# Aussie Mine 2018

## Healthy, but future fit?

# Overview

Welcome to the 12th edition of Aussie Mine, 'Healthy, but future fit?'

Aussie Mine provides industry and financial analysis on Australia's mid-tier mining sector as represented by the mid-tier 50 (MT50) – the largest ASX mining companies with a market capitalisation of less than $5 billion at 30 June 2018.

We've seen some remarkable results for the MT50 in 2018, due to the continuing upward trend in commodity prices coupled with cost-focused strategies of prior years. At a glance things seem healthy. But further analysis reveals organisations and mining leaders have further opportunities to focus on several key areas to be 'future fit', and position themselves for long-term positive growth.

At a high level, the MT50 are dealing with two extremes:

## The good:

- Investor confidence has returned with, market capitalisation surging 28% on last years MT50, and all but three of the MT50 experiencing an increase in this measure
- Revenue continued its rise (up 13%) with nearly all commodity groups contributing to EBITDA margins hitting 31% – maintaining near-record levels
- With profits soaring back to 2012 levels, the sector ploughed money into dividends, debt reduction and capex – even setting aside cash for future deals.

## The looming challenges:

- Operating costs are again moving more closely in line with revenue
- Exploration expenditure is still limited, and has reduced as a proportion of capex
- There is a lack of new mines – be it risk aversion or permitting challenges, capital expenditure is centred primarily on brownfield operations
- The sector risks becoming less relevant to the next generation workforce – tertiary enrolments for mining engineers are rapidly shrinking, and negative press about working culture and conditions such as fly-in/fly-out (FIFO) isn't helping attracting top talent
- A brewing global trade war continues to make business leaders nervous.

This edition of Aussie Mine will look at the impact these factors are having on the MT50.

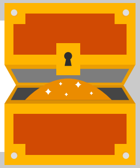
Simply put, while they appear healthy, they must renew focus to be 'future fit'.

# Contents

## The vital signs look good:

- Market cap ↑ 28% on last year's MT50, or 53% for this year's MT50
- Revenue continues to rise ↑ %13
- EBIDTA margins maintain record high levels at 31%

...and a big war chest with cash up 25% to over $6 billion



- Capital expenditure increased ↑ by 32%
- Dividends paid continue to surge up ↑ 33%

**with an additional 5 companies paying**

**...future fit?**

**Class of 2018**

4 companies graduated, **highest on record.**

## But the challenges are significant:

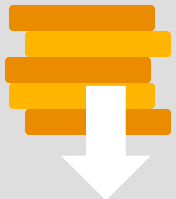
**Operating costs**
jumped by
10%

**Impairments**



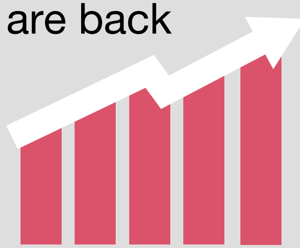
56%

**Exploration**
as a proportion
of capex decreasing
12%



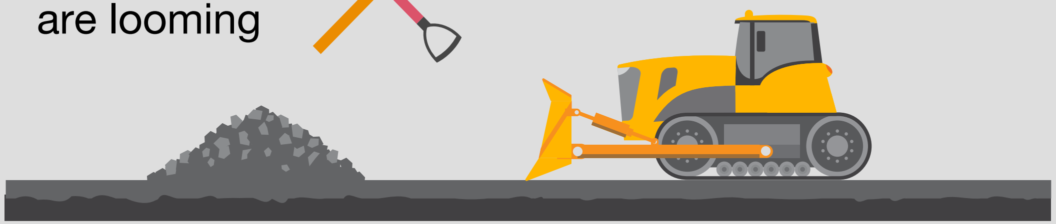
Gold grades in the MT50 have reduced by over
20% in the last 2 years

**Deal volumes**
are back



in a time of rising prices

**Workforce challenges**
are looming



# Who made the cut - the top 50 mid-tier miners

The 50 largest mining companies listed on the Australian Securities Exchange with a market capitalisation of less than $5 billion at 30 June 2018. These companies have an average market capitalisation of almost $1.2 billion.

| 2018 Rank | 2017 Rank | Company Name | Primary Commodity | Producer | Market Capitalisation as at 30/06/2018 | Market Capitalisation change 2017 to 2018 |
|---|---|---|---|---|---|---|
| 1 | 3 | Iluka Resources Limited | Mineral Sands | ✓ | 4,710 | 30% |
| 2 | na | AngloGold Ashanti Limited | Gold | ✓ | 4,550 | -13% |
| 3 | 4 | Northern Star Resources Limited | Gold | ✓ | 4,449 | 56% |
| 4 | 10 | Independence Group NL | Diversified | ✓ | 3,017 | 63% |
| 5 | 7 | OZ Minerals Limited | Copper | ✓ | 3,012 | 36% |
| 6 | 8 | Mineral Resources Limited | Iron Ore | ✓ | 2,997 | 47% |
| 7 | 9 | Regis Resources Limited | Gold | ✓ | 2,583 | 36% |
| 8 | 11 | St Barbara Limited | Gold | ✓ | 2,514 | 74% |
| 9 | 12 | New Hope Corporation Limited | Coal | ✓ | 2,485 | 95% |
| 10 | 6 | OceanaGold Corporation | Gold | ✓ | 2,317 | -4% |
| 11 | 13 | Saracen Mineral Holdings Limited | Gold | ✓ | 1,791 | 89% |
| 12 | 27 | Lynas Corporation Limited | Rare Earths | ✓ | 1,550 | 301% |
| 13 | 23 | Pilbara Minerals Limited | Lithium | - | 1,509 | 171% |
| 14 | 14 | Sandfire Resources NL | Copper | ✓ | 1,451 | 63% |
| 15 | 17 | Orocobre Limited | Lithium | ✓ | 1,348 | 85% |
| 16 | 18 | Galaxy Resources Limited | Lithium | ✓ | 1,241 | 89% |
| 17 | 21 | Western Areas Limited | Nickel | ✓ | 971 | 69% |
| 18 | 15 | Resolute Mining Limited | Gold | ✓ | 945 | 8% |
| 19 | na | OM Holdings Limited | Manganese | ✓ | 914 | 635% |
| 20 | 16 | Syrah Resources Limited | Graphite | - | 860 | 18% |
| 21 | 43 | Kidman Resources Limited | Lithium | - | 771 | 282% |
| 22 | na | Jupiter Mines Limited | Manganese | ✓ | 750 | 100% |
| 23 | 19 | Alacer Gold Corp. | Gold | ✓ | 734 | 20% |
| 24 | 22 | Westgold Resources Limited | Gold | ✓ | 672 | 19% |

New entrant    Returning entrant

| 2018 Rank | 2017 Rank | Company Name | Primary Commodity | Producer | Market Capitalisation as at 30/06/2018 | Market Capitalisation change 2017 to 2018 |
|---|---|---|---|---|---|---|
| 25 | na | New Century Resources Limited | Zinc | - | 660 | 100% |
| 26 | 20 | Gold Road Resources Limited | Gold | - | 649 | 11% |
| 27 | 24 | Zimplats Holdings Limited | Diversified | ✓ | 646 | 20% |
| 28 | 44 | Altura Mining Limited | Lithium | - | 592 | 207% |
| 29 | 26 | Dacian Gold Limited | Gold | - | 587 | 47% |
| 30 | 28 | Champion Iron Limited | Iron Ore | ✓ | 553 | 43% |
| 31 | na | Global Geoscience Limited | Lithium | - | 529 | 223% |
| 32 | 25 | Metals X Limited | Diversified | ✓ | 490 | 20% |
| 33 | na | Aurelia Metals Limited | Diversified | ✓ | 488 | 512% |
| 34 | 32 | Mount Gibson Iron Limited | Iron Ore | ✓ | 477 | 32% |
| 35 | 34 | Perseus Mining Limited | Gold | ✓ | 445 | 49% |
| 36 | na | Atlas Iron Limited | Iron Ore | ✓ | 399 | 187% |
| 37 | 41 | Base Resources Limited | Mineral Sands | ✓ | 333 | 57% |
| 38 | na | Tungsten Mining NL | Tungsten | | 320 | 3141% |
| 39 | 31 | Tribune Resources Limited | Gold | ✓ | 318 | -13% |
| 40 | 37 | Ramelius Resources Limited | Gold | ✓ | 307 | 29% |
| 41 | na | Panoramic Resources Limited | Nickel | - | 305 | 223% |
| 42 | 38 | Silver Lake Resources Limited | Gold | ✓ | 302 | 28% |
| 43 | na | Paladin Energy Ltd | Uranium | ✓ | 300 | 100% |
| 44 | na | Metro Mining Limited | Bauxite | ✓ | 293 | 101% |
| 45 | 42 | Brockman Mining Limited | Iron Ore | - | 291 | 38% |
| 46 | na | Flinders Mines Limited | Iron Ore | - | 273 | 55% |
| 47 | na | West African Resources Limited | Gold | - | 263 | 53% |
| 48 | na | Australian Mines Limited | Nickel | - | 238 | 642% |
| 49 | 45 | Pantoro Limited | Gold | ✓ | 237 | 24% |
| 50 | na | Tawana Resources NL | Lithium | - | 236 | 174% |

New entrant   Returning entrant

Source: CAPIQ

# The vital signs look good

**This rang true in 2018, with positive commodity prices across most sectors and recent cost-out strategies delivering remarkable returns. This year saw the most impressive ‘graduating class’ in the 12-year history of Aussie Mine, with four companies from last year’s MT50 group breaking through the $5 billion market capitalisation ceiling.**

These favourable conditions meant that this year’s MT50 market capitalisation surged 28% against last year’s group of companies, growing to $58.7 billion. Better still, when focusing solely on the 50 companies in the 2018 list, market capitalisation is up a staggering 53%. Only three of this year’s MT50 failed to improve their market capitalisation position during 2018, a sign that investor confidence has returned.

## The fit

**MMG, Yancoal, Evolution and Whitehaven** have leapt from the top end of the MT50 – a level of upward movement not seen since 2007. Typically at most only one or two companies exceed our market capitalisation threshold in any given year. A combination of factors led to the successes of these four companies:

**Mid-tier upwards mover**

| | MMG | Yancoal | Evolution | Whitehaven |
|---|---|---|---|---|
| **Large commodity price shift** | ✓ | ✓ | ✗ | ✓ |
| **Recent expansion** | ✓ | ✗ | ✗ | ✓ |
| **Recent acquisition** | ✗ | ✓ | ✓ | ✓ |
| **State owned** | ✓ | ✓ | ✗ | ✗ |

**MMG** successfully commissioned its Dugald River project ahead of schedule and under budget. Coupled with strong copper and zinc prices and growing copper production at Las Bambas, this launched MMG out of the list.

**Yancoal** has had a spectacular two years. Starting outside the list in 2016, it raced through the ranks, with its performance supercharged by thermal coal prices and with the recent Coal & Allied acquisition from Rio Tinto almost doubling production.

**Evolution** continued to prioritise margins, reporting annual record lows for AIC and AISC in 2018. Benefiting from increased production following its recent acquisition of a 30% stake in Ernest Henry, Evolution has focused on quality, not size – clearly well received by the market.

**Whitehaven** rose out of the list due to record production at Maules Creek and surging thermal coal prices. With the acquisition of Rio’s 75% stake in the Winchester South coking coal project in June 2018, Whitehaven shows no sign of slowing in the coming year.

## The healthy

This year saw nine first-time entrants to the MT50, with **New Century, Aurelia, Tungsten Mining** and **Tawana** headlining the inclusions – all benefiting from successful deals. **OM Holdings, Jupiter Mines, Panoramic** and **Paladin** were welcomed back into the list. It was 'take two' for Jupiter Mines and Paladin, who reappeared on the ASX this year. Jupiter Mines made its return after four years with one of the biggest mining IPOs in the last decade, while Paladin was reinstated to official quotation following its successful recapitalisation.

## The out of shape

Eleven companies fell by the wayside this year. After three years in the MT50, **Teranga** delisted itself from the ASX due to lack of trade activity, though it remains active on the TSX. **Realm** struggled in the face of acquisition by Taurus Resources. Despite some recent positive sentiment in uranium pricing, the looming closure of the Ranger mine has ended **ERA's** run and it fell from the list for the first time since Aussie Mine began in 2007.

## Picking up pace...

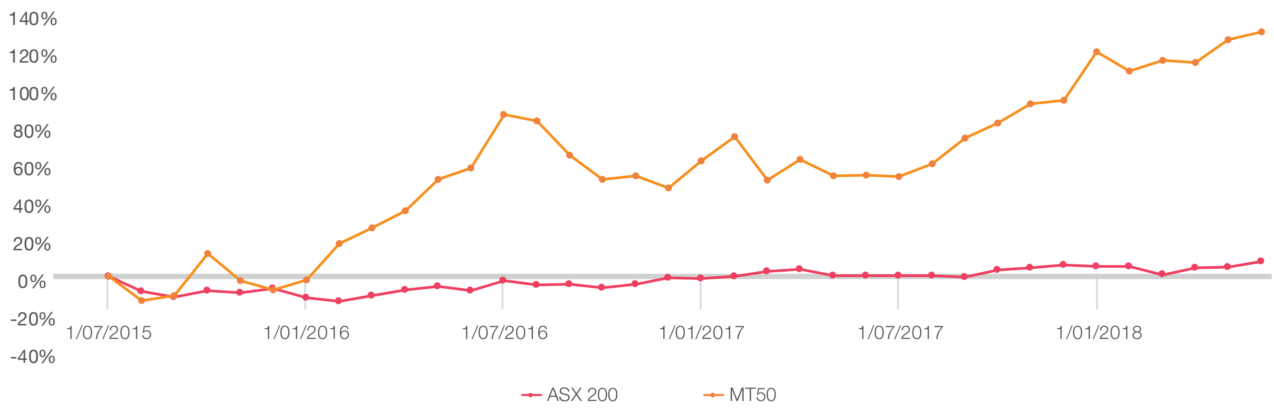
Anticipation surrounding developments at lithium miners **Kidman Resources** and **Altura Mining** doubled their market capitalisation, driving them up our list in 2018. They rose 22 and 16 rankings respectively. The push towards electric vehicles has created tremendous belief in lithium. Though this battery mineral was barely mentioned in earlier editions of Aussie Mine, there are now seven lithium-related companies in the MT50.

# MT50 in perspective

The MT50 group of companies is continuing to outperform the broader ASX 200 – a trend that's gathered pace since late 2015. While the ASX 200 has grown a modest 9% since July 2015, the MT50 market capitalisation has grown a staggering 140%.

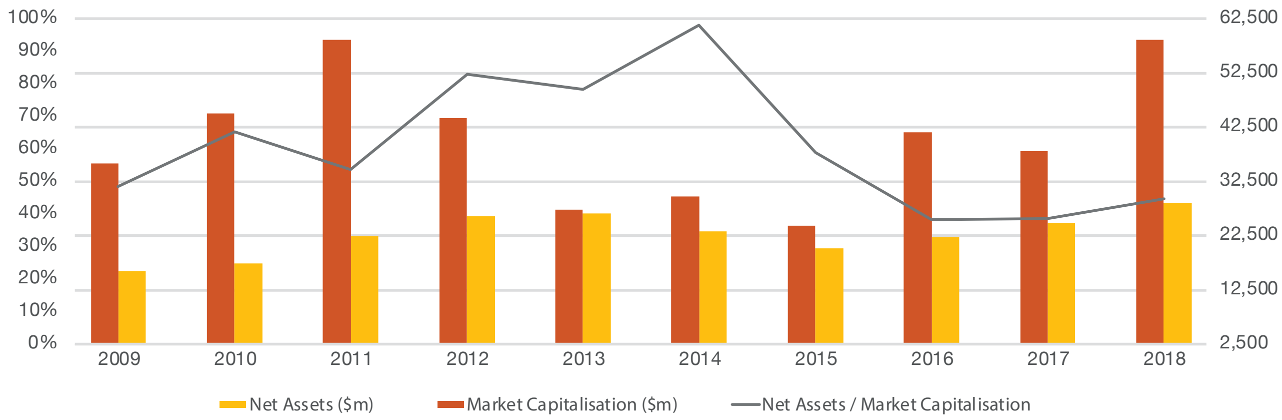
Compared to 2017, the group's market capitalisation has grown an incredible 53% to $58.7 billion, with gold, lithium and coal leading the way. The headroom of market capitalisation over net assets has also improved from 57% to 99% in 2018. This translates to a $30.2 billion premium over net assets, with all commodities reaping the benefits of improved investor sentiment. However, recent history can serve as a warning, with a similar premium wiped out in the space of two years between 2011 and 2013.

**ASX 200 vs Standardised MT50**




Source: CAPIQ

**MT50 Index: Market Capitalisation vs Net Assets**




Source: CAPIQ

This year has been particularly successful for the group's profit line, adjusted net profit after tax lifted by 69% to $2,996 million levels having not been this high since 2012.

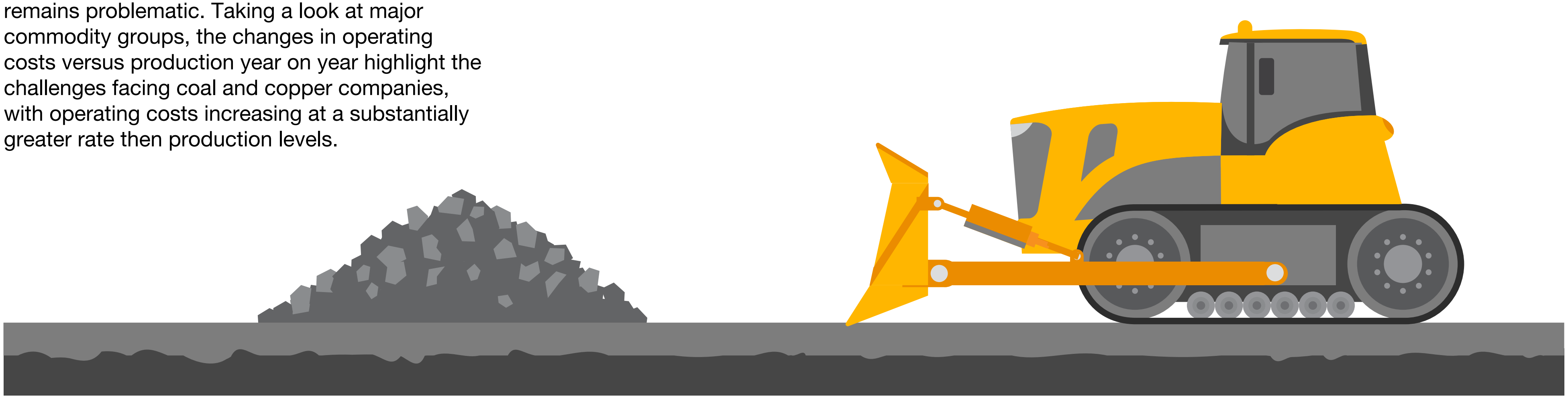
Gold miners continue to represent a third of the list and contributed the most top line growth of the commodities within the group (the exception being iron ore, which fell slightly) as revenues grew 13% to a collective $21,986 million. Revenue lifted off the back of a positive pricing environment across most commodities and improved production levels.

Thirty-five of the MT50 are in production and make up 86% of the list's market capitalisation. Those in exploration and development trumped their producing counterparts however, with market capitalisation increasing by an average of 124% vs. 45% for their producing peers, clear evidence investors are willing to back sorely needed new projects.

Interestingly, for those MT50 companies in production there are indications that cost control remains problematic. Taking a look at major commodity groups, the changes in operating costs versus production year on year highlight the challenges facing coal and copper companies, with operating costs increasing at a substantially greater rate then production levels.

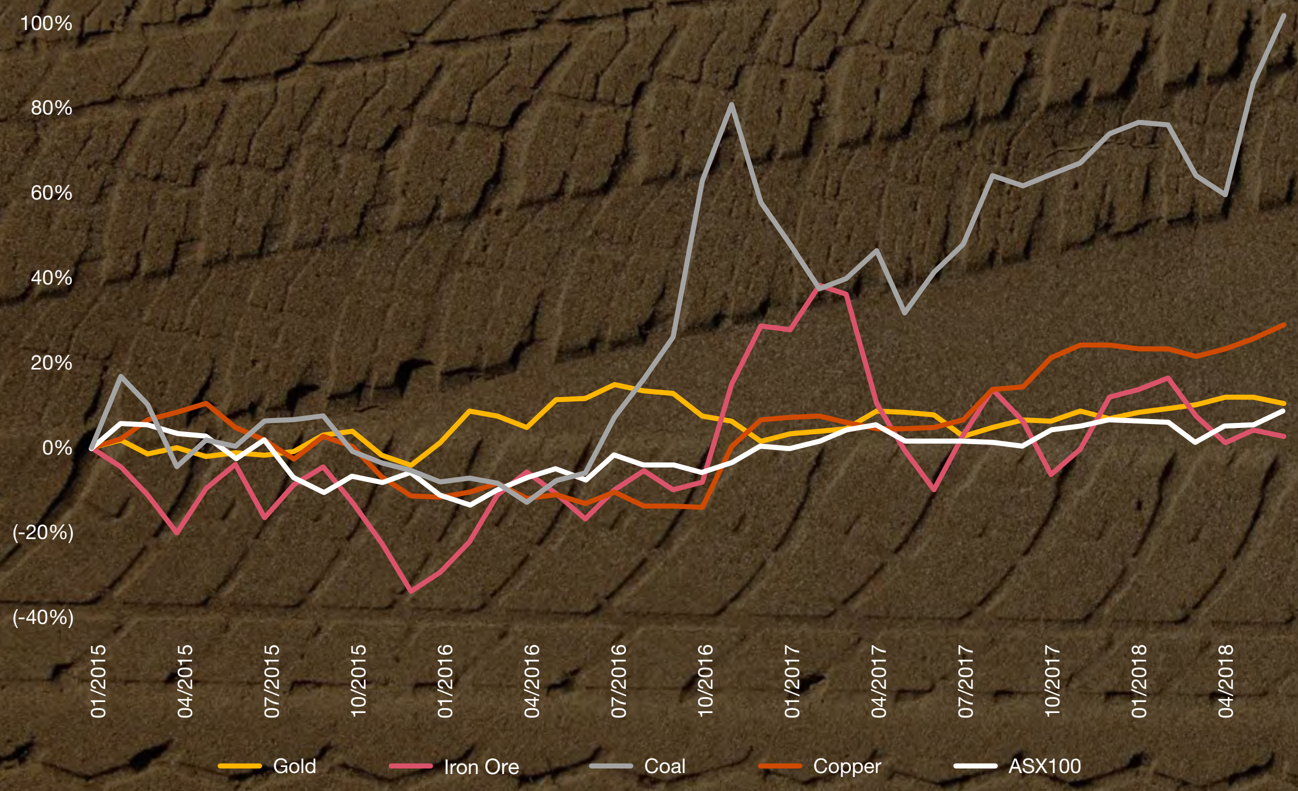
| Commodity | % change in operating costs | % change in production |
|---|---|---|
| Coal | 21% | 10% |
| Copper | 26% | 0% |
| Gold | 5% | 9% |
| Iron ore | -5% | -16% |

Source: PwC Analysis



# Productivity – time for new ways of thinking

**ASX 100 v Key commodities price movements**




Source: www.indexmundi.com & www.marketindex.com.au

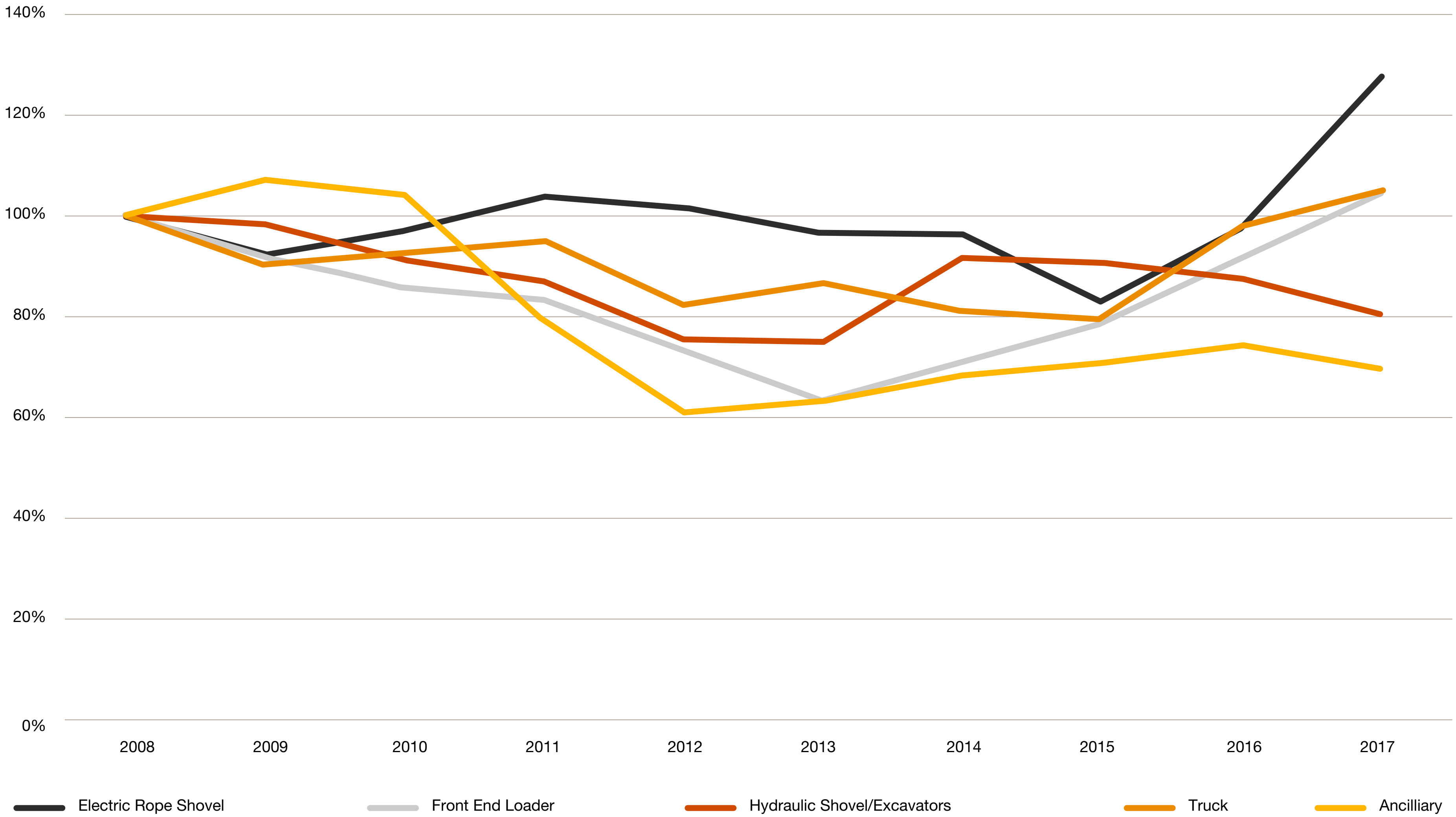
While commodity prices have risen to highs not seen since 2012, growing challenges and upheavals to global trade have caused many mid-tier mining companies to become less secure about what lies ahead. These commodity price rises have left many acquisition targets out of reach for the MT50, and doubts about economic models and business cases have added to uncertainty around where prices will go next.

With acquisitions becoming more challenging, most mining companies are looking to brownfield expansion of existing operations or capital investment in equipment to improve productivity. The logic here – common among large and small companies alike – is that growth or renewal of existing operations is the 'silver bullet' to improved mining and site productivity.

Our productivity work with miners indicates this 'internal focus' has not increased productivity as miners had hoped. PwC's Mining Equipment Productivity database* (the world's largest equipment-level productivity database) shows that equipment productivity has only improved marginally over the past decade despite nearly every mining company touting productivity increases in the last decade.

* A database encompassing over 10,000 pieces of equipment across 2 billion activity cycles – focused on open cut mining

## Worldwide Mining Equipment Productivity Index




Source: PwC's Mining Equipment Productivity Database

## MT50 working up a sweat?

We expect mid-tier miners to be more productive than big mining companies as they:

- Have less equipment to focus on
- Generally have less equipment on each site and lower associated congestion
- Have more control of strategy and culture
- Provide top performing employees more freedom to have an impact.

However, our experience shows mid-tier miner productivity tends to be much more mixed. Even within individual companies, productivity variations between sites can be immense.

So how can the MT50 really move the needle on productivity? For large mining companies, there's a push for automation and removal of manual labour in operations, especially in open cut mining. Yet the anticipated benefits of automation are still to be proven, and the setup costs (equipment, infrastructure and operations) generally require scale to make the business case economic.

For many companies in the group, our experience in robotic mining indicates brownfield enhancements will see limited upside from automation in the near term. MT50 companies are generally very good 'fast followers', and most would benefit from waiting until equipment providers have addressed key performance concerns before looking to adopt to autonomous equipment.

## Productivity from people, not gear

As commodity prices remain high, most miners will return their focus to maximising volume – generally, this takes the form of investing in additional equipment. This is a guaranteed way to reduce overall productivity as the equipment tends to either run at low utilisation rates, or, shifts existing equipment into poor performance.

So how can the MT50 maximise volumes at minimal cost?

Companies should focus on three things to dramatically improve their existing equipment productivity:

1. Support supervisors and superintendents
2. Accept failure
3. Move from 'dirt boss' to 'data boss'

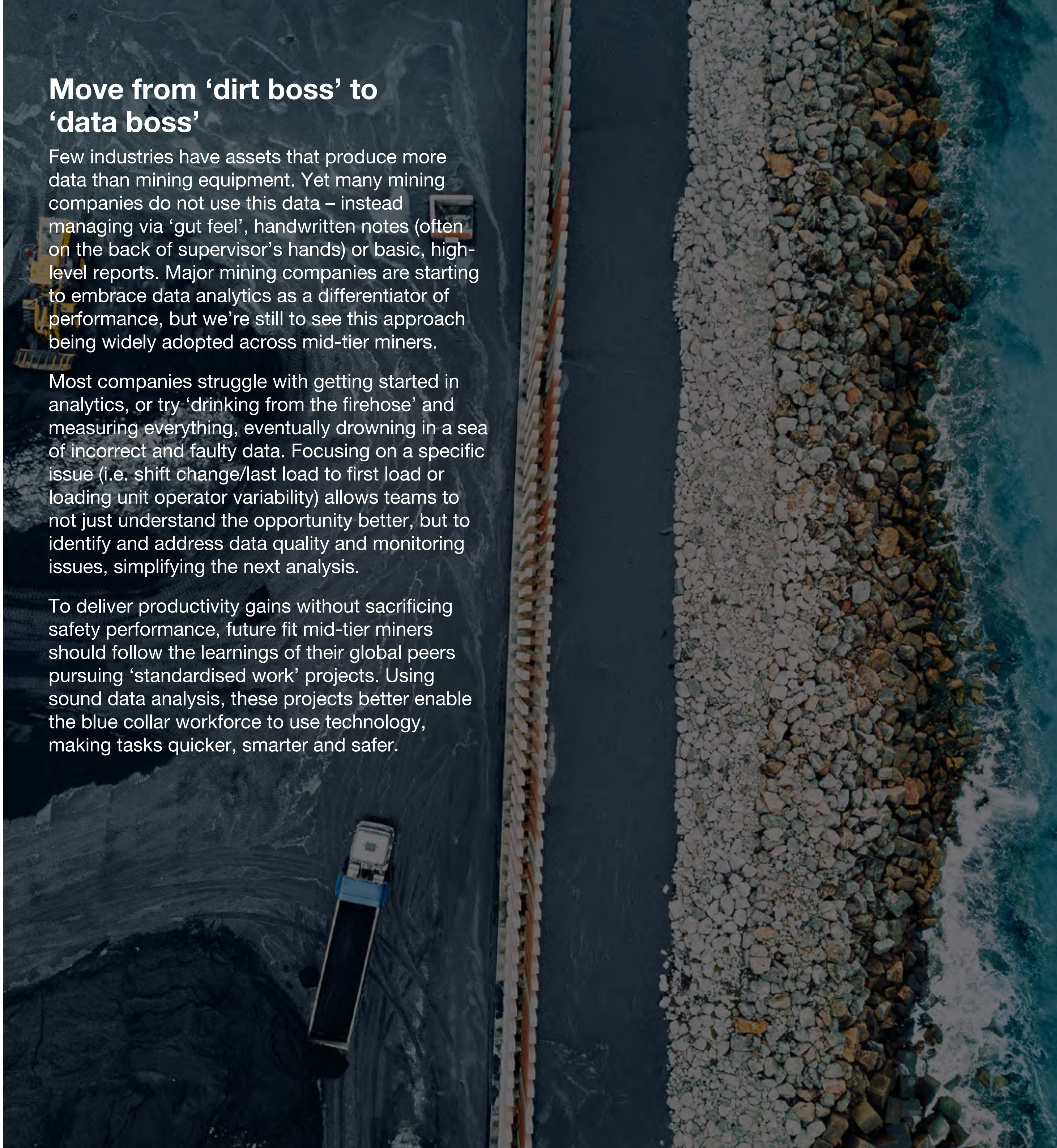
## Support supervisors and superintendents

Supervisors and superintendents are the heart of any mining organisation, and productivity stems from their ability to lead improvements. Most of these leaders have worked their way up from operator positions and have developed an understanding of mining systems. But many don't have experience translating ideas into business cases and actionable plans. As a result, we've seen many productivity initiatives kick off strongly but then struggle to maintain momentum beyond a few weeks.

Helping supervisors and superintendents improve their ability to deliver improvement projects is a simple and proven way to gain fast and sustainable productivity uplifts. Providing the right tools, fit-for-purpose methodologies, and hands-on coaching significantly increases operational productivity.

## Accept failure

Leadership of mining companies is often dominated by large personalities, carrying a 'big stick' mentality towards performance. Failure is publicly called out and shamed, stifling innovation and leading to conservative cultures where only minor productivity improvements are realised. Coaching and support from managers and general managers is essential in creating a culture of continuous improvement and productivity. One-on-one training of mining leaders on meeting preparation and situational management, observations and on-the-spot feedback on culture, are proven to have significant and lasting impacts on behaviour, and on the development of an improvement-focused mindset across operational teams.



## Move from 'dirt boss' to 'data boss'

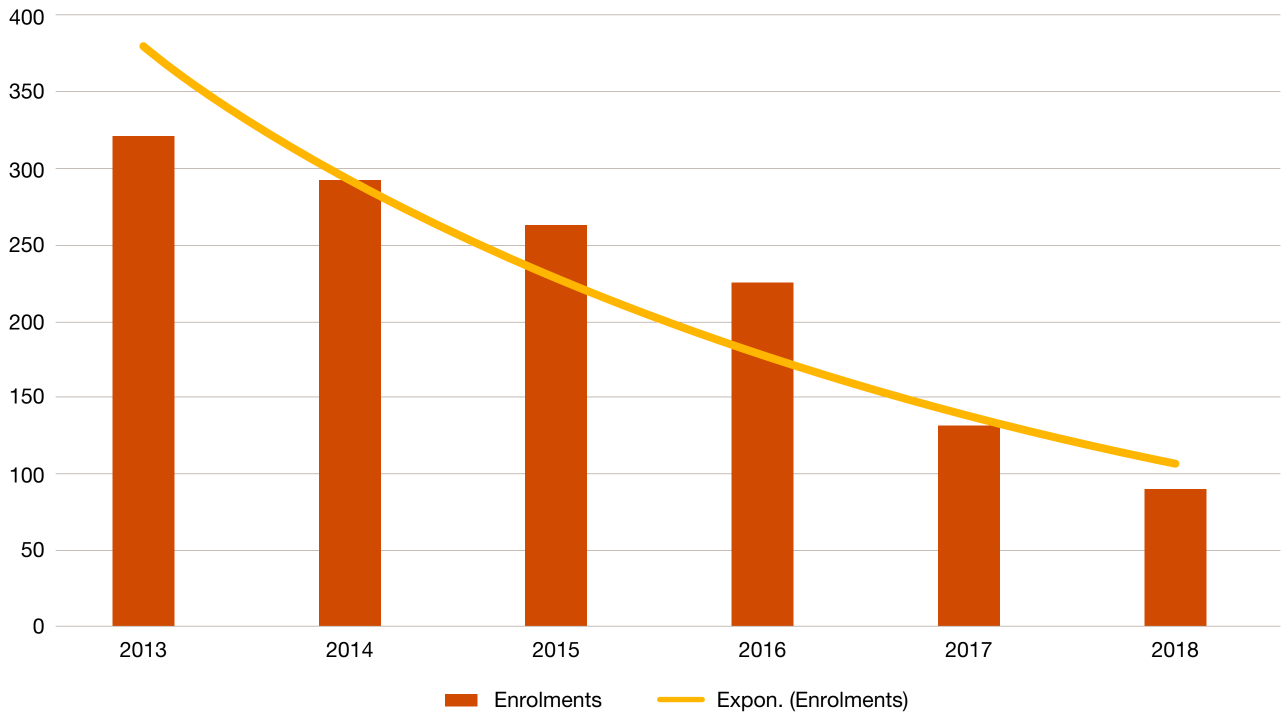
Few industries have assets that produce more data than mining equipment. Yet many mining companies do not use this data – instead managing via 'gut feel', handwritten notes (often on the back of supervisor's hands) or basic, high-level reports. Major mining companies are starting to embrace data analytics as a differentiator of performance, but we're still to see this approach being widely adopted across mid-tier miners.

Most companies struggle with getting started in analytics, or try 'drinking from the firehose' and measuring everything, eventually drowning in a sea of incorrect and faulty data. Focusing on a specific issue (i.e. shift change/last load to first load or loading unit operator variability) allows teams to not just understand the opportunity better, but to identify and address data quality and monitoring issues, simplifying the next analysis.

To deliver productivity gains without sacrificing safety performance, future fit mid-tier miners should follow the learnings of their global peers pursuing 'standardised work' projects. Using sound data analysis, these projects better enable the blue collar workforce to use technology, making tasks quicker, smarter and safer.

# Building a future fit workforce

**WA School of Mines engineering enrolments**




Source: Curtin University. Enrolments are year to date at 17 July 2018

Following the recent uptick in mining performance, the war for talent is back on the agenda. The need for the mid-tier mining sector to build tomorrow's workforce remains unabated, and future supply looks far from where it needs to be.

Broader industry-relevant tertiary enrolments have been declining in recent years, and recent data released by the Western Australian School of Mines shows rapidly declining enrolments for mining engineers. Mining engineer enrolments have dropped each year for five consecutive years, now plummeting to less than one-third of 2013 enrolments.

Some of the primary reasons for the decline in enrolments are:

- Enduring negativity from past behaviours (job cutting during the downturn, not addressing environmental impacts, challenging community relations, a lack of workforce diversity etc.)
- A general lack of awareness among students about the opportunities within the mining industry
- A view that this cyclical industry is tough on its workforce, particularly FIFO workers (e.g. physical and mental impacts on wellbeing, extended absence from friends and family).

There's a new paradigm in workforce talent that needs to be addressed by mid-tier miners, which appears to be proving difficult. Mid-tier miners are not simply competing against each other for top talent, rather, they're up against a vast array of industries and much more appealing organisations such as the Googles of the world. As mining companies continue to invest and focus on innovation and digitisation, the demand for digitally skilled candidates will increase. And while traditional engineering roles will continue to remain relevant, the need for people who are competent in AI, robotics, data analytics and mechatronics will be key for future fit mining organisations. The mining businesses of the future will see a convergence of perspectives between mining engineers and newer-age digitally focused roles.

## Recruiting senior talent – board and senior executive diversity to remain a challenge

Role modelling senior female talent won't come easily for the MT50 when looking to attract the next generation of workers. Despite a continuing focus on improving gender equality across workplaces, the group has plenty of work to do.

Of the entire MT50, only **Lynas Corporation** has a female chief executive/managing director currently at the helm.

Things are slightly better in the boardroom. While the number of male board members has remained the same between 2018 and 2017 (at 259), the representation of female board members has increased from 30 to 40 (13%). This still remains well below the comparative percentage in the top 40 companies reported in our global Mine series, which shows a female board representation of 19%.

## Get fitter for the fight for talent

The MT50 should proactively showcase the benefits and opportunities that a career in mining presents. The sector is undergoing substantive and exciting change - and presents graduates with huge opportunities to not only work with a myriad of new technologies (automation, robotics and artificial intelligence), but positively impact communities and the environment. As it stands, mining has a brand problem. And it's not helping the war for talent. Remaining relevant to the future workforce is a no-brainer 'must-do', particularly given the stiff competition.

The real-world application of technology involved in mining processes, and the positive social impact that miners can achieve when working in unison with local communities doesn't often receive the attention of social media channels. There are multiple workforce successes and good news stories that mid-tier miners and industry bodies can use to actively promote to tomorrow's workforce.

The top priorities mid-tier miners should address in order to get fitter for the fight for talent:

- Acknowledge that organisational culture must align more closely with the values of graduating millenials, and tailor accordingly.
- Modify existing recruitment strategies and sources to meet the needs of a more digitally enabled mining company.
- Work towards an optimal balance and interaction between the new workforce and the experienced campaigners, who have seen the ups and downs before.
- In light of fierce competition from global peers, develop mentoring programs for new recruits to foster high performers and loyalty. This will be particularly important when looking to improve gender equality, as the mid-tier will be unable to 'buy' talent the way their global peers can.

# Deals analysis and outlook

## Deals rise in time of higher prices – have we seen this before?

The MT50 group has enjoyed strong commodity prices and healthy balance sheets, driving significant appetite for deals in 2018. There has been a shift from 2017 where the group were divesting non-core assets to pay down debt and return equity to shareholders. The volume of deals increased from 15 in 2017 to 21 this year. However, with quality assets harder to find and competition high, more bite-sized deals are being made as complementary additions to existing portfolios. The average value for completed deals has decreased to $125 million, compared with $405 million in 2017 (or $185 million excluding Yancoal's $2.7 billion acquisition of Coal & Allied Industries).

Gold continued to feature, with four acquisitions by Northern Star and Ramelius and one sale by Saracen. We also saw four deals in iron ore and a few in other metals including lithium and copper, with some of the group venturing overseas to secure these deals.

Key contributors to this year's deal activity include:

- **OZ Minerals** – acquiring Avanco Resources for $425 million, funded by cash, adding further diversification to its operations by adding copper production and further exploration opportunities in Brazil
- **Northern Star** – completing its acquisition of the Pogo gold project in Alaska from Sumitomo Metal Mining, making their first move overseas
- **Tawana Resources** – contributed to a $425 million merger of equals with its Bald Hill lithium project joint venture partner Alliance Mineral Assets to consolidate the joint venture and provide access to dual listings in Australia and Singapore
- **Hancock Prospecting** – looking to bolster its iron ore interests as it announces an intention to acquire Atlas through compulsory acquisition, currently estimated at a total transaction value of $444 million
- **Galaxy Resources** – entering into a $373 million deal with Korean steel giant POSCO to sell lithium tenements in Argentina, and pursuing other high-grade assets.

## PwC deals perspective – what will appeal in 2019?

### Gold – expect more global deals

Having enjoyed strong prices, strong demand, and favourable exchange rates, we're expecting to see an ongoing presence of M&A activity for gold miners. The MT50 will be looking further abroad for these opportunities, as seen with **Northern Star's** acquisition of the Pogo mine in Alaska.

### Lithium – can't get enough!

Demand is increasing for lithium, boosted by the interest in electric vehicles. We've seen **Galaxy Resources and Pilbara Minerals** announce deals, and we anticipate momentum to continue as offshore strategics look to secure access to high quality resources, and local companies seek to introduce partners to provide capital and offtake certainty.

### Base metals – fuelling rising demand

Copper demand will continue to play an active role in M&A for 2019 as prices remain strong. We saw a number of copper deals in 2018, most notably **OZ Minerals'** purchase of the Antas copper-gold mine and **New Century Resources'** purchase of the Century Mine Rehabilitation Project. **Independence Group** and **Panoramic Resources** also have pending deals.

## Completed M&A transactions greater than $15 million (July 2017 to September 2018)

| Target | Acquirer | Sector | Target Country | Ownership interest (%) | Approximate deal Value $AUDm | Announcement Date | Mid Tier 50 Connection | MT50 Role |
|---|---|---|---|---|---|---|---|---|
| Mt Holland Lithium Project | Sociedad Química y Minera de Chile S.A. | Lithium | Australia | 50 | 147 | Jul-17 | Kidman Resources Limited | Seller |
| King of the Hills gold mine | Red 5 Limited | Gold | Australia | 100 | 28 | Aug-17 | Saracen Mineral Holdings Ltd | Seller |
| Century Mine Rehabilitation Project Pty Ltd | New Century Resources Ltd | Zinc | Australia | 30 | 169 | Oct-17 | New Century Resources Ltd | Acquirer |
| Dioro Exploration Pty Ltd and HBJ Minerals Pty Ltd and Hampton Gold Mining Areas Ltd. | Northern Star Resources Limited | Gold | Australia | 100 | 83 | Nov-17 | Northern Star Resources Ltd | Acquirer |
| Peak Gold Asia Pacific Pty Ltd | Defiance Resources Pty Ltd | Gold/Copper/ Zinc | Australia | 100 | 77 | Nov-17 | Aurelia Metals Ltd | Acquirer |
| Avanco Resources Ltd | OZ Minerals Ltd | Copper gold | Brazil | 100 | 425 | Feb-18 | OZ Minerals Ltd | Acquirer |
| Watershed Tungsten Project (Vital Metals Ltd) | Tungsten Mining NL | Tungsten | Australia | 100 | 15 | Apr-18 | Tungsten Mining NL | Acquirer |
| Jaguar Operation | Round Oak Minerals Pty Ltd | Copper/Zinc | Australia | 100 | 73 | May-18 | Independence Group | Seller |
| Atlas Iron Ltd | Fortescue Metals Group Ltd | Iron Ore | Australia | 15 | 56 | Jun-18 | Atlas Iron Ltd | Seller |
| Atlas Iron Ltd | Hancock Prospecting Pty Ltd | Iron ore | Australia | 11 | 49 | Jun-18 | Atlas Iron Ltd | Seller |
| Central Tanami Project | Northern Star Resources Ltd | Gold | Australia | 15 | 20 | Jul-18 | Northern Star Resources Ltd | Acquirer |
| Pogo Gold Mine | Golden Opportunity Ventures | Gold | USA | 100 | 357 | Aug-18 | Northern Star Resources Ltd | Acquirer |
| **Total** | | | | | **1,499** | | | |

## Pending M&A transactions greater than $15 million (July 2017 to September 2018)

| Target | Acquirer | Sector | Target Country | Ownership interest (%) | Approximate deal Value $AUDm | Announcement Date | Mid Tier 50 Connection | MT50 Role |
|---|---|---|---|---|---|---|---|---|
| Cherish Metals Pty Ltd | Black Mountain Metals LLC | Nickel | Australia | 100 | 15 | Sep-18 | Panoramic Resources Ltd | Seller |
| Explaurum Ltd | Ramelius Resources Limited | Gold | Australia | 100 | 57 | Sep-18 | Ramelius Resources Ltd | Acquirer |
| Southern Hills Tenements (Creasy Group Pty Ltd) | Independence Group NL | Nickel/ Copper | Australia | 70 | 21 | Mar-18 | Independence Group | Acquirer |
| Atlas Iron Ltd | Hancock Prospecting Pty Ltd | Iron Ore | Australia | 80 | 444 | Jun-18 | Atlas Iron Ltd | Seller |
| Talisman A Pty Ltd | Sandfire Resources NL | Energy | Australia | 30 | 72 | Jun-18 | Sandfire Resources | Acquirer |
| Tenements in Salar del Hombre Muerto | POSCO | Lithium | Argentina | 100 | 373 | May-18 | Galaxy Resources Ltd | Seller |
| Tawana Resources NL | Alliance Mineral Assets Limited | Iron Ore | Australia | 100 | 225 | Mar-18 | Tawana Resources | Seller |
| Pilbara Minerals Ltd | POSCO | Lithium | Australia | 5 | 159 | Oct-17 | Pilbara Minerals Ltd | Seller |
| Bengalla Coal Project | New Hope Corporation Limited | Coal | Australia | 40 | 860 | Aug-18 | New Hope Corporation Limited | Acquirer |
| **Total** | | | | | **2,226** | | | |

While the industry is well placed for further M&A activity to deliver growth, the risk of overpaying in times of rising prices will occupy the minds of mining executives.

Cashed up global miners, and the growing presence of private equity firms in recent Australian transactions have only heightened the competition for quality assets.

# Financial analysis

## Income statement analysis

### Continued strength in prices

We've seen a continued trend of improved commodity prices, particularly with coal. The Australian price of thermal coal has been on the rise since July 2017, increasing by 31% in the last year. Infrastructure-driven growth in Asia (mainly China) has resulted in above-average growth and a continuing increase in demand for commodities like coal. Gold prices continued to remain steady amid global political and economic instability, while copper has recently lifted. The Australian dollar's relatively stable performance throughout 2018 has continued to help deliver higher commodity prices to the MT50.

| Aggregated Income statement ($m) | 2018 | 2017 | $ change | % change |
|---|---|---|---|---|
| **Revenue from ordinary activities** | | | | |
| Operating revenue | 21,986 | 19,389 | 2,597 | 13% |
| Non-operating revenue | 2 | 2 | - | 0% |
| **Total revenue** | **21,988** | **19,391** | 2,597 | 13% |
| Less expenses from ordinary activities | (11,524) | (10,517) | (1,007) | 10% |
| **Gross profit** | **10,464** | **8,874** | 1,590 | 18% |
| Selling general and administrative expenses | (2,127) | (1,916) | (211) | 11% |
| Exploration expenses | (409) | (339) | (70) | 21% |
| Provision for bad debts | (4) | (6) | 2 | -33% |
| Stock based compensation | (52) | (40) | (12) | 30% |
| Other income/expenses | (510) | (366) | (144) | 39% |
| **Adjusted EBITDA** | **7,362** | **6,207** | 1,155 | 19% |
| Depreciation and amortisation | (3,762) | (3,392) | (370) | 11% |
| **Adjusted EBIT** | **3,600** | **2,815** | 785 | 28% |
| Impairments and writedowns | (992) | (634) | (358) | 56% |
| Other non-recurring items | 485 | 50 | 435 | 870% |
| **EBITDA** | **6,855** | **5,623** | 1,232 | 22% |
| **EBIT** | **3,093** | **2,231** | 862 | 39% |
| Interest income | 107 | 93 | 14 | 15% |
| Interest expense | (455) | (597) | 142 | -24% |
| Other non-operating items | 35 | (141) | 176 | 125% |
| **Profit from ordinary activities before tax** | **2,780** | **1,586** | 1,194 | 75% |
| Income tax (expense)/benefit | (840) | (716) | (124) | 17% |
| **Net profit/(loss) from continuing operations** | **1,940** | **870** | 1,070 | 123% |
| Earnings of discontinued ops | 67 | 272 | (205) | -75% |
| Minority interest in earnings | (3) | 2 | (5) | -250% |
| **Net profit/(loss) to parent** | **2,004** | **1,144** | 860 | 75% |
| **Adjusted NPAT** | **2,996** | **1,778** | 1,218 | 69% |

Source: CAPIQ

## Revenue

Total mining revenue continued its recent rise in 2018, increasing a further 13% to $22 billion.

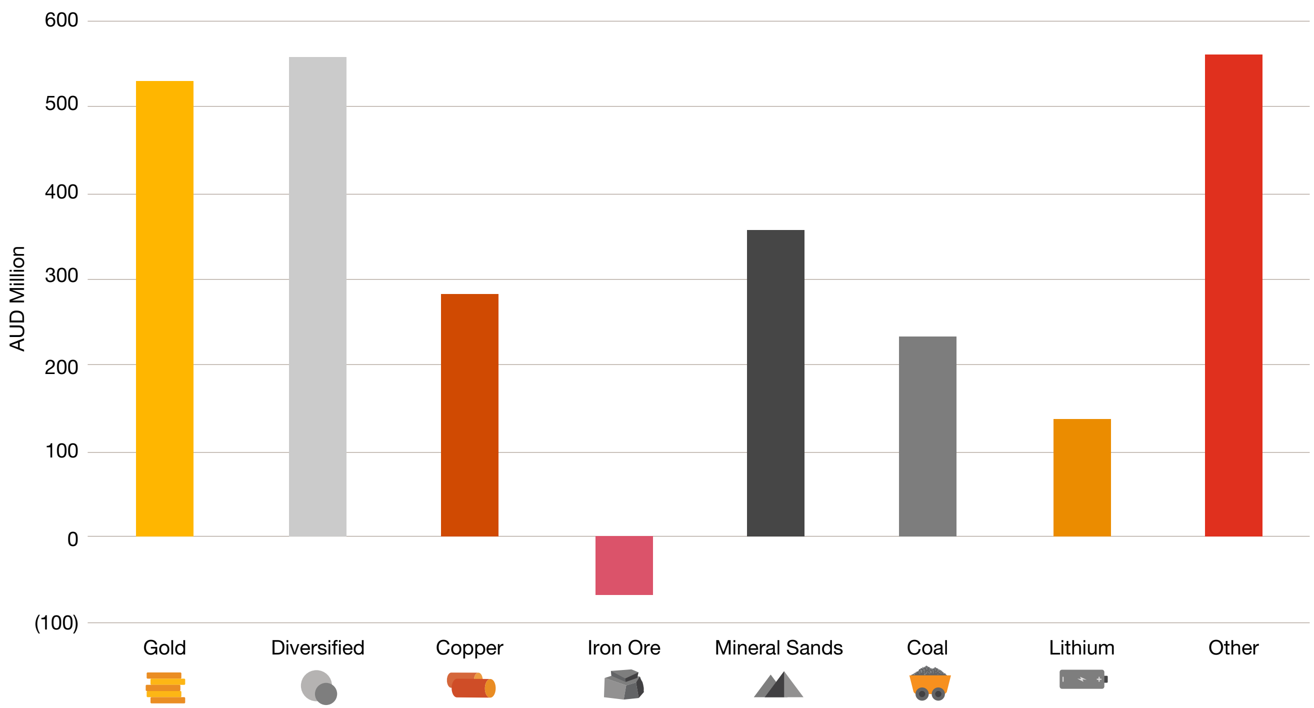
Gold continues to be the lead contributor, accounting for 53% of total MT50 revenue in 2018. Gold miners continued to benefit from high Australian dollar gold prices, which show no sign of decline amid ongoing global political instability.

Other key drivers of growth in operating revenue were diversified metals, manganese and nickel. Only iron ore experienced a decrease in revenue (3%), primarily due to slightly weaker realised prices in 2018.

Notable growth in 2018 included **OM Holdings** as it restarted mining activity after being in care in maintenance with additional furnaces firing up, and **Independence Group** lifting sales after commencing production at its Nova Operations in July 2017.

Similarly, gold companies benefited from continuing high Australian gold prices and production levels lifted to take advantage of favourable conditions. **Ramelius** demonstrated this when it acquired its Edna May operation, helping them achieve a 73% increase in revenue through 2018.

**$ Revenue Growth by commodity (2018 v 2017)**




Source: CAPIQ

## Impairment

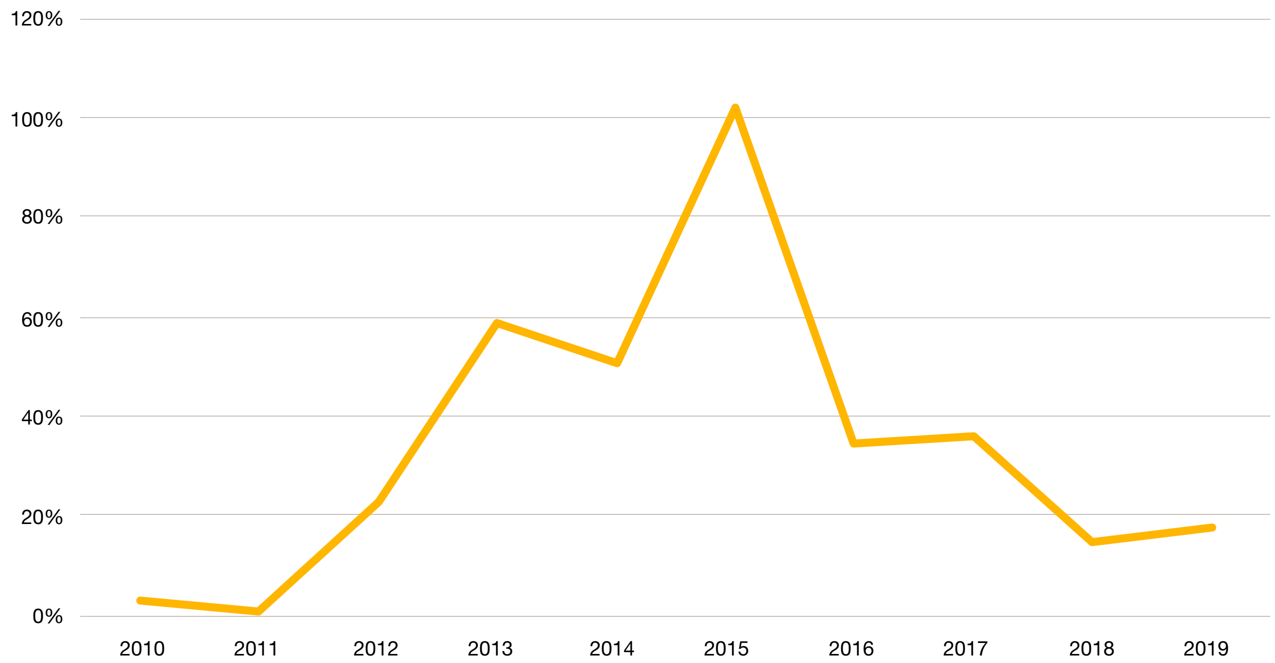
Impairment charges increased unexpectedly by $358 million (56%) in 2018, from $634 million in 2017 to almost $1 billion this year. This comes after a continued reduction in impairment charges since 2015. Closer inspection reveals that 33 MT50 companies recognised an impairment charge of some sort, with 11 recognising impairment charges greater than $10 million.

The majority of impairment charges related to strategic decisions impacting tangible assets from specific projects. Impairment reversals were absent again among the group despite long-term forecasts and mine plans benefiting from increased prices. Impairment as a proportion of capex remains relatively low compared to the peaks of 2013–2016, when collectively more than $13 billion was written off by the group.

Notable impairments recorded in 2018 include:

- **AngloGold Ashanti** ($384 million) – specific mining assets in South Africa were written down due to changes in mine plans to restructure the South African operations, and the decision to sell certain assets
- **Iluka Resources** ($155 million) – following the idling of the Hamilton mineral separation plant in the Murray Basin
- **New Hope** ($132 million) – with the impairment of the Colton exploration project due to increased charges associated with access to the Wiggins Island Coal Export Terminal
- **Atlas** ($104 million) – relating primarily to its Horizon 1 Mining properties after rising costs and discounts to lower grade iron ore hit home

**Impairment as a % of capex (purchase of PPE + exploration)**




Source: CAPIQ

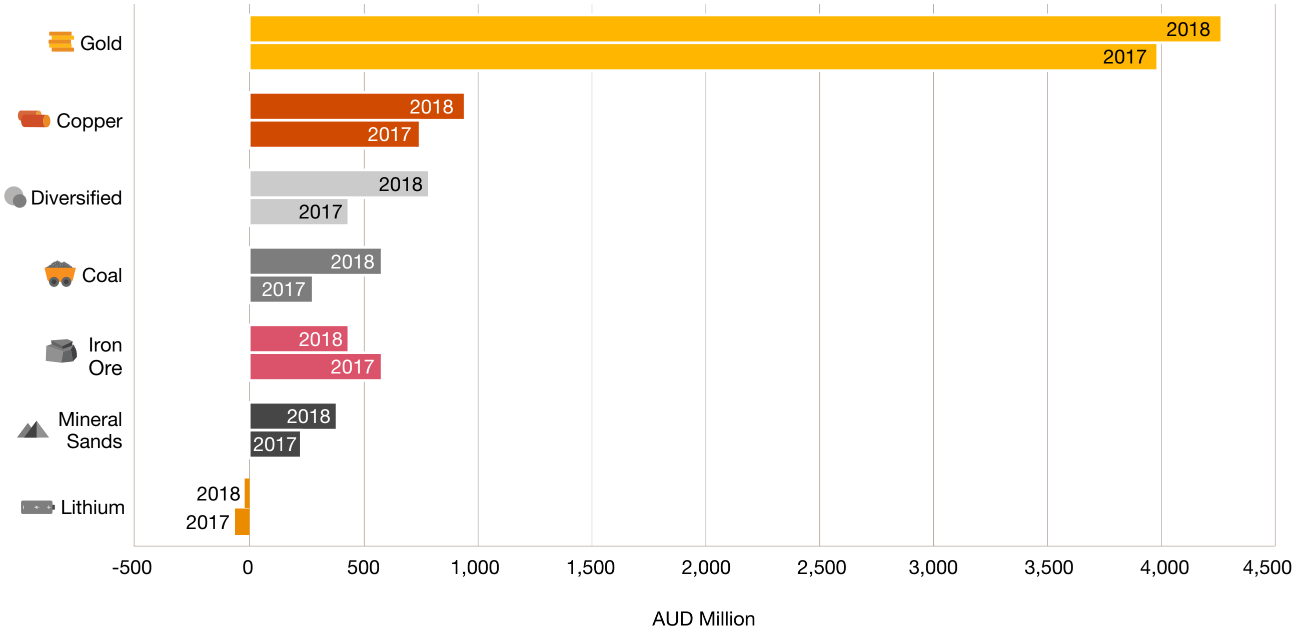
# EBITDA

Consistent with 2017 we saw EBITDA increase in 2018, rising an impressive $1,232 million (22%). The EBITDA margin of 31% continues the run of near record highs for this measure in the past two years. This is an impressive performance, especially considering two of the best performers and largest EBITDA contributors from last year's publication were Yancoal and Whitehaven.

While gold miners were the main contributors to total EBITDA, significant growth was achieved by the coal and diversified miners. Coal benefited from improved prices, which have increased significantly since January 2016 on the back of heightened demand for high-quality Australian coal within Asia.

31 companies in the group reported a positive EBITDA in the current year, marginally up from 30 in the prior year. Given the list has 35 producers, this clearly demonstrates 2018 was a positive year for earnings.

## MT50 EBIDTA by commodity




Source: CAPIQ

# Balance sheet analysis

This year saw a 14% improvement in the net asset position of the group, a direct impact of healthier free cash flows from higher prices across our key commodities. Similar to 2017, there was a renewed focus in paying down more debt. 2018 also saw miners elect to improve their cash position while also reinvesting back into their businesses, with capital expenditure levels increasing.

| Aggregated Balance Sheet ($m) | 2018 | 2017 | $ change | % change |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | 6,292 | 5,278 | 1,014 | 19% |
| Inventories | 3,764 | 3,383 | 381 | 11% |
| Receivables | 1,816 | 1,394 | 422 | 30% |
| Other current assets | 1,223 | 765 | 458 | 60% |
| **Total current assets** | **13,095** | **10,820** | **2,275** | **21%** |
| **Non-current assets** | | | | |
| Long-term investments | 3,218 | 3,093 | 125 | 4% |
| Property, plant and equipment | 25,890 | 24,523 | 1,367 | 6% |
| Accounts receivable | 3 | 79 | (76) | -96% |
| Loans receivable | 42 | 85 | (43) | -51% |
| Deferred tax assets | 868 | 684 | 184 | 27% |
| Other intangibles | 130 | 380 | (250) | -66% |
| Goodwill | 182 | 209 | (27) | -13% |
| Other non-current assets | 1,560 | 1,424 | 136 | 10% |
| **Total non-current assets** | **31,893** | **30,477** | **1,416** | **5%** |
| **Total assets** | **44,988** | **41,297** | **3,691** | **9%** |
| **Current liabilities** | | | | |
| Accounts payable & accrued liabilities | 3,147 | 2,720 | 427 | 16% |
| Interest-bearing liabilities (short-term borrowings) | 691 | 1,325 | (634) | -48% |
| Income tax payable, current | 497 | 421 | 76 | 18% |
| Unearned revenue, current | 32 | 396 | (364) | -92% |
| Other current liabilities | 824 | 433 | 391 | 90% |
| **Total current liabilities** | **5,191** | **5,295** | **(104)** | **-2%** |
| **Non-current liabilities** | | | | |
| Long-term debt | 5,513 | 5,700 | (187) | -3% |
| Capital leases | 176 | 154 | 22 | 14% |
| Unearned revenue, non-current | 17 | 16 | 1 | 6% |
| Deferred tax liability, non-current | 1,667 | 1,664 | 3 | 0% |
| Other non-current liabilities | 3,955 | 3,549 | 406 | 11% |
| **Total non-current liabilities** | **11,328** | **11,083** | **245** | **2%** |
| **Total liabilities** | **16,519** | **16,378** | **141** | **1%** |
| **Net assets** | **28,469** | **24,919** | **3,550** | **14%** |
| **Equity** | | | | |
| Share capital and premium | 37,819 | 36,256 | 1,563 | 4% |
| Retained earnings (accumulated loss) | (8,612) | (10,466) | 1,854 | -18% |
| Other equity | (738) | (871) | 133 | -15% |
| **Total equity** | **28,469** | **24,919** | **3,550** | **14%** |

Source: CAPIQ

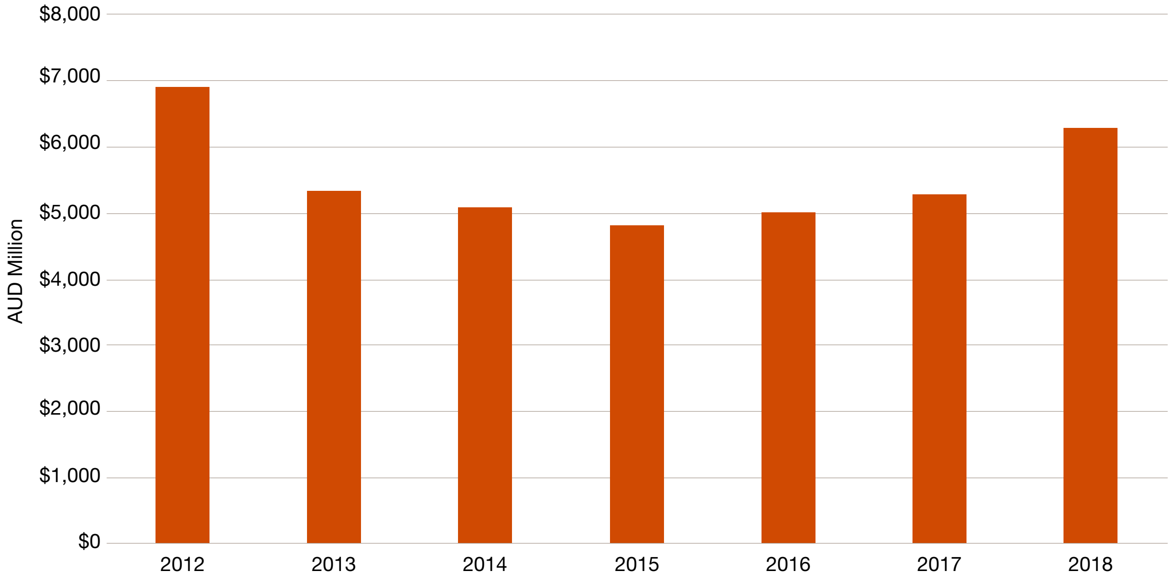
## The war chest continues to grow…

Cash balances have increased 19% across the group, with lithium, coal and diversified miners leading the way. Cash balances are now at levels not seen since 2012, indicating the collective balance sheet is continuing to go from strength to strength – a sign of the times for the industry as a whole.

A suite of options are available to the group, from strategic mergers and acquisitions, to retiring debt and delivering dividends. And so, the question remains: how should excess cash be used?

> One thing is for certain – shareholders will grow impatient unless companies clearly articulate their plans and strategy for capital allocation.

### MT50 Cash Balances




Source: CAPIQ

| Commodity | 2018 | 2017 | % |
|---|---|---|---|
| Gold | 2,287 | 2,145 | 7% |
| Copper | 973 | 782 | 24% |
| Iron ore | 772 | 932 | -17% |
| Lithium | 744 | 207 | 259% |
| Coal | 351 | 237 | 48% |
| Diversified | 422 | 228 | 85% |
| Other | 737 | 747 | -1% |
| **Total** | **6,292** | **5,278** | **19%** |

Source: CAPIQ

## Getting the house in order – gearing levels plummet

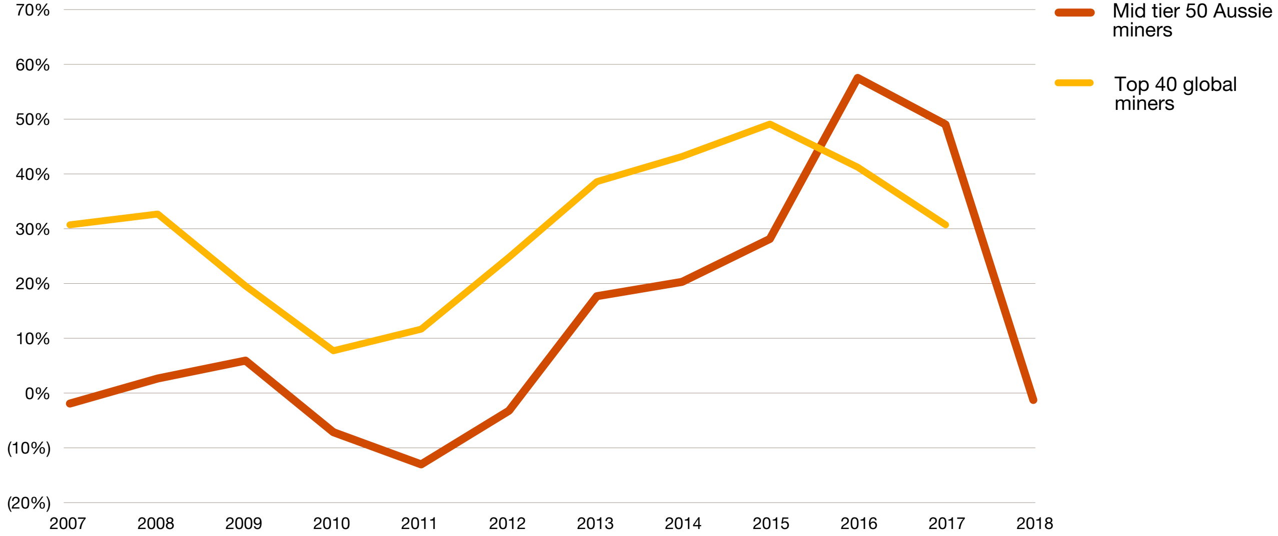
Total debt fell by 12%, with only a few miners opting to repay more than they did in 2017. This indicates gearing may have hit desired levels. In a change of pace from recent years, gold miners retired less debt in 2018 when compared to 2017 (total repaid $1,303 million – down 39% from prior year), while repayments from iron ore miners grew ($16 million – up 93% from prior year).

With interest rates expected to shift upwards in the near future, and increased caution from lenders due to uncertain economic times ahead, the MT50 heeded the warning on gearing levels. With cash rising and debt continuing to be paid down, gearing levels have dropped drastically.

## Juniors leading the charge in maximising capital return

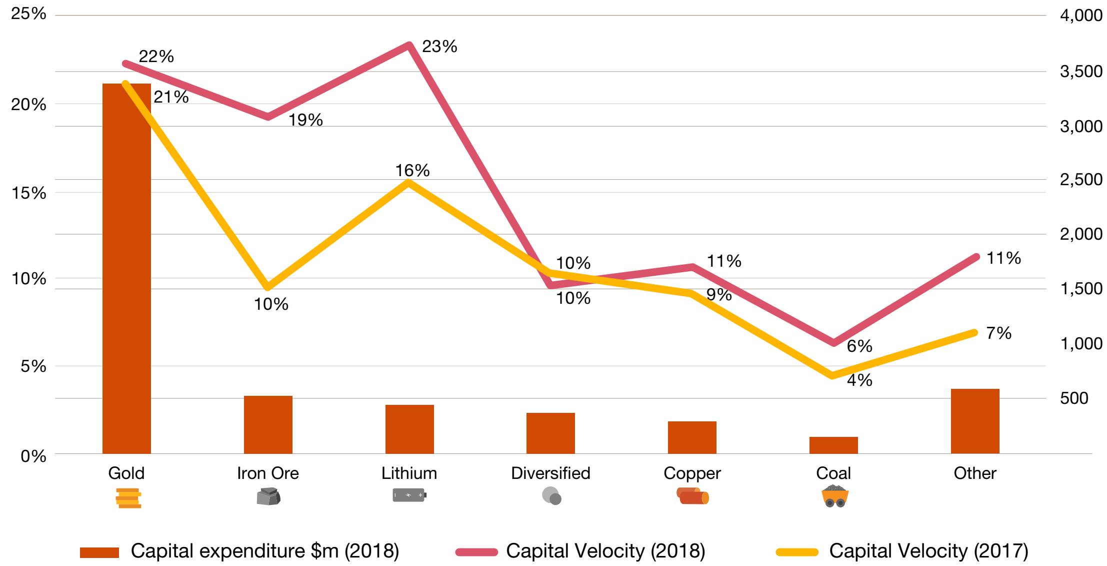
Capital velocity, a proxy for measuring the growth agenda of organisations in capital intensive industries, shows how hard capital assets are working to produce revenue as well as serving as a proxy measure of the growth agenda for capital intensive industries like mining. It's continued to improve in the MT50, with coal, diversified, and iron ore miners significantly lifting their investment in 2018. Lithium and graphite also occupy high-capital velocity statistics, demonstrating the growth in these sectors, although copper has surprisingly remained static despite improved market conditions.

### Index: Gearing ratio




Source: CAPIQ

### Capital velocity compared to capital expenditure by commodity




Source: CAPIQ

# Debt remains the capital source of choice

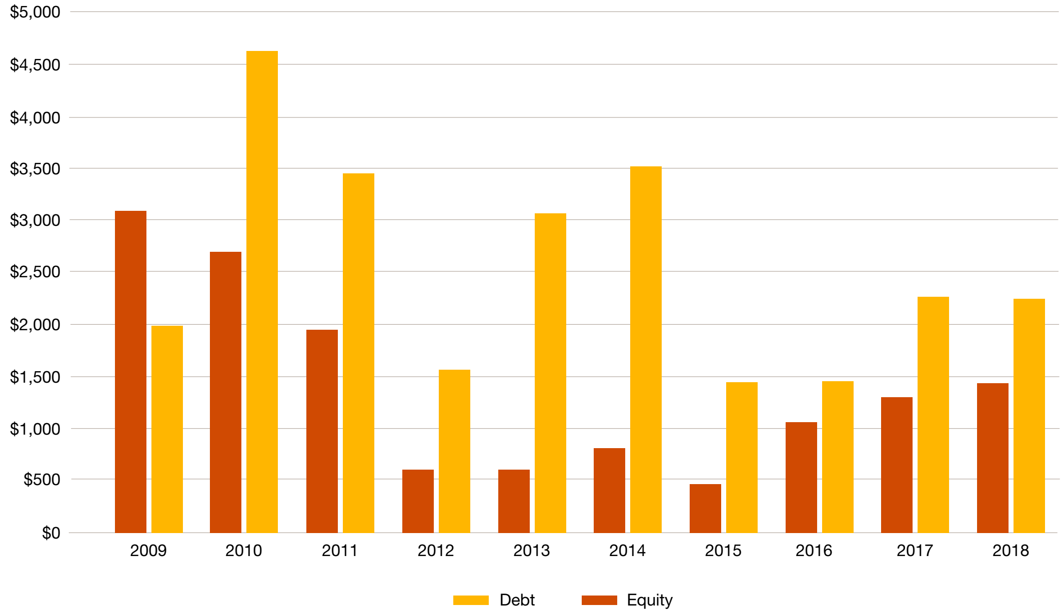
Access to capital to fuel growth ambitions remains a prominent focus for the group, and 2018 saw continued strong trends in both debt and equity raisings. Debt continued to be the capital source of choice – particularly with gold miners – with $2,243 million of capital raised, down slightly from the $2,262 million raised in the prior year. In 2018, $1,525 million of equity was raised (up 14% from the prior year), buoyed by the positive sentiment. It was, however, equity that was favoured by the group's growing number of diversified and lithium miners – a trend that's continued from 2017.

For a mining company, a key determining factor in the decision to raise debt versus equity is the stage of a project's mine life.

For projects in development stages, the split becomes more even, with 57% through debt and 43% through equity. For projects in pre-production or exploration stages, there's a swing back towards equity, with 8% of capital being raised through debt and 92% through equity. This reflects the additional risk inherent at this stage, and also the willingness of investors to support new projects.

Although capital raising was mainly focused on advancing existing projects and maintaining working capital, there was a deals focus among some of the group. These include **Base Resources,** which used equity to raise $100 million of capital for their acquisition of the Toliara Sands Project, and **Aurelia Metals**, which used a combination of debt and equity to raise capital for its acquisition of Peak Mines.

## Debt v Equity MT50




Source: CAPIQ

# Cash flow analysis

| Aggregated ($m) | 2018 | 2017 | $ change | % change |
|---|---|---|---|---|
| **Cash flows generated from operations** | | | | |
| Net income | 2,003 | 1,142 | 861 | 75% |
| Change in accounts receivable | (413) | (289) | (124) | 43% |
| Change in inventories | (484) | (371) | (113) | 30% |
| Change in accounts payable | 494 | 170 | 324 | 191% |
| Change in deferred taxes | 108 | (16) | 124 | -775% |
| Change in other net operating assets | (10) | (63) | 53 | -84% |
| Income taxes (paid)/refunded | (69) | (34) | (35) | 103% |
| Other | 4,665 | 4,592 | 73 | 2% |
| **Cash generated from operations** | **6,294** | **5,131** | **1,163** | **23%** |
| **Cash flows related to investing activities** | | | | |
| Capital expenditure | (5,739) | (4,350) | (1,389) | 32% |
| Proceeds from sale of property, plant and equipment | 71 | 57 | 14 | 25% |
| Cash acquisitions | (117) | (383) | 266 | -69% |
| Divestitures | 24 | 2 | 22 | 1100% |
| Purchases of investments and intangibles | (173) | (126) | (47) | 37% |
| Other investing activities | 1 | (67) | 68 | -101% |
| **Net investing cash flows** | **(5,933)** | **(4,867)** | **(1,066)** | **22%** |
| **Cash flows related to financing activities** | | | | |
| Debt issued | 2,243 | 2,262 | (19) | -1% |
| Debt repaid | (2,269) | (2,722) | 453 | -17% |
| Proceeds from share issues | 1,525 | 1,335 | 190 | 14% |
| Stock repurchases | (112) | (42) | (70) | 167% |
| Ordinary dividends paid | (639) | (482) | (157) | 33% |
| Special dividends paid | - | (18) | 18 | -100% |
| Other financing activities | (95) | (355) | 260 | -73% |
| **Net financing cash flows** | **653** | **(22)** | **675** | **-3068%** |
| **Net increase/(decrease) in cash** | **1,014** | **242** | **772** | **319%** |

Source: CAPIQ

## Operating cash flows boosted again

Cash flows from operations continues to reflect strong growth, with a 23% increase providing greater flexibility for the MT50 to pursue different options with capital allocation.

**Iluka** had a standout year in this regard, reaping the benefits of higher prices with a staggering 222% increase in operating cash flows. Diversified companies also performed strongly, with a 180% increase in operating cash flows. **Independence Group** had the most significant increase, driven by its Nova operation in Western Australia, which achieved commercial production in July 2017. **Zimplats** also joined the list of high performers this year, recording an increase of $191 million driven by higher metal prices, despite reduced production.

Gold producers continue to dominate the MT50, representing more than half (52%) of aggregated operating cash flows, however only **OceanaGold** from this cohort made it into the 'Top five increases in operating cash flows' followed by **New Hope Corporation**, both benefiting from increased production and price.

## Capital expenditure – 'approach with caution'?

With the return of optimism in the industry, and continued improvement in operating cash flows, we expected to see increased investment focused on the future. The heavy investment in mine development suggests companies are following through, though it seems an element of conservatism is at play with a significant focus on existing operations.

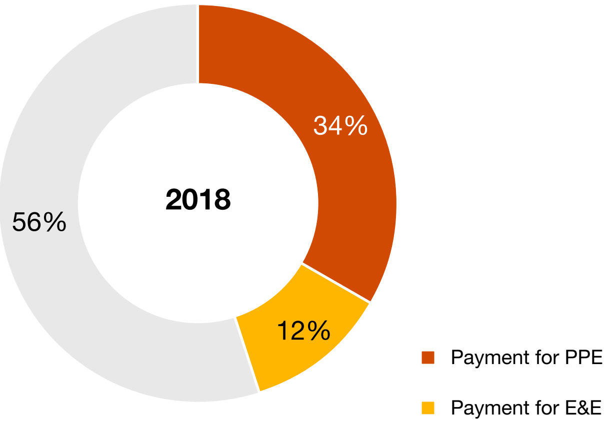
| Top five increases in operating cash flows | Commodity | 2018 | 2017 | Change ($m) |
|---|---|---|---|---|
| Iluka Resources Limited | Mineral Sands | 414 | 128 | 285 |
| Independence Group NL | Diversified | 278 | 78 | 200 |
| Zimplats Holdings Limited | Precious Metals | 264 | 73 | 191 |
| OceanaGold Corporation | Gold | 458 | 321 | 137 |
| New Hope Corporation Limited | Coal | 418 | 285 | 133 |

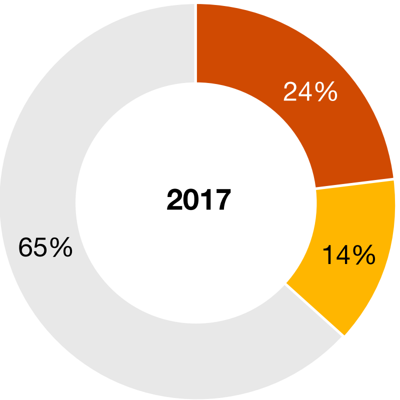
The biggest spender in 2018 was **AngloGold Ashanti**, with a substantial investment ($1.1 billion) aimed at improving mine life and margins across existing operations. Similarly, **Alacer Gold** invested significantly, tipping $440 million into an expansion project for its existing mine in Turkey.

Investment in property, plant and equipment (PP&E) across the MT50 also increased, by 11% to $1.9 billion. This raises the question of whether companies are exercising caution and spending to sustain and manage current operations, rather than thinking of the bigger picture and unlocking the next level of growth through investing in the future.

Exploration continued to take a back seat, only representing 12% of total capital expenditure. Is the MT50 investing enough for future supply? Interestingly, it's the group's four diversified miners that are ramping up exploration activities, with an increased spend of 28%, while gold miners seem to be focused on investing in current operations, with an 8% decrease in capitalised exploration spending.

### Type of capital expenditure




Source: PwC Analysis

## An end to gold high grading?

Replacing reserves and extending mine life is still a key focus for gold miners. Collectively, over a two-year period to 2018, total resources and reserves have been maintained, while average grade has decreased by more than 20%. Are levels being replenished by low grades at higher mining costs? With exploration expenditures decreasing, a question remains on whether enough has been invested in finding tomorrow's new mines rather than harvesting what's in front of us.

# More companies sharing returns

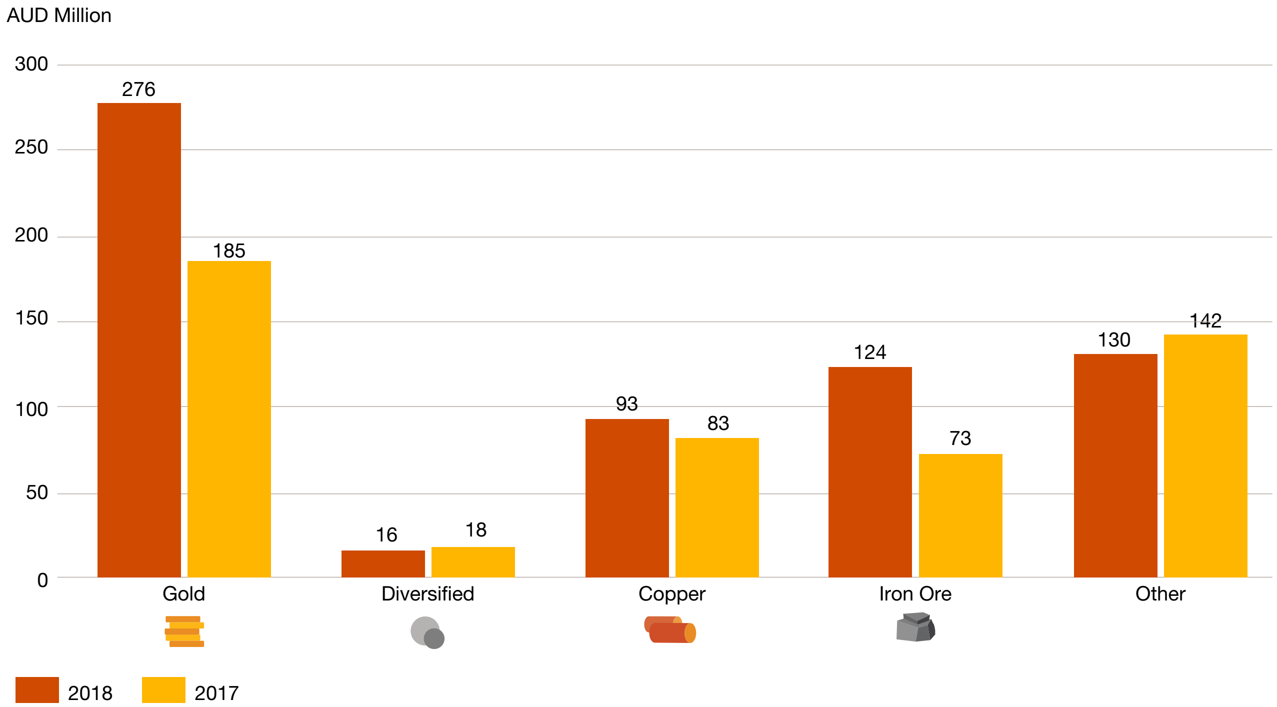
It's been a couple of good years for shareholders in the MT50, with a 33% increase in dividend payments, following a 41% increase last year. An additional five companies joined the fold of those prioritising shareholder returns - the total number of dividend-paying companies up to 16. Unsurprisingly, all dividend-paying companies were producers.

Iron ore companies increased dividend payments by 70% despite their relatively muted performance in 2018, while gold companies lifted dividend payments by almost 50%.

More than half of producing companies within the group are not paying dividends. **Aurelia Metals** was amongst this cohort and chose to use available funds for capital expenditure and the acquisition of Peak Mines.

Similarly **Alacer Gold** continues to invest funds into the construction of its Sulfide project.

### Dividends




Source: PwC Analysis

A trend is emerging among the MT50; capital expenditure is focused on current operations rather than new projects.

Investment in new operations and mines is particularly challenging – but, without it, future supply challenges will be exacerbated.

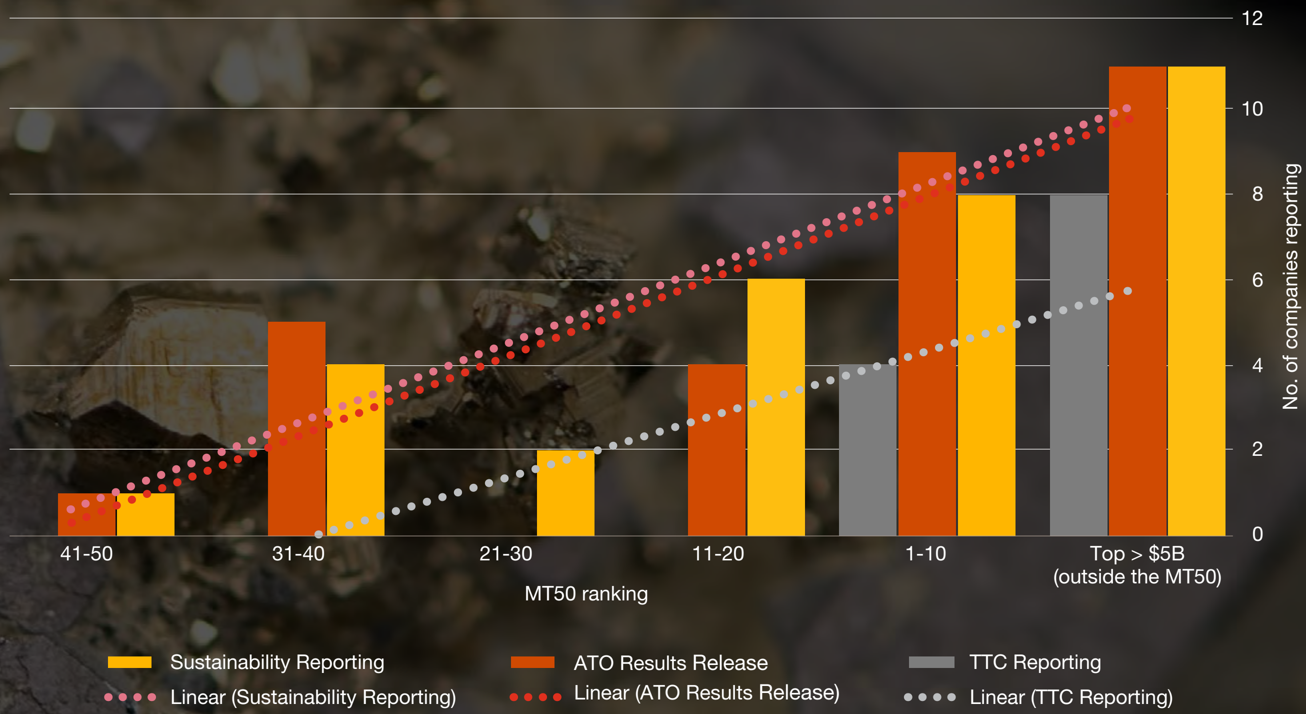
# Voluntary reporting and trends

## Increased market capitalisation demands voluntary reporting

No one industry is immune from concerns around trust. Corporate responsibility continues to rise to prominence and the pressure is mounting on the MT50 for voluntary reporting in its various forms.

There's a clear pattern that as companies get larger and climb higher up (and graduate from) the list, the need for them to report on myriad issues shifts from being a 'non-essential' to 'expected'.

**Voluntary reporting across the MT50**




Source: CAPIQ and PwC Analysis

## Sustainability reporting

Although sustainability reporting is not a new phenomenon, the meaning of sustainability varies across companies, with many aspects considered beyond environmental. Of the MT50, 21 companies currently prepare reports, with eight of the top 10 members reporting. This is in stark contrast to voluntary reporting under the Australian Taxation Office's Tax Transparency Code **(TTC)**, with only four companies preparing reports.

## The push for tax transparency

Australia is among a number of countries pushing global tax transparency initiatives.

The MT50 companies face increased pressure to provide "justified trust" to regulators- and to the public at large - they're paying their 'fair share'.

In December 2017, the ATO released its third corporate tax transparency report which revealed total accounting income, taxable income and income tax payable of companies that have Australian turnover of $100m or more based on 2016 tax return information. 19 companies in the MT50 had their 2016 information published and the raw numbers do little to explain in any informed way whether the MT50 are in fact paying their 'fair share', if in fact such an objective concept of fairness is universally agreed. Despite the group operating net accounting losses from 2014 to 2016, tax was payable by the MT50 in each year, highlighting that the data mandatorily disclosed to the public does little to bridge the gap between accounting income and tax payable.

What has become evident is that a company needs to have a clear narrative to communicate the inputs that result in the output headline data.

The capital intensive nature of mining often results in vast and legitimate discrepancies between the three data points published.

With the ATO's 2017 data release expected shortly, the time delay between tax year end and public release is also of significance and can potentially create noise when historical attributes are compared to current performance.

For members of the MT50 with Australian turnover above $250 million, broadly defined as the 'Top 1000' largest taxpayers in Australia, additional disclosure and compliance requirements now apply. The Reportable Tax Position **(RTP)** schedule must be lodged with the company's income tax return each year, where any material and contestable tax positions must be disclosed. The Top 1000 Streamlined Assurance Review **(SAR)** is also underway, whereby taxpayers face a multi-year review of their income tax affairs.

Requirements further increase for the five members of the group that are Significant Global Entities **(SGEs)** based on global turnover in excess of A$1b. SGEs are required to prepare general purpose financial statements, subject to dramatically increased penalties for non-compliance or late lodgements, increased transfer pricing reporting and specifically targeted anti-avoidance rules.

This mounting pressure on the MT50 is expected to continue, with Australia an official supporter of the Extractive Industry Transparency Initiative **(EITI)** since 2006 with plans for domestic implementation.

If there's a change of government, the Labor Party has publicly endorsed further tax transparency reform, with measures including public disclosure of: transfer pricing reporting lodged by SGEs; company dealings in any known or suspected tax havens; and the number and size of tax settlements above a value of $50 million, estimated at approximately 8 settlements per year.

### The future role of tax transparency

The tax transparency tide is only set to rise, as the tensions between public, government and corporates flare and trust is called into question.

Tax has become an integral component to a company's social license to operate, with proactive stakeholder engagement a must.

Comparable to the beginning of environmental reporting decades ago, the MT50 must adapt to new community standards.

# Explanatory notes and key contributors

We have analysed the largest 50 mining companies listed on the ASX with a market capitalisation of less than $5 billion at 30 June 2018. The results aggregated in this report have been sourced from publicly available information, primarily annual reports and financial reports available to shareholders. Companies have different year-ends and report under different accounting policies. Information has been aggregated for the financial years of individual companies, and no adjustments have been made to take into account different reporting requirements and year-ends. As such, the financial information shown for 2018 covers periods between 1 January 2017 and 30 June 2018, with each company's results included for the 12-month financial reporting period that falls into this timeframe.

All figures in this publication are reported in Australian dollars, except where specifically stated. The results of companies that report in currencies other than the Australian dollar have been translated at the average Australian dollar exchange rate for the financial year, with balance sheet items translated at the closing Australian dollar exchange rate. Some diversified companies undertake part of their activities outside of the mining industry. Unless specifically stated, no adjustments have been made to exclude such non-mining activities from the aggregated financial information.

# Our 2018 writing team

## Left to right:

**Laura Gollant**
Accountant – Tax, Melbourne

**Martin Claassen**
Manager – Assurance, Sydney

**Madeleine Jarvis**
Manager – Assurance, Adelaide

**Anthony Hodge**
Partner – Assurance, Melbourne

**Dima Malkin**
Senior Accountant – Assurance, Melbourne

**Matthew Kinna**
Senior Accountant – Assurance, Perth

**Aliza Syed**
Manager – Assurance, Melbourne

## Not pictured:

**Matt McKee**
Director – Consulting, Brisbane


## Acknowledgement

We would like to thank the following PwC team members who have made a significant contribution to the development of this publication:

- Stevie Pitcher
- Deena Hooper

# PwC contacts

## Energy, Utilities & Resources Leader

**Mark Coughlin**
Melbourne, Consulting
T: +61 (3) 8603 0009
E: mark.coughlin@pwc.com

## National Mining Leader

**Chris Dodd**
Melbourne, Assurance
T: +61 (3) 8603 3130
E: chris.dodd@pwc.com

## State Leaders

**Wim Blom**
Brisbane, Financial Advisory
T: +61 (7) 3257 5236
E: wim.blom@pwc.com

**Stephen Loadsman**
Brisbane, Consulting
T: +61 (7) 3257 8304
E: stephen.loadsman@pwc.com

**Justin Eve**
Perth, Assurance
T: +61 (8) 9238 3554
E: justin.eve@pwc.com

**John O'Donoghue**
Melbourne, Assurance
T: +61 (3) 8603 3067
E: john.odonoghue@pwc.com

**James O'Reilly**
Brisbane, Financial Advisory
T: +61 (7) 3257 8057
E: james.oreilly@pwc.com

**Andrew Forman**
Adelaide, Assurance
T: +61 (8) 8218 7401
E: andrew.forman@pwc.com

**Brett Entwistle**
Sydney, Assurance
T: +61 (2) 8266 4516
E: brett.entwistle@pwc.com