

Mining and Metals Colombia Conference Presentation

May 2010

M&A: Latin America

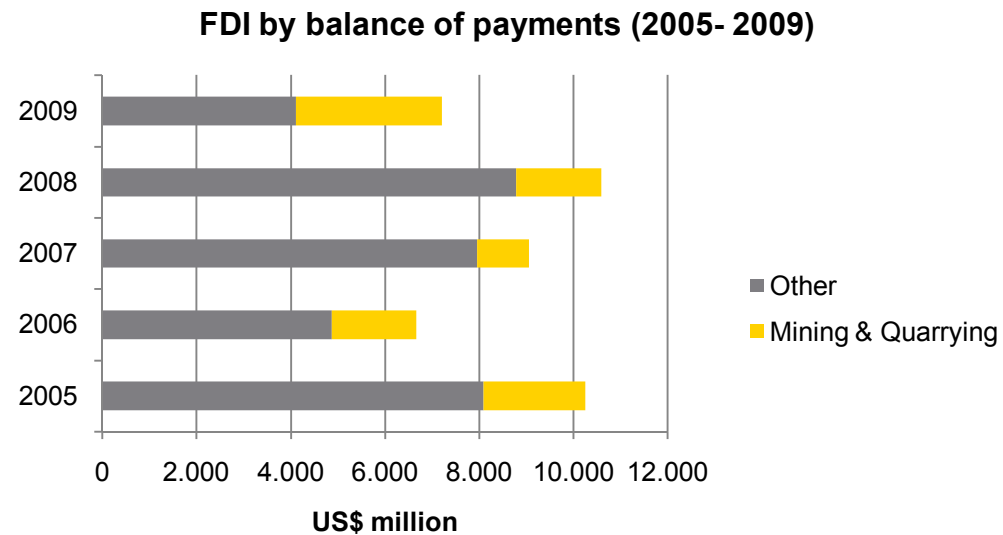
1Q2010

- ▶ Colombia has attracted five deals worth US\$2.4b
- ▶ Largest - Glencore exercised its option to acquire back its Prodeco coal operations from Xstrata for US\$2.25b

Value of Latin American deals (1Q09 v 1Q2010)					Volume of Latin American deals (1Q09 v 1Q2010)				
	1Q2009	1Q2010	Growth	1Q10 pending		1Q2009	1Q2010	Growth	1Q10 pending
Outbound	152	9	-94%	247	Outbound	4	5	25%	16
Inbound	2,135	3,032	42%	4,988	Inbound	9	26	189%	261
Inter-regional	916	93	-90%	745	Inter-regional	5	8	60%	42
Total	3,024	3,135	-2%	5,980	Total	18	39	177%	319

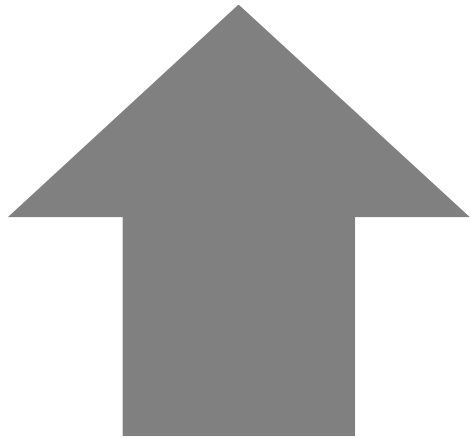
Colombia – increasingly attractive

- ▶ Eight years of stability and rising foreign investment under President Alvaro Uribe
- ▶ Colombia hopes to attract US\$49b in mining and energy investment over next five years
- ▶ World Bank ranked Colombia as 37th easiest place to do business out of 183 countries
- ▶ Potential is returning - mining represents 3% of GDP
- ▶ Gross foreign direct investment into Colombia in 2009 was \$8.6 billion

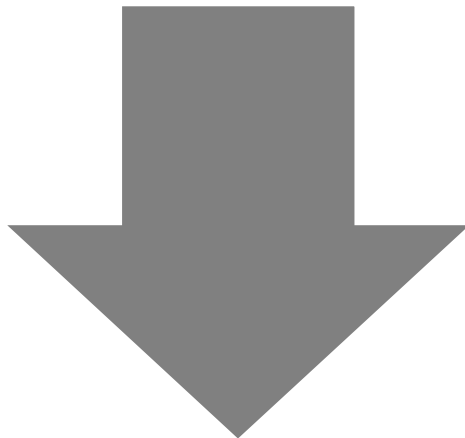


Dutch Disease

Effect of resource wealth on an economy



- ▶ Exchange rate volatility
- ▶ Drives up wages
- ▶ Inflation
- ▶ Flood of cheaper imports
- ▶ Corruption



- ▶ Other industries become less competitive on export markets
- ▶ Job losses
- ▶ Reduces FDI

Avoiding the Dutch Disease

Governance and planning are key

- ▶ Sound monetary policy
- ▶ Open trading and investment regimes
- ▶ Anti corruption regulation
- ▶ Prevention of skills migration
- ▶ Stimulation of local capital
- ▶ Progressive resource rent tax

Avoiding the Dutch Disease

Sound monetary policy - Norway

- ▶ In 1995, set up “Petroleum Fund” for all tax revenue from North sea oil
- ▶ This offshore fund invests in Government bonds and blue-chip equities
- ▶ Government draws on the fund

Benefits of this approach

- ▶ Sovereign wealth fund denominated in US\$
- ▶ Country can spend real interest on natural resources after they have been depleted
- ▶ Transforms a non-renewable source to a financial asset
- ▶ No impact on local exchange rate or competitiveness
- ▶ Companies can keep profits offshore

Avoiding the Dutch Disease

Open trading and investment regime - Chile

- ▶ Open trade – low tariffs and one of the world’s largest networks of bi-lateral and multi-lateral trade agreements
- ▶ A favourite destination for copper mining investment for over two decades
- ▶ Mining culture
- ▶ Fiscal stability regime
- ▶ Economic and Social Stabilization Fund (ESSF)

“In Chile, the rules are established upfront. If you follow the rules, you can work, the goalposts will not move overnight due to political or pressure-group interference”

“..Chile [has the best mining policy globally]. The governments are pro-mining and understand the importance to the developments of its economic growth”

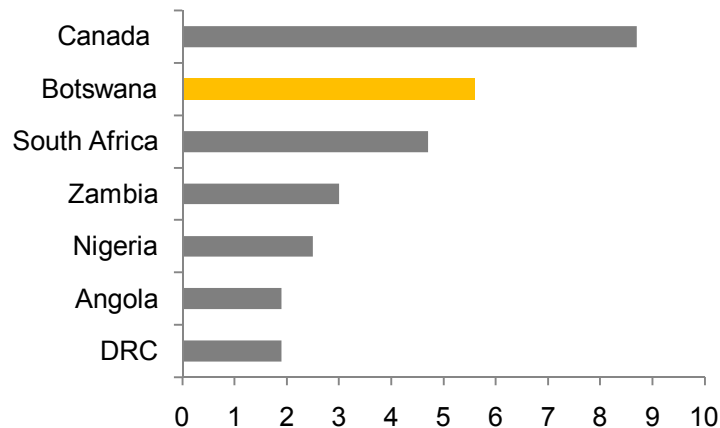
Source: Fraser Institute Survey 2008-2009

Avoiding the Dutch Disease

Anti-corruption measures - Botswana

- ▶ Correlation between increase of mining and increase of corruption
- ▶ Sound policies can help to reduce this
- ▶ 1994, Corruption and Economic Crime Act and Anti-Corruption Agency established

Corruption Perception Index 2009 scores



Corruption	Botswana	Region	All Countries
% of firms expected to give gifts to get an operating license	3.29	19.53	16.10
% of firms expected to give gifts in meetings with tax officials	4.47	18.32	16.60
% of firms identifying corruption as a major constraint	22.58	34.65	36.26

"Botswana has ZERO tolerance for corruption. It is illegal to offer or ask for a bribe"

Avoiding the Dutch Disease

Prevent skills migration - Australia

- ▶ The Australian minerals sector needs additional 86,000 workers over the next 10 years to maintain current market share
- ▶ Through the Skilling Australia for the Future Initiative, the Federal Government committed to initiatives to address mining skills and labour shortages including:
 - ▶ Vocational education and training
 - ▶ Increase in the skilled migration program
 - ▶ Establishing trade training centres
 - ▶ Student loan incentives for science graduates, benefiting geology and geosciences
 - ▶ Literacy and numeracy programs for indigenous students

Avoiding the Dutch Disease

Stimulate local capital - Canada

- ▶ Attractive foreign investment rules
- ▶ Since introduction of flow through share scheme (2000) there has been exponential growth in Canada's mining and metals sector:
 - ▶ Canada ranked number one for mineral exploration since 2002
 - ▶ 19% of total world exploration expenditures were for Canadian projects (2008)
- ▶ Liberal stock market regulation – TSX houses 60% of the world's public mining companies
- ▶ Creates base to distribute benefits
- ▶ Canadian mining sector has become a source of growth and dynamism for mining services
- ▶ Strong sector has made Toronto a key centres of finance and capitalization - supporting legal, accounting and banking sector

Avoiding the Dutch Disease

Progressive resource rent tax - Australia

- ▶ Progressive
- ▶ Efficient
- ▶ Enables fiscal stability
- ▶ Distributes benefits to avoid “two-speed economy”
- ▶ Profit based only
- ▶ Is aligned with the miners capacity to pay an economic rent
- ▶ Capital and operating costs will become tax deductible and transferable

Reduces impact of the boom on the broader economy and provides cushioning for the bust

Colombia – building on the success

- ▶ Consultation between Government, communities and sector is key
- ▶ Governance and planning needed to react quickly to the boom
- ▶ Exploit knowledge of operating in a challenging business environment
- ▶ Forging stronger links with resource-hungry countries in Asia – especially China
- ▶ Building confidence of leading Colombian businesses
- ▶ The availability of technical and managerial skills remain a concern

Thank you