MINING INDUSTRY RISK ANALYSIS SURVEY

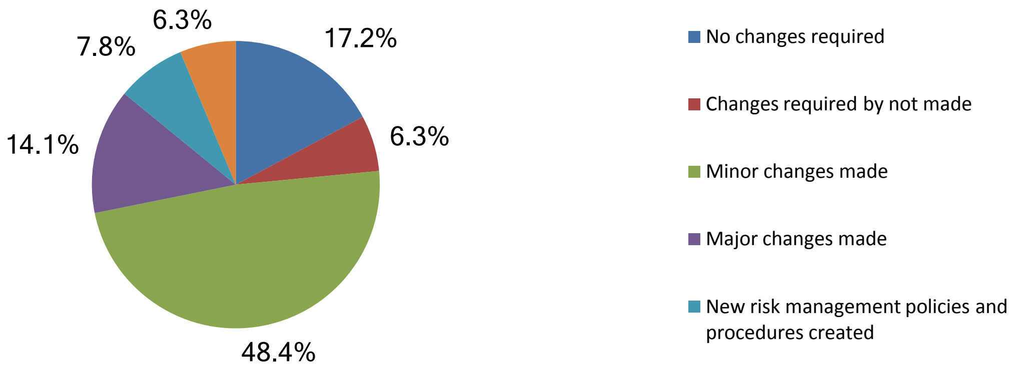
Survey Participants

A total of 75 people participated in the Mining Industry Risk Analysis Survey conducted by Oyster Consulting. The majority of the participants come from mining or mining services (85%) with the balance representing energy, utilities, infrastructure and professional services. Among those working in the mining sector, 56% work for a producing company, 21% are in the construction phase and 23% are involved in exploration activities. The geographical areas represented in the survey are Australia, Asia and Africa.

Impact of GFC on Organisations' Risk Profiles

An overwhelming majority of the participants (94%) believe that the risk profiles of their organizations have changed since the Global Financial Crisis (19% consider that major changes have been introduced or completely new risk profiles have been created). Only 5% of the respondents believe that the GFC has not changed their companies' risk profiles.

Since the Global Financial Crisis first occurred have your organisation's risk management policies and procedures changed?



Insights & Implications

Labour Availability

- Labour availability has been identified by survey respondents to be a major risk

According to a report published by the National Resources Sector Employment Taskforce, employment growth in mining operations is expected to be 4.9 per cent per annum over the next five years, creating around 61,500 new jobs by 2015 due to increased production, driven by demand from Asia[1]. Therefore, it is not surprising that the most significant social risk identified by survey respondents is a shortage of skilled labour (and the ensuing risks of increased staff turnover and rising wages). As new projects commence in New South Wales, Northern Territory and South Australia (locations where only a few projects are currently underway), interstate competition for skilled workforce can only exacerbate. It may be useful to analyse the looming shortage of skilled labour from three different angles: 1) skills, 2) volume, and 3) timing. As competition for talent intensifies, internal HR departments and recruiting functions will be overwhelmed. It will be necessary to either: 1) increase the existing HR staff numbers, or 2) consider outsourcing

[1] Resourcing the Future - National Resources Sector Employment Taskforce Report, July 2010

recruitment services. An improvement of alignment between HR and recruitment functions and operations may also be required. Any long-term solution to mitigating the labour shortage risk should include strategic HR planning with initiatives directed at staff retention and on-the-job employee training forming the core of any HR strategic plan. The mining industry should also continue working on increasing the public's awareness that skilled labour migration is an indispensable part of sustainable economic growth in WA.

Infrastructure

- Preserving and expanding existing state infrastructure is a top priority

Another salient risk is a potential underinvestment in core state infrastructure which could severely curtail WA's growth potential. Government and the private sector should continue their cooperation to ensure that long-term infrastructure development plans (particularly those relating to new rail lines construction and port capacity expansion) are implemented without unnecessary red tape. In addition, Government should work to identify specific areas of existing regulations which are unnecessarily burdensome and which should be removed or significantly reduced as a matter of priority. Government should also recommend practical measures to alleviate the compliance costs of red tape on business. Improving coordination between different agencies, setting concrete regulation reduction targets and establishing a more systematic approach will also help reduce delays caused by excessive bureaucracy. It may also be necessary to establish a natural resources agency and an independent approvals reform office to streamline the resources sector approvals process.

Tax Regime

- MRRT and other changes to the tax regime has been flagged as a significant risk

Government's plans to introduce changes to the tax regime (MRRT) was identified by survey respondents as a major political risk. The mining industry should continue its efforts aimed at explaining potential unintended consequences of such changes (flight of foreign investment, slowdown in economic growth, increase in unemployment, etc.) It is important that mining companies coordinate their activities to influence the outcome of the proposed tax reform. In addition, Government and industry should maintain close cooperation and work towards reaching a consensus on this contentious piece of legislation.

Natural Disasters

- Natural disasters will always present a major environmental risk

The recent devastating flooding in Queensland reminded us how much damage can be done to economy due to environmental factors. About 46 hard coking coal mines have been affected, directly or indirectly, by the flooding and those mines account for 91 percent of Australian hard coking coal. The floods not just caused a disruption to mine production but also resulted in some companies not being able to meet their supply agreements. Furthermore, the Queensland floods are expected to exacerbate the already alarming skills shortage in the mining industry. To be able to swiftly and efficiently respond to any unforseen high impact environmental force majeure events, mining companies should have comprehensive crisis management plans in addition to risk management policies and procedures.

Below is a list of the Mining Industry Risk Analysis Survey results, grouped by risk category, in descending order of importance as identified by survey respondents.

MAJOR RISKS FACING THE MINING INDUSTRY*

TOP 5 POLITICAL RISKS	
Most Likely	**Highest Impact on Profitability**
Introduction of the Emissions Trading Scheme	New taxes/tax regime
Underinvestment into core state infrastructure	Introduction of the Emissions Trading Scheme
New taxes/tax regime	Underinvestment into core state infrastructure
Government regulations and red tape	Government regulations and red tape
Inadequate critical energy infrastructure/supply	Inadequate critical energy infrastructure/supply

TOP 5 ECONOMIC RISKS	
Most Likely	**Highest Impact on Profitability**
Exchange rate volatility	Other unforseen risks (Black Swan events)
Increasing oil and gas prices	Exchange rate volatility
Rising cost of inputs	Inadequate strategic planning
Change to the current tax regime	Rising cost of inputs
Inflation	Slow down in the Asian economy

TOP 5 SOCIAL RISKS	
Most Likely	**Highest Impact on Profitability**
Shortage of skilled employees	Shortage of skilled employees
Wage costs	Increased staff turnover
Increased staff turnover	Wage costs
Industrial relations	Industrial relations
Housing affordability	Other unforseen risks (Black Swan events)

TOP 5 ENVIRONMENTAL RISKS	
Most Likely	**Highest Impact on Profitability**
Bush fires	Input resources scarcity (eg, inadequate water)
Droughts	Other unforseen risks (Black Swan events)
Extreme storms	Climate change
Flooding	Flooding
Input resources scarcity (eg, inadequate water)	Extreme storms

TOP 3 TECHNOLOGICAL RISKS	
Most Likely	**Highest Impact on Profitability**
Equipment short supply	Equipment short supply
Other unforseen risks (Black Swan events)	Other unforseen risks (Black Swan events)
Unforeseen consequences from new technology	Data corruption/loss

TOP 3 LEGAL RISKS	
Most Likely	**Highest Impact on Profitability**
Fraud/corruption	Other unforseen risks (Black Swan events)
Other unforseen risks (Black Swan events)	Fraud/corruption
Data fraud/loss	Data fraud/loss

* In descending order of importance