear strategy and compelling equity story	Transparent structure	Corporate governance	Robust financial control	Transparent external reporting	Reputation and corporate responsibility
<ul style="list-style-type: none"> <li>▪ Compelling equity story</li> <li>▪ Integrated business plans, budgets and forecasts</li> <li>▪ Appropriate management team</li> <li>▪ Proven financial track record</li> <li>▪ Credit history/rating</li> <li>▪ Dividend policy</li> <li>▪ Eligibility for listing</li> </ul>	<ul style="list-style-type: none"> <li>▪ HoldCo location and index inclusion</li> <li>▪ Transparent legal and tax structure</li> <li>▪ Ability to function on stand-alone and arms-length basis</li> <li>▪ Related party transactions</li> <li>▪ Defined and respected management reporting lines</li> <li>▪ Executive remuneration</li> </ul>	<ul style="list-style-type: none"> <li>▪ Composition and size of the Board</li> <li>▪ Independence and objectivity</li> <li>▪ Board remuneration</li> <li>▪ Delegation of Authority</li> <li>▪ Board reporting procedures</li> <li>▪ Internal Audit function</li> <li>▪ Risk management framework</li> </ul>	<ul style="list-style-type: none"> <li>▪ Robust internal controls</li> <li>▪ Ability to produce timely management information</li> <li>▪ Corporate treasury policy</li> <li>▪ IT environment and security</li> <li>▪ Knowledge of and ability to comply with continuing obligations</li> </ul>	<ul style="list-style-type: none"> <li>▪ IFRS Financial reporting framework, compliance and disclosure</li> <li>▪ KPI reporting</li> <li>▪ Non-financial reporting, including mineral resources, health and safety, environmental</li> <li>▪ External communications</li> <li>▪ Investor relations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Code of conduct</li> <li>▪ Fraud risk management policy</li> <li>▪ Business ethics</li> <li>▪ Anti-bribery policies</li> <li>▪ Employee relations, health and safety</li> <li>▪ Social and environmental obligations</li> </ul>

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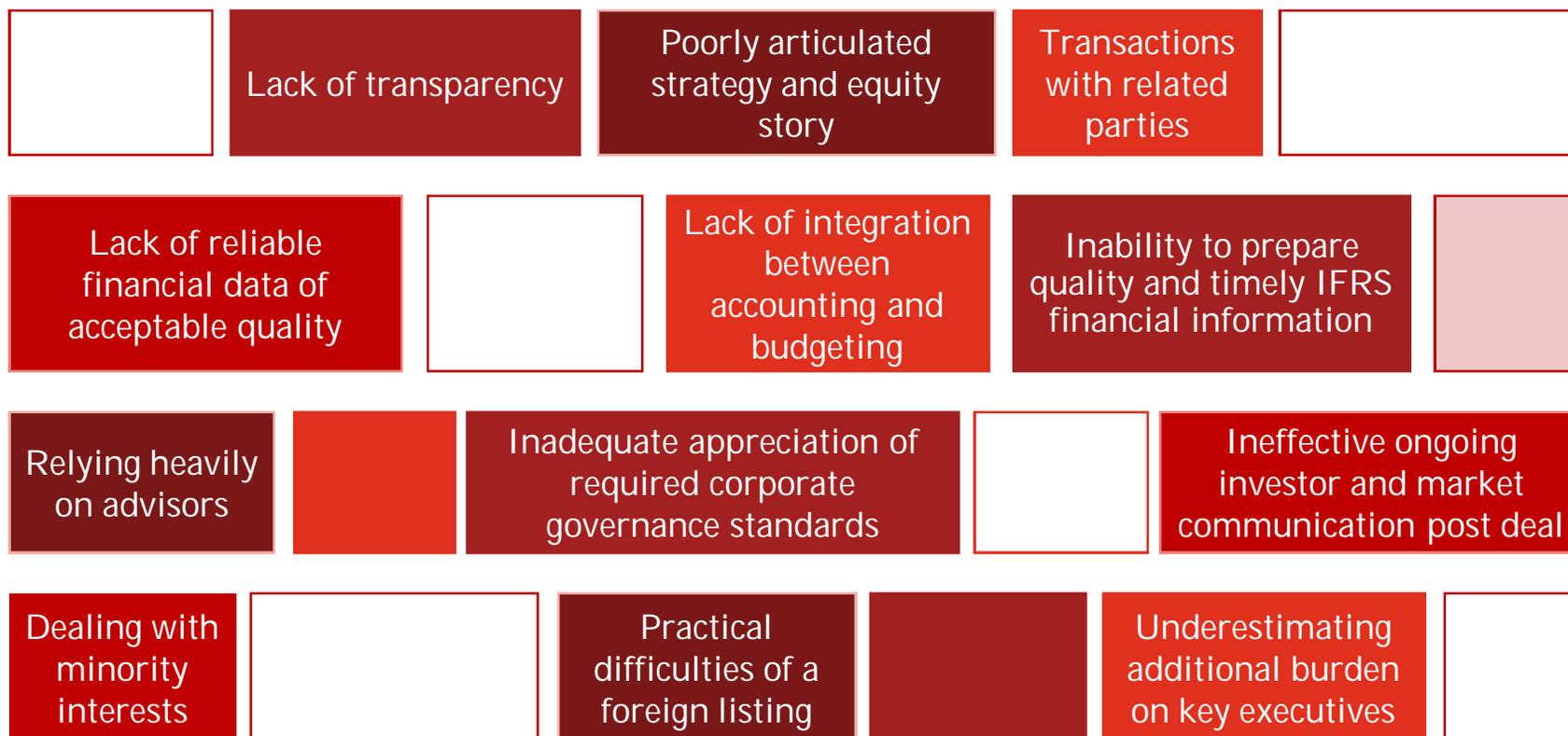
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## ***Common issues and pitfalls for emerging market companies***



# Getting your company 'investment ready'

*Being well prepared ensures market opportunities can be optimised*



*Prioritise corporate governance issues*

*Put the right team in place to deliver the deal and continue running the company*



*Determine and prepare your financial statements*

*Identify and address issues early in the process*

How PwC can help

IPO readiness

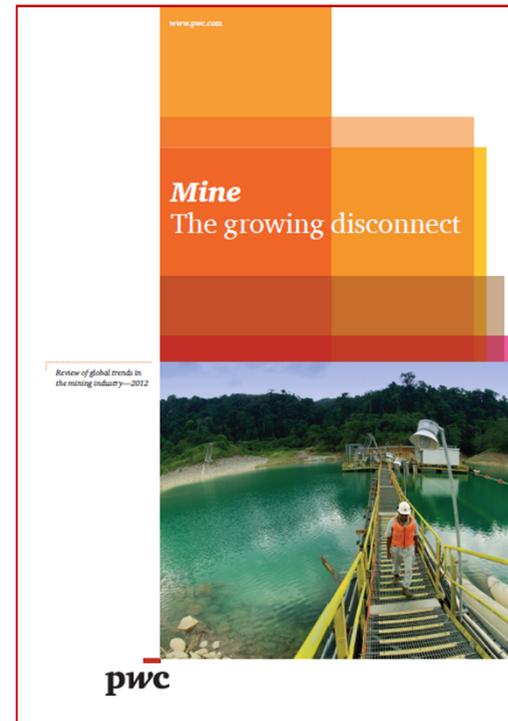
Tax structuring

Corporate governance

Audit and IFRS accounting advice

Reporting Accountant

# Thank you



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