About this survey
The Global Capital Confidence Barometer is a regular survey of senior executives from large companies around the world, conducted by the Economist Intelligence Unit (EIU). Our panel comprises select Ernst & Young clients and contacts and regular EIU contributors. This snapshot of our findings gauges corporate confidence in the economic outlook, and it identifies boardroom trends and practices in the way companies manage their Capital Agenda.

Profile of respondents
• EIU panel of almost 1,600 executives surveyed in February and March 2013
• 193 respondents from mining and metals
• Companies from 50 countries
• Respondents from more than 20 industry sectors
• 794 CEO, CFO and other C-level respondents
• 912 companies would qualify for the Fortune 1,000 based on revenues

The Capital Agenda
Based around four dimensions, it helps companies consider their issues and challenges, understand their options and make more informed capital decisions:
1. Preserving capital: reshaping the operational and capital base
2. Optimizing capital: driving cash and working capital and managing the portfolio of assets
3. Raising capital: assessing future capital requirements and funding sources
4. Investing capital: strengthening investment appraisal and transaction execution

Key findings
- 57% think the global economy is improving, up from 21% in October 2012.
- 46% view credit availability as improving, up from 30% in October 2012.
- 44% of companies are focused on growth, up from 38% in October 2012.
- But only 24% are focused on M&A, down from 28% in October 2012.
- 54% have a greater focus on capital planning, up from 44% in October 2012.
- 69% believe there to be a greater focus on efficiency and cost control compared to a year ago.
Access to capital

Please indicate your level of confidence in credit availability.

<table>
<thead>
<tr>
<th></th>
<th>Apr-12</th>
<th>Oct-12</th>
<th>Apr-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving</td>
<td>48%</td>
<td>30%</td>
<td>46%</td>
</tr>
<tr>
<td>Stable</td>
<td>45%</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td>Declining</td>
<td>7%</td>
<td>23%</td>
<td>13%</td>
</tr>
</tbody>
</table>

46% of mining and metals companies believe that credit availability is improving.

While challenges persist in certain markets, respondents remain optimistic about the availability of credit.

It is encouraging to see a more positive sentiment regarding the availability of capital, albeit from a low base when we witnessed in 2012 an overall decline in the amount of capital raised by the sector for the first time since 2009.

Capital raising options are certainly broader than they were previously and alternative sources of finance are increasingly replacing traditional equity and loan finance in the sector, although these are by no means filling the gap entirely.

We are seeing funds flow into the sector as an alternative to debt and equity, ranging from equipment and infrastructure providers; national and development banks; streaming and royalty agreements; and private funds looking to achieve returns for private investors and institutions. Each different type of investor will have its own funding criteria which will undoubtedly result in a greater need for companies to do their diligence and determine the true cost of capital to best optimize capital structures.

Capital planning

How do you think the boardroom agenda at your company has changed from a year ago?

- Efficiency & cost control: 69% improving, 22% stable, 9% declining
- Risk management: 63% improving, 30% stable, 7% declining
- Capital allocation: 54% improving, 39% stable, 7% declining
- Regulatory issues: 53% improving, 38% stable, 9% declining
- Investor relations: 52% improving, 39% stable, 9% declining
- Corporate governance: 51% improving, 41% stable, 8% declining
- Growth - innovation & R&D: 46% improving, 42% stable, 12% declining
- People - attracting & retaining talent: 42% improving, 38% stable, 20% declining
- Growth - new geographic markets: 35% improving, 49% stable, 16% declining

54% of mining and metals companies have a greater focus on capital allocation, up from 44% six months ago.

Capital allocation decisions are becoming more complex and consequently are moving up the boardroom agenda. Mining and metals companies must balance the demands of their equity shareholders with those of local host governments, employees and local communities – all of which have different priorities and differing investment horizons. Shareholders, for example, are increasingly measuring a short investment window of two to three years, where the investment decisions undertaken by management are to support growth well beyond that term.

One way many mining and metals companies have reacted to this is through declaring a capital strike and rapidly cutting back on their capital spend – but at what cost? There is a risk that this could be taken too far where scaling back on investment may damage the longer-term prospects of a company and its ability to maintain its social license to operate.
Growth strategies

If your company has excess cash to deploy, which of the following will be your focus over the next 12 months?

- Growth (organic and inorganic): 44% in Oct-12, 63% in Apr-13
- Pay down debt: 20% in Oct-12, 35% in Apr-13
- Paying dividends: 10% in Oct-12, 16% in Apr-13
- Buy back stock: 7% in Oct-12, 5% in Apr-13

Which statement best describes your organization’s focus over the next 12 months?

- 38% in Oct-12, 44% in Apr-13
- Cost reduction and operational efficiency: 27% in Oct-12, 35% in Apr-13
- Maintain stability: 32% in Oct-12, 18% in Apr-13
- Survival: 3% in Oct-12, 3% in Apr-13

Despite this capital strike, respondents still believe that greater returns can be generated through developing project pipelines above returning cash to shareholders: only 17% of mining and metals respondents are intending to increase their focus on returning cash in the form of buybacks and dividends, despite a greater call from shareholders to do so. However, the pressure to return capital to shareholders remains greater for the larger mining companies.

The high level of respondents giving this view is likely to be driven by those with single project portfolios but, regardless, it highlights that the need for companies to balance their long-term growth objectives with the need to satisfy stakeholder expectations is greater than ever. This balance is best achieved through embedding rigor, discipline and transparency into capital planning processes while ensuring this is best practice rather than value destructive.

44% of mining and metals companies have a greater focus on growth, up from 38% six months ago.
**Improving growth sentiment**

Companies are more focused on growth compared with six months ago, as the pressure to replace depleting reserves and maintain production mounts. Growth is expected to be achieved by continued investment into lower-cost, high margin projects; albeit at a slower pace than witnessed during the past five years as a new era of capital discipline takes hold.

While mining companies currently pause for breath, we expect to see a steady approach to growth in the short term as the newly appointed CEOs of the industry’s majors attempt to appease investors who have made it clear that long-term investment with large capital outlay and significant political risk will not be rewarded.

**Growth will be supported by a stronger operational base**

Companies are seeking to achieve growth from a stronger operating base as they adopt an increased focus on cost reduction and operational efficiency in order to drive greater margins and improve earnings. The industry has been squeezed in every direction with weaker commodity prices, significant cost inflation and labor unrest placing pressure on earnings.

Recently, companies have taken drastic measures to reduce their operating cost base, including announcing staff reductions and mine closures. As the effects of these measures, together with an uplift in production as capital projects begin to come on line, we would expect to see this operational base improve and earnings recover.

69% of respondents believe there to be a greater focus on efficiency and cost control compared to a year ago.

**A weaker appetite for M&A, with smaller, lower risk deals favored**

Mining and metals respondents are less focused on pursuing M&A opportunities compared with six months ago. This is unsurprising given the recent level of write-offs announced during the first quarter of 2013, which have stunned the industry and has taken large scale M&A off the table for now.

For those deals expected to be undertaken, smaller bolt-on deals are favored, with 91% of deals expected to be below US$500m, up from 74% in October 2012, supporting management’s current preference for steady growth in order not to jeopardize balance sheet agility and to preserve credit ratings.
What is the expected deal size?

<table>
<thead>
<tr>
<th>Oct-12</th>
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</thead>
<tbody>
<tr>
<td>Over US$1b</td>
<td>5%</td>
</tr>
<tr>
<td>US$501m–US$1b</td>
<td>21%</td>
</tr>
<tr>
<td>US$51m–US$500m</td>
<td>26%</td>
</tr>
<tr>
<td>US$50m or less</td>
<td>48%</td>
</tr>
</tbody>
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Divesting for value

There is a strong appetite for divestments in the sector where 43% of mining and metals respondents of Ernst & Young’s recent Global Corporate Divestment study revealed that they expect to initiate divestment plans over the next two years.

What are the main drivers of your company’s planned divestment activity? (Select two)

- Focus on core assets: 41% (Apr-13), 48% (Oct-12), 67% (Apr-12)
- Enhance shareholder value: 34% (Apr-13), 39% (Oct-12), 17% (Apr-12)
- Shed underperforming business unit: 22% (Apr-13), 34% (Oct-12), 10% (Apr-12)
- Fund inorganic/M&A growth plans: 31% (Apr-13), 13% (Oct-12), 19% (Apr-12)
- Raise cash to compensate for underperformance of aggregate business: 28% (Apr-13), 26% (Oct-12), 24% (Apr-12)

Capital recycling through asset divestitures or partial stake divestments will remain a key priority for the large producers as an established method of enhancing shareholder value and capital redeployment.

Has risk aversion gone too far?

As management continue to pursue divestment strategies, those ignoring M&A opportunities may be missing out in an environment where valuations are depressed, providing potentially attractive returns on deals offering synergistic benefits.

We expect to see a continued interest in M&A from those that have a longer-term view of the sector, specifically those counter-cyclical and financial investors with access to capital outside of the public markets.
**Economic outlook**

What is your perspective on the state of the global economy?

<table>
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<td>53%</td>
<td>21%</td>
</tr>
<tr>
<td>Stable</td>
<td>29%</td>
<td>26%</td>
<td>57%</td>
</tr>
<tr>
<td>Declining</td>
<td>6%</td>
<td>22%</td>
<td>2%</td>
</tr>
</tbody>
</table>

57% of mining and metals respondents believe that the state of the global economy is improving—up from 21% in October 2012.

**Economic optimism returns**

Mining and metals respondents are significantly more optimistic about the global economic environment with 57% believing that the state of the global economy is improving, up from 21% six months ago. While global economic sentiment has improved, the growth of BRIC and emerging nations remains the biggest economic factor driving demand.

**Survey demographics**

What best describes your company ownership?

- Publicly listed: 71%
- Privately owned: 22%
- Government/state-owned enterprise: 2%
- Family-owned: 2%
- Private equity portfolio company: 3%

What is your position in the organization?

- C-level executive: 50%
- Head of BU/dept.: 31%
- SVP/VP/director: 19%

What are your company’s annual global revenues in US$?

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $500m</td>
<td>25%</td>
</tr>
<tr>
<td>$500m to $999.9m</td>
<td>23%</td>
</tr>
<tr>
<td>$1b to $4.9b</td>
<td>33%</td>
</tr>
<tr>
<td>$5b or more</td>
<td>19%</td>
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</tbody>
</table>
Ernst & Young's Global Mining & Metals Center

With a strong but volatile outlook for the sector, the global mining and metals industry is focused on future growth through expanded production, without losing sight of operational efficiency and cost optimization. The sector is also faced with the increased challenges of changing expectations in the maintenance of its social license to operate, skills shortages, effectively executing capital projects and meeting government revenue expectations.

Ernst & Young's Global Mining & Metals Center brings together a worldwide team of professionals to help you achieve your potential – a team with deep technical experience in providing assurance, tax, transactions and advisory services to the mining and metals sector. The Center is where people and ideas come together to help mining and metals companies meet the issues of today and anticipate those of tomorrow. Ultimately it enables us to help you meet your goals and compete more effectively. It's how Ernst & Young makes a difference.

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EYG no: ER0062
CSG/GSC2013/1049244

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ED 0114