



ENERGY & NATURAL RESOURCES

Global Mining Reporting Survey

2006

INDUSTRIAL MARKETS



AUDIT • TAX • ADVISORY

This publication contains specific extracts from the publicly available information available through the Annual Reports of companies that we have desk-top surveyed. All extracts are referenced in relation to the public document and the date of the specific Annual Report.

KPMG's Global Energy and Natural Resources Practice

Through its member firms, KPMG has invested extensively in developing a high quality mining industry team led by an established network of Centers of Excellence for the mining industry.

The network of key centers means that we have immediate access to the latest industry knowledge, skills and resources, allowing us to deliver quality service to our clients regardless of geographical borders. The network develops current and forward looking industry understanding through global experience, knowledge sharing, industry training and sharing of resources.

KPMG is a global network of professional firms providing audit, tax and advisory services. We operate in 144 countries and have more than 104,000 professionals working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. KPMG International provides no client services.

KPMG member firms serve the market leaders within the mining industry, providing audit or other services to many of the clients included in this survey.

We supplement our tailored services with a comprehensive range of thought leadership materials which provide a useful reference guide to operatives working in the industry.



Foreword

KPMG International is delighted to present the results of its *Global Mining Reporting Survey 2006*, the third triennial survey of its kind.

As a nation, Australia has enjoyed spectacular success in the mining industry in recent years and KPMG's Australian member firm was delighted to have the opportunity to host the survey team from around the world and to project manage the research and thought leadership process this year.

Since the last survey, change has continued for the industry at a furious pace and in every part of the world. As this publication goes to print, there are no signs that the boom times currently being enjoyed by the industry in many regions will end in the near future.

The company make up of the survey has also changed. Some of the companies we covered in the 2003 survey have disappeared, some are in negotiations as we go to print and the survey list has been refreshed with the aim of capturing the current global sector leaders. New additions to our the list reflect the increasing importance to the industry of some of the world's fastest growing economies: Brazil, Russia, India, Chile and China.

The 2003 KPMG Mining Reporting Survey said the following about the period between 2003 and 2006;

"An opportunity exists for mining companies to take a bigger picture view, treating new corporate governance requirements and the move to IFRS as another element of the opportunity to optimize organizational performance rewards."

The adoption of International Financial Reporting Standards (IFRS) by many countries around the world, including Australia, United Kingdom and many other countries in the European Union has resulted in the need for a large number of companies to replace their existing accounting policies with new policies that are compliant with IFRS.

Of the 44 companies covered by this survey, 11 have transitioned to IFRS in the current reporting period, and a further 12 will need to transition when Canada moves to the IFRS framework in 2011. Further, the proliferation of new guidance, issued under the IFRS framework in the last two years, has caused accounting policy changes to comply with new IFRS guidance in a further 9 of our 44 companies surveyed.

The widespread introduction of IFRS has meant that there has been progress towards the much promised convergence of accounting practices for the industry. This time, the survey is based largely on just three reporting frameworks: U.S. GAAP, Canadian GAAP and IFRS, and given the amount of change, much of our commentary is around the judgments being applied in the adoption of IFRS.

Using this survey

The members of KPMG's Global Mining practice will be discussing the results of this survey with our firms' clients into 2007 and we encourage your review of what your peers in the industry are reporting.

Obviously, care must be taken in applying the observations outlined in this document in a fast changing environment. While we hope this survey provides a useful guide to you, we would encourage you to consult your local KPMG firms' professional for guidance that is tailored to your circumstances.



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The publication of this third KPMG survey underscores significant changes in financial reporting by the world's major mining companies.

The 2005 adoption of IFRS has reduced the variety of national GAAP choices, but this has not removed diversity of application. Nor has it resolved the question of how to recognize, measure, and report changes in mineral reserves and resources. The IASB is acutely aware of the need for improvements in this area.

Progress is being made towards convergence of the technical definitions of reserves and resources through consultation among industry representative bodies of mining and petroleum engineers and geologists. This will provide the basis for both operational and investment decisions, as well as for financial reporting.

Towards the end of 2007, the IASB expects to publish a research paper of its preliminary views on how these definitions can be used to improve financial reporting. The research will address changes to both accounting and disclosure.

The need to align internal and external reporting is recognized by all participants in capital markets. But is the view of business "through the eyes of management" the best way to achieve this?

Greater rigor in accounting for financial instruments should have lead to improved disclosures in the financial statements of the management of commodity price, exchange rate and interest rate risk. But many companies have chosen to report on only part of these risks.

Normal sales contracts embodying such risks often qualify for an exemption from derivatives accounting requirements. This can result in accounting anomalies, particularly in companies that have an active risk management program, as a result of the artificial boundary created between operating and treasury activities.

Adjusted earnings disclosures focus on gains and losses on non-hedge derivatives, but little information is presented about the impact of hedging on current and future years' earnings.

This survey is helpful in gaining an understanding of how some of the global leaders in mining have addressed difficult financial reporting issues.

Indeed the industry seems to have solved these issues without resorting to the interpretative process of IFRIC.

But investors are seeking answers to other questions, particularly about sensitivity to changing economics. For example, if metal prices fall by 20 percent, what impact will that have on the reserves and resources, and the life of the mine? At what price level will a mine's assets suffer an impairment, and when will it cease to cover its cash operating costs?

The industry has long been a front runner with voluntary disclosures. Development and use of market based pricing information would enhance investor and regulator perceptions of the reliability of estimates. Now is the time to imprint the hallmark of value based information in investor communications.



Robert P. Garnett
IASB Board Member and
IFRIC Chair



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1. Key findings





This 2006 survey shows that significant progress has been made in financial reporting for this industry – through the implementation of International Financial Reporting Standards (IFRS), recent developments in U.S. Generally Accepted Accounting Practice (U.S. GAAP) and the start of gradual convergence between the two.

Moving to a better understanding of the numbers

While convergence is still in its early stages, and global consistency in accounting practice is still some way off, new standards under both regimes have introduced rules enabling users of financial reports to better understand the financial numbers. The historical requirement for disclosing accounting policies is being supplemented with more meaningful information for stakeholders.

Discussion now includes key sources of uncertainty underlying the financial statements, changes in key accounting estimates and major judgments made in relation to those estimates and uncertainties.

Broader performance indicators

Companies have also broadened the base of financial reporting to encompass other aspects of business performance in addition to profit, cash flows and financial position, allowing users of financial reports to achieve a greater understanding of the performance of a business and better insights into what will drive its future performance.

Profound changes in the accounts the industry is reporting

The impact of changes to and adoption of IFRS, combined with a very active regulator governing U.S. GAAP reporting has caused some profound changes in the accounts produced by the industry.

Accounting for restoration and rehabilitation (which showed wholesale changes), accounting for financial instruments, and in particular the separate measurement and reporting of embedded derivatives and measuring and reporting share based payments are a few of the areas which impacted on many companies.

Segment reporting more aligned

Segment reporting is now more aligned with management's view of the business and its performance. Progress has been achieved where the standards have encouraged the reporting of sensitivity analyses in relation to given financial numbers.

Qualitative versus quantitative

While there is a requirement to provide qualitative, and in some cases quantitative information in support of these segment disclosures, reporting in the mining industry to date in these areas has been inconsistent in breadth and depth. As a generalization, the move to provide quantitative information in support of key estimates, uncertainties and judgments in areas such as commodity prices, exchange rates and discount rates is only just beginning.

Voluntary reporting enhancements

Voluntary reporting enhancements have also been apparent over the last three years. Greater rigor is becoming apparent in reporting on reserves and resources, even if there is, at this stage, no global underlying framework which could drive consistency, nor a requirement to 'reconcile' information in reserves and resources statements to the relevant elements of the financial statements.

CSR reporting more prevalent

Corporate social responsibility reporting in its various forms has become more prevalent, and the Global Reporting Initiative (GRI) is providing a base framework for such reporting. This survey reflects that trend but what is uncertain is whether the GRI is generally accepted by the mining industry, and if its pronouncements are consistent with today's and tomorrow's financial reporting framework as IFRS and U.S. GAAP converge.

Disclosure of business objectives and strategies

Only limited progress has been achieved in introducing requirements that provide greater context for reports on past performance by disclosing business objectives and strategies. For instance, where cash flow hedge accounting is asserted, there is a requirement to discuss hedge accounting strategies. However, there are few other requirements to report on business objectives and strategies. This survey shows that voluntary basis reporting is inconsistent.

In the near future, requirements will be in place to provide information about capital management objectives and strategies. Paragraph 124 of IAS 1, *Presentation of Financial Statements*, has been expanded to introduce new disclosures about capital for annual reporting periods ending on or after January 1, 2007.

Business Performance models

This survey indicates that little progress seems to have been made on a voluntary basis or in introducing standards which would enable users to understand and model the more dynamic elements of business performance - in areas such as the drivers of business models and business risks, their link to individual business objectives and strategies, and the dynamic linkages between each of these areas.

IASB standard in the wings

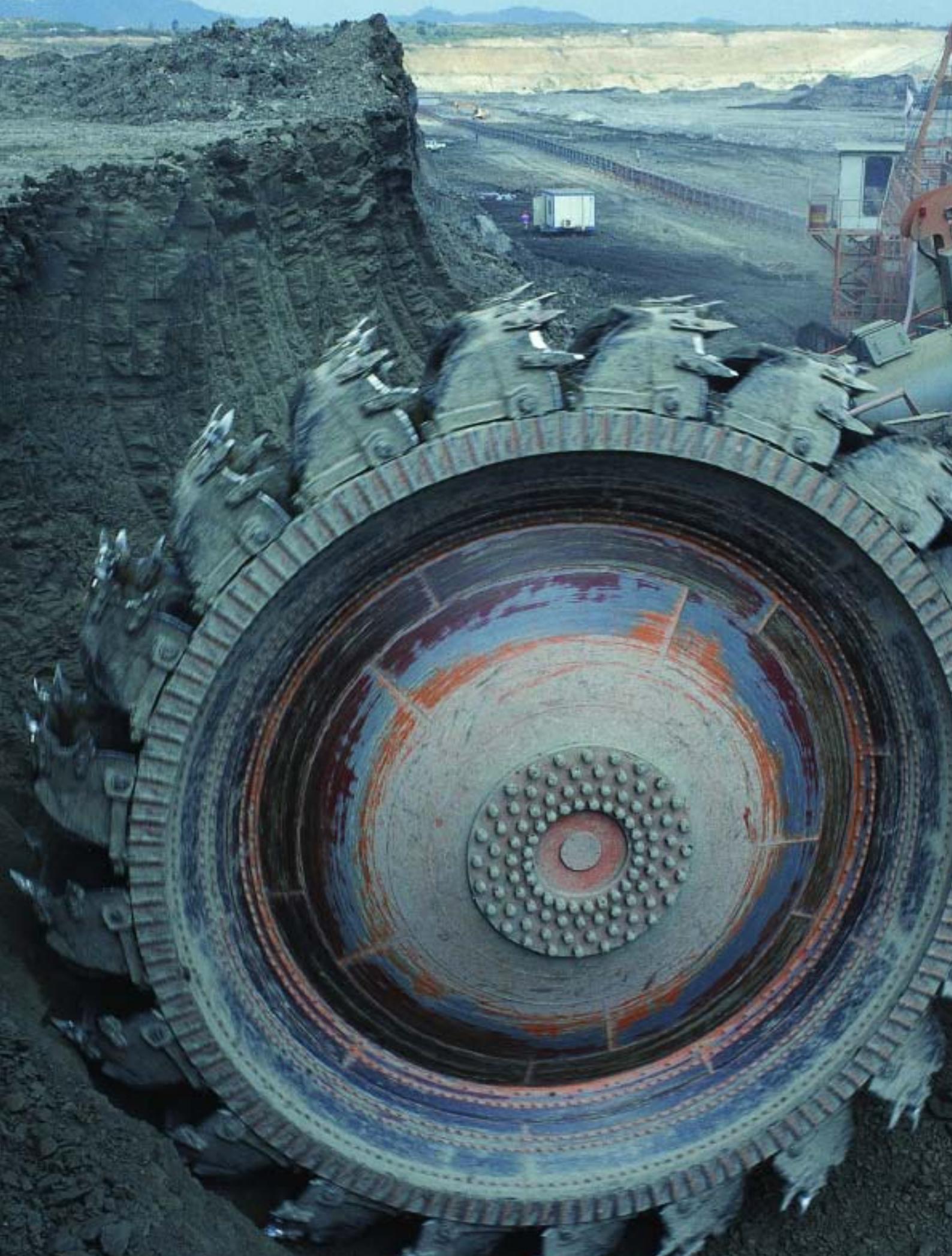
The 2003 KPMG Mining Reporting Survey said the following...

"It is essential that the International Accounting Standard's Board's project on the extractive industries is accelerated so that a standard for the extractive industries can be quickly put in place, or other standards can be adjusted, to meet the unique circumstances of the industries"

That standard has not yet been produced, and it is not currently high on the IASB's agenda. KPMG firms believe that it should be.

The deliverable need not be a comprehensive financial reporting standard for the extractive industries. It may provide standards on particular activities critical to the industries, for example reserves and resources, or where there have possibly been unintended consequences in the industries so far (financial derivatives and cash flow hedge accounting).

This survey points to some areas where attention may be warranted. An international financial reporting standard for the extractive industries can help to accelerate further progress, fill in gaps, remove unintended consequences and increase consistency.



2. Results – financial reporting



2.1 Critical accounting estimates and judgments

Given the heavy reliance on estimates and judgment in financial reporting, disclosure of the critical accounting estimates and judgments aid the reader of the financial statements to understand where the financial reporting risks lie. This is particularly relevant for the mining industry given inherent risk areas with accounting implications such as assessing mineral reserves and resources, exploration and evaluation, restoration and rehabilitation obligations, and fluctuation in commodity prices.

Such areas require management to make subjective and complex judgments in applying the entity's accounting policies. They are therefore an area where transparent disclosure is important.

In December 2001, the Securities and Exchange Commission (SEC) released FR-60 and indicated that companies should provide more discussion in *Management Discussion and Analysis* about their critical accounting policies. Under an appropriate heading, SEC filers are encouraged to disclose their most difficult and judgmental estimates, the most important and pervasive accounting policies they use, and the areas most sensitive to material change from external factors. They are also encouraged to provide a sensitivity analysis to facilitate an investor's understanding of the impact on the bottom line.

For companies in other jurisdictions, such as those who apply IFRS, disclosures of this nature are relatively new. IAS 1 paragraph 20 provides examples of types of disclosures to be made, being:

- the nature of the assumption or other estimation uncertainty
- the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculations, including the reasons for the sensitivity
- the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected
- an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

With many first-time IFRS adopters and SEC filers included in this survey this has become a new area of focus in KPMG's 2006 mining survey.

Nature of critical accounting estimates and judgments

Of the mining companies surveyed, 80 percent include critical accounting estimate and judgment disclosures with respect to mine closure and rehabilitation. Other common disclosures were those relating to impairment of assets, deferred taxation relating to mining assets and liabilities, the useful economic lives of property, plant and equipment and reserve estimation.

Only 9 percent of companies surveyed made no disclosure of critical accounting estimates and judgments.

Table 2.1 provides a summary of the critical accounting estimates and judgments disclosed by more than 10 percent of the surveyed companies:

Table 2.1: Summary of critical accounting estimates and judgments

Critical accounting estimates and judgments	Number of companies	% of total companies surveyed
1 Mine closure and rehabilitation	35	80
2 Impairment of assets	30	68
3 Deferred taxation (including for example, valuation of deferred tax assets, recognition of deferred tax on mineral rights recognised in acquisitions)	26	59
4 Estimated economic lives of property, plant and equipment	25	57
5 Reserve estimates	24	55
6 Post employment benefits	14	32
7 Hedging and financial derivatives	8	18
8 Deferral of stripping costs	6	14
9 Provisions, liabilities and contingent liabilities	5	11

Source: KPMG International

The level of detail provided in relation to critical accounting estimates and judgments varied between the companies surveyed. Some companies limited disclosures to general narrative, while others included sensitivity analysis.

Example disclosure of accounting policies with respect to critical accounting estimates and judgments are as follows:

Example 2.1: Lihir Gold Limited

Critical accounting estimates and judgments

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions concerning the future that affect the amounts reported in the financial statements and accompanying notes.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the recoverability of long-lived assets and non-current ore stockpiles, the provision for restoration and rehabilitation obligations and the recoverability of deferred tax assets. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management believes the assumptions that they have adopted are reasonable and supportable.

Key estimates and assumptions made in the preparation of these financial statements are described below:

Recoverability of long-lived assets

As set out in note 1(x) certain assumptions are required to be made in order to assess the recoverability of long-lived assets. Key assumptions include the future price of gold, future cash flows, an estimated discount rate and estimates of ore reserves. A 10% increase or decrease to the long term gold price used of \$US425 may impact the carrying value of long lived assets should there not be an expected similar decrease in the costs of inputs to the process, either through a reduction in input prices or management corrective action. An increase in the discount rate to 8% may have a similar affect on the carrying value of long lived assets. In addition, cash flows are projected over the life of the mine, which is based on proved and probable ore reserves. Estimates of ore reserves in themselves are dependent on various assumptions. In addition to those described above, including gold cut-off grades. Changes in these estimates could materially impact on ore reserves and could therefore affect estimates of future cash flows used in the assessment of recoverable amount, estimates of the life of mine and depreciation and amortisation

Source: Lihir Gold Limited 2005 Annual Report

Example 2.2: Inmet Mining Corporation

Reclamation costs

Our closed mines, operations and joint ventures are subject to environment laws and regulations in Canada and the other countries we operate in, including those of the United States, Turkey, Papua New Guinea, Finland and Spain.

The environmental and regulatory review is a long, complex and uncertain process. This can increase the time it takes to reclaim a closed mine, which makes it difficult to estimate reclamation costs. We also can not predict the impact on our financial position of environmental laws and regulations that may be enacted in the future.

We estimated a reclamation liability of \$65 million at December 31, 2005. \$30 million of this related to closed mines and \$35 million related to operating mines. This was based on:

- our estimate of the costs and the time it will take to rehabilitate the property
- a discount rate to estimate the fair value of the liability.

Sensitivity analysis

A 10 percent change in our estimate of reclamation costs would affect our earnings by approximately \$3 million, all of which relates to closed mines.

Source: Inmet Mining Corporation 2005 Annual Report

KPMG comment

This is an area of relatively new disclosures in financial statements. We anticipate that further refinement and enhancement of the detail, particularly around the quantification of sensitivity analysis will emerge in the next few years.

2.2 Business combinations

2.2.1 Industry rationalization

Since the 2003 survey, the mining industry has experienced continuing consolidation, with the main driver continuing to be a strategy of company acquisition as a means of replenishing and expanding reserves.

In contrast to the 2003 survey, when relatively low metal prices provided companies with the opportunity to acquire reserves at a discount to historical valuations, current metal prices are trading at record levels, significantly increasing the cost of acquisitions. The increase in metal prices has led to increased capital availability, which acts as a continual driver of mergers and acquisitions in the sector. In this current environment, companies are demonstrating a willingness to enter into transactions that focus on securing reserves and paying premiums to do so.

The extent of merger and acquisition activity in the mining industry is evident from the fact that 20 of the 44 companies surveyed acquired reserves through corporate activity during the years presented in their most recent financial statements. In addition, in comparing the list of companies surveyed in 2006 and 2003, it is noteworthy that seven companies from the 2003 survey no longer exist.

In contrast to the previous survey, where it was found that large companies were acquiring junior and medium-sized companies to grow, the current survey has shown that large companies are also acquiring other large companies. Placer Dome Inc. has been acquired by Barrick Gold Corporation, the acquisition of Falconbridge Limited by Xstrata plc was completed during the survey and as this survey goes to print a transaction between CVRD and Inco Limited is underway.

The breakdown of those companies surveyed that acquired reserves through corporate activity is as follows:

Table 2.2: Company Acquisitions

Business combinations	South Africa	Canada	United Kingdom	Australia	United States	BRICs	Total
2006 Survey	–	9	3	2	4	2	20
2003 Survey	4	6	1	2	3	2	18

Source: KPMG International

2.2.2 Accounting for business combinations

The purchase consideration for business combinations is typically allocated based on the fair value of assets acquired and actual and contingent liabilities assumed, with the excess of purchase price over the fair value of net assets acquired being allocated to goodwill. For mining companies, historical practice has been to allocate any excess purchase consideration to mineral rights rather than goodwill, and to argue that the premium paid over and above other assets generally related to exploration potential.

The analysis of the 20 companies that disclosed an acquisition highlighted differences in the way in which the excess purchase price on acquisition has been allocated. This is illustrated in the table below:

Table 2.3: Allocation of excess purchase price

	South Africa	Canada	United Kingdom	Australia	United States	BRICs	Total
Goodwill	–	5	2	1	–	1	9
Mineral rights	–	1	1	1	–	–	3
No excess/not disclosed	–	3	–	–	4	1	8
Total	–	9	3	2	4	2	20

Source: KPMG International

For those companies where the allocation of the excess purchase consideration was not disclosed, it is not clear whether there was an excess over existing book values which may have been allocated to mineral rights.

The survey also found that in certain recent acquisitions, the initial disclosure of any excess purchase consideration has been characterized as 'unallocated purchase price'. This suggests that companies are utilizing the full period of time available to finalize their purchase accounting allocation, possibly indicating the time required and complexity associated with the separate valuation of mineral rights.

Example disclosure of the allocation of excess purchase consideration on business combinations are as follows:

Example 2.3: Goldcorp Inc.

The allocation of the purchase price of the shares of Wheaton is summarized in the following table:

Purchase Price	\$US
Common shares of Goldcorp issued to acquire 100% of Wheaton (143.8 million shares)	\$1,887,431
Share purchase warrants of Goldcorp issued in exchange for those of Wheaton (174.8 million warrants)	290,839
Stock options of Goldcorp issued in exchange for those of Wheaton (4.9 million options)	30,794
Acquisition costs	25,959
	\$2,235,023
Net Assets acquired	
Cash and cash equivalents	\$168,663
Marketable securities	4,348
Other non-cash operating working capital	810
Mining interests	2,502,116
Silver contract	77,489
Stockpiled ore, non-current	55,286
Other long-term assets	3,767
Future income taxes, net	(631,789)
Reclamation and closure cost obligations	(24,457)
Future employee benefits	(5,296)
Other liabilities	(10,258)
Non-controlling interest in Silver Wheaton (35%) (Note 13)	(54,908)
Net identifiable assets	2,085,771
Residual purchase price allocated to goodwill (Note 9)	149,252
	\$ 2,235,023

Source: Goldcorp Inc. 2005 Annual Report

Example 2.4: Yanzhou Coal Mining Company Limited

Carrying value and fair value

The net assets of Southland acquired in the transaction were as follows:	RMB'000
Mining rights	32,634
Property, plant and equipment	191,405
Other payables and accrued expenses	(36,727)
Total net assets acquired	187,312
Satisfied by:	
Cash consideration paid on acquisition	187,312

Source: Yanzhou Coal Mining Company Limited 2005 Annual Report

KPMG comment

Recently, regulator scrutiny has increased with respect to whether companies should be allocating excess purchase consideration to goodwill or to mineral rights, under both IFRS and U.S. GAAP. There is now an expectation that companies separately fair value mineral rights acquired, rather than immediately allocating any excess consideration to mineral rights. Excess consideration over and above that amount is allocated to goodwill.

2.3 Exploration and evaluation expenditures

2.3.1 Measurement of exploration and evaluation expenditure

Exploration and evaluation expenditures are those incurred in connection with acquisition of rights to explore, investigate, examine and evaluate an area for mineralization. Exploration may be conducted before or after the acquisition of mineral rights.

The following is a summary of the various accounting treatments for exploration and evaluation expenditure disclosed by the surveyed companies:

Table 2.4: Accounting treatment of exploration and evaluation expenditure

	Australia	Canada	South Africa	United Kingdom	United States	BRICs	Total
Expensed as incurred	1	-	-	1	6	2	10
Expensed as incurred until the ore body is deemed commercially recoverable, at which time all subsequent costs are deferred	3	12	6	4	-	2	27
Capitalise until a reasonable assessment can be made of the existence of reserves	1	-	-	2	-	2	5
Policy not disclosed	-	-	-	-	1	1	2
Total	5	12	6	7	7	7	44

Source: KPMG International

Consistent with previous surveys, the majority of surveyed companies are expensing their exploration costs as incurred. The number of companies which expense exploration costs as incurred until the ore body is deemed commercially recoverable, but capitalize from that point on has increased from 50 percent in the 2003 survey to 61 percent in the current survey.

This trend suggests that companies are adopting accounting policies which are more consistent with the general accounting framework requirements. It also reflects the continuing trend of larger mining companies not using 'full cost' accounting for exploration expenditure.

Five of the companies surveyed (including two from the BRICs category) capitalize exploration costs before an assessment can be made of the existence of reserves as compared to four in the previous survey. The research highlighted a decrease by Australian companies surveyed applying this type of policy, suggesting a move away from 'full cost' accounting for exploration and evaluation. We believe this result may be skewed to the size of companies surveyed. Had KPMG firms' professionals surveyed junior exploration, start up or mid-sized mining companies it would have been likely to expect a higher percentage adopting full cost accounting.

None of the companies surveyed specified whether costs capitalized include direct administrative and other general overhead costs as is allowed under IFRS.

KPMG comment

Under IFRS, an entity should adopt an accounting policy either of expensing administrative and other general overhead costs or of capitalizing those costs associated with finding specific mineral resources in the initial recognition and measurement of an exploration and evaluation asset. In our view, the selected policy of expensing or capitalizing administrative and other general overhead costs should apply, by analogy, the guidance for capitalizing similar costs incurred in relation either to inventories, intangible assets or property, plant and equipment.

KPMG comment

If an entity elects to capitalize administrative and other general overhead costs associated with finding specific mineral resources, then in our view the following costs may qualify for inclusion as an exploration and evaluation asset:

- Payroll-related costs attributable to personnel working directly on a specific project, including the costs of employee benefits for such personnel.
- Certain management costs if their roles are specific to a project.
- Sign-up bonuses paid to contractors involved in a particular project.
- Legal or other professional costs specific to the project, eg. costs in respect of obtaining certain permits and certifications.
- The policy for administrative and other general overhead costs should be applied consistently.

Examples of accounting policy disclosure for the measurement of exploration and evaluation costs are as follows:

Example 2.5: Oxiana Limited **Exploration and evaluation expenditure**

Exploration and evaluation costs related to areas of interest are carried forward to the extent that:

- (i) the rights to tenure of the areas of interest are current and the consolidated entity controls the area of interest in which the expenditure has been incurred; and
- (ii) such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale.

Exploration and evaluation expenditure will generally be capitalised where a JORC (Joint Ore Reserves Committee) resource has been identified and probable future economic benefits are demonstrated. Exploration and evaluation assets will be assessed annually for impairment and where impairment indicators exist, recoverable amounts of these assets will be estimated based on discounted cash flows from their associated cash generating units. The income statement will recognise expenses arising from excess of the carrying values of exploration and evaluation assets over the recoverable amounts of these assets.

Expenditure capitalised under the above policy is amortised over the life of the area of interest from the date that commercial production of the related mineral occurs. In the event that an area of interest is abandoned or if the directors consider the expenditure to be of no value, accumulated costs carried forward are written off in the year in which the assessment is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Source: Oxiana Limited 2005 Annual Report

Example 2.6:**Impala Platinum Holdings Limited****Exploration for and evaluation
of mineral resources**

The group expenses all exploration and evaluation expenditures until the directors conclude that a future economic benefit is more likely than not to be realised, ie. probable. In evaluating if expenditures meet this criterion to be capitalised, the directors utilise several different sources of information depending on the level of exploration. While the criteria for concluding that an expenditure should be capitalised is always probable, the information that the directors use to make that determination depends on the level of exploration.

- (a) Exploration and evaluation expenditure on greenfields sites, being those where the group does not have any mineral deposits which are already being mined or developed, is expensed as incurred until a final feasibility study has been completed, after which the expenditure is capitalised within development costs if the final feasibility study demonstrates that future economic benefits are probable.
- (b) Exploration and evaluation expenditure on brownfields sites being those adjacent to mineral deposits which are already being mined or developed, is expensed as incurred until the directors are able to demonstrate that future economic benefits are probable through the completion of a pre-feasibility study, after which the expenditure is capitalised as a mine development cost. A "pre-feasibility study" consists of a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established, and which, if an effective method of mineral processing has been determined, includes a financial analysis based on reasonable assumptions of technical, engineering, operating economic factors and the evaluation of other relevant factors. The pre-feasibility study, when combined with existing knowledge of the mineral property that is adjacent to mineral deposits that are already being mined or developed, allow the directors to conclude that it is more likely than not that the group will obtain future economic benefit from the expenditures.
- (c) Exploration and evaluation expenditure relating to extensions of mineral deposits which are already being mined or developed, including expenditure on the definition of mineralisation of such mineral deposits, is capitalised as a mine development cost following the completion of an economic evaluation equivalent to a pre-feasibility study. This economic evaluation is distinguished from a pre-feasibility study in that some of the information that would normally be determined in a pre-feasibility study is instead obtained from the existing mine or development. This information when combined with existing knowledge of the mineral property already being mined or developed allow the

directors to conclude that more likely than not the group will obtain future economic benefit from the expenditures.

Costs relating to property acquisitions are also capitalised. These costs are capitalised within development costs.

Source: Impala Platinum Holdings Limited 2006 Annual Report



Example 2.7: Lonmin Plc Exploration costs

Exploration expenditure is analysed between its constituent parts and accounted for as follows:

a) Replacement exploration

This is defined as expenditure necessary to delineate and quantify the reserves and resources required to replace those extracted in any one accounting period, and as such is an operating cost which is expensed as incurred.

b) Expansion and new opportunities exploration

Within or adjacent to a producing unit these costs are expensed until a probable reserve has been defined and confirmed by a competent person. At that point further costs are capitalised and the asset amortised over the estimated life of the mine.

Greenfields or brownfields

These costs are expensed until an indicated resource has been defined and confirmed by a competent person. At that point further costs are capitalised. Amortisation commences in the first year of production after which amortisation is provided over the estimated life of the project.

Source: Lonmin Plc 2005 Annual Report

Acquired exploration expenditure

Seventy-five percent of surveyed companies did not disclose a specific accounting policy for acquired exploration expenditure; however, of the remaining 25 percent who did make specific acquired exploration disclosures, substantially all of them recognize such exploration expenditure as an asset on acquisition. An example of an accounting policy for acquired exploration follows:

"A mining company that currently expenses exploration and evaluation costs would, in our view, be precluded from changing to a policy of capitalization of all such costs"

Example 2.8: Xstrata Plc

Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

Source: Xstrata Plc 2005 Annual Report

KPMG comment

Under IFRS an entity may change its existing accounting policy for exploration and evaluation expenditures if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs, judged by the criteria for voluntary changes in accounting policies.

In our view the requirement that a change in accounting policy must bring the financial statements closer to meeting the above criteria prohibits entities changing between certain policies used in current practice.

A mining company that currently expenses exploration and evaluation costs would, in our view, be precluded from changing to a policy of capitalization of all such costs. We believe that such a change in policy is not considered to result in more relevant and/or reliable information to the users of the financial statements.

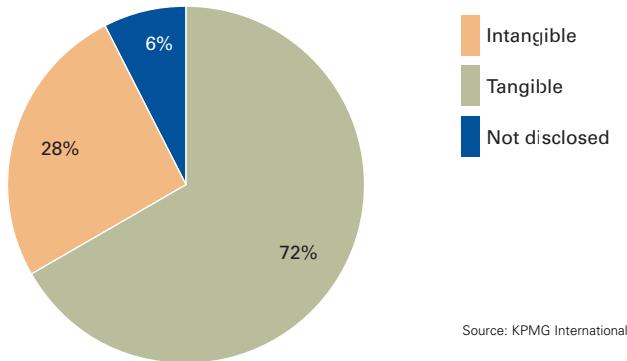
Conversely, we believe that a change in policy from the full cost method to one based upon the successful efforts method or from capitalization of all exploration and evaluation expenditures to expensing (at least some) costs as incurred would be acceptable. In our view, expensing many such costs is more consistent with the IFRS Framework because it is difficult to demonstrate that these costs meet the definition of an asset, and therefore expensing these costs as incurred may be viewed as more reliable.

2.3.2 Disclosure of exploration and evaluation expenditure

Balance sheet

Where surveyed companies had an accounting policy under which exploration and evaluation expenditure is capitalized, the following chart shows how this expenditure was classified on the balance sheet:

Chart 2.1: Classification of capitalized exploration and evaluation expenditure



Of companies where exploration expenditure is capitalized, 72 percent classify it as tangible assets on the balance sheet.

Income Statement

Seventy-three percent of surveyed companies disclosed their exploration expense for the period. This result is not unexpected given the significance of exploration costs to mining companies and the widespread early adoption of IFRS 6 which requires this disclosure by surveyed companies in Australia, South Africa and the United Kingdom.

Cash Flow Statement

Disclosure of payments for exploration and evaluation expenditure was infrequently included in the cash flow statement.

The following is a summary of how exploration and evaluation expenditure is disclosed separately in the cash flow statement by the companies surveyed:

Table 2.5: Exploration and evaluation expenditure disclosure in the cash flow statement

	Australia	Canada	South Africa	United Kingdom	United States	BRICs	Total
Investing Activities	3	-	-	4	-		7
Operating Activities	1	-	-	1	-	3	5
Not disclosed	1	12	6	2	7	4	32
Total	5	12	6	7	7	7	44

Source: KPMG International

KPMG comment

It is noted that there is a universally acknowledged shortage of quality exploration occurring to continue to find and develop new economic ore bodies to replace depleting reserves.

Many companies have sought to increase exploration in recent years and to seek recognition from the market in this regard. In light of this commercial focus, we are surprised so few IFRS companies highlight these cash flows separately. From a Canadian and U.S. perspective this is perhaps not so unusual if exploration is expensed in arriving at net income. It would then not be disclosed in the cash flow as cash flow statements are usually based on net income.

Under IFRS, in our view and as recommended by IFRS 6 (paragraph 23 and 24), companies should be consistent and visible in their disclosures of exploration and evaluation costs in the income statement, on the balance sheet, in the cash flow statement and in the commitments disclosures.

2.4 Development costs

2.4.1 Definition and measurement of development costs

Development involves the preparation of identified reserves for production once the technical feasibility and commercial viability of the ore body has been established. Development costs typically include those incurred for the design of the mine plan, obtaining the necessary permits, constructing and commissioning the facilities and preparation of the mine and necessary infrastructure for production. The mine development phase generally begins after completion of a feasibility study and ends upon the commencement of commercial production.

Under IFRS, when the technical feasibility and commercial viability of extracting mineral resources are demonstrable, an entity must firstly stop capitalizing exploration and evaluation costs for that area; secondly test recognized exploration and evaluation assets for impairment; and thirdly cease classifying any unimpaired exploration and evaluation assets (tangible and intangible) as exploration and evaluation.

Exploration and evaluation assets may be classified either as tangible or intangible development assets. The classification of exploration and evaluation assets transferred to development assets is an accounting policy choice that should be applied consistently.

Generally, when commercial and technical feasibility are demonstrable, a specific mineral reserve will have been identified for development. In practice, mineral reserves are classified as either property assets (i.e. tangible) or intangible assets. In our view, an entity should elect an accounting policy to classify mineral reserves either as tangible or as intangible assets and apply that policy consistently. It is our preference that the mineral reserves, and by association the non-identifiable exploration and evaluation assets, be classified as tangible development assets.

Significant accounting issues include consideration of what development costs should be capitalized and the determination of when development ends and production begins. Furthermore, development often continues after production has begun giving rise to further accounting issues such as accounting for deferred stripping costs, lay-backs in open pit mines and extension of drifts with underground operations.

The following shows a summary of the accounting treatment for development costs disclosed by the companies surveyed:

Table 2.6: Accounting treatment of development costs

	Australia	Canada	South Africa	United Kingdom	United States	BRICs	Total
Development costs are capitalized	3	-	1	4	3	3	14
Development costs incurred to maintain current production are expensed, while development ore bodies and development in advance of production are capitalized	1	12	4	2	4	3	26
Policy not disclosed	1	-	1	1	-	1	4
Total	5	12	6	7	7	7	44

Source: KPMG International

Since the 2003 survey, disclosure of treatment of development costs has evolved, with more companies now defining when and what type of expenditure is capitalized.

In 2003, 38 percent of companies included a specific policy on development costs being capitalized compared to 59 percent in the current survey. Although companies are better defining their development accounting policy there is substantial diversity in practice and disclosure.

2.4.2 Borrowing Costs

Long lead times between a development decision and the start of production for new projects often results in companies incurring significant amounts of borrowing cost without generating revenues. IAS 23 *Borrowing Costs* (IAS 23) gives guidance about the treatment of those costs under IFRS.

The current version of IAS 23 states that the preferred treatment is to expense borrowing costs in the period in which they are incurred. The standard does however allow an alternative treatment, whereby borrowing costs that are directly attributable to the acquisition, construction or production of an asset can be capitalized.

The exposure draft proposing changes to IAS 23 no longer proposes to allow the currently preferred method of expensing and instead requires capitalization of borrowing costs.

Under U.S. GAAP there is no option to expense interest cost, unless the net effect of interest cost capitalization is immaterial.

An issue recently addressed with the SEC is what underlying asset base should be used when the asset has been impaired. The SEC's position is that U.S. GAAP requires a company to use the 'gross' costs of the asset as the basis for determining the amount of interest to be capitalized, without taking into account impairments recorded to that 'gross' cost.

Of the companies surveyed, 41 disclosed a policy of capitalizing interest during the construction phase. This result suggests that few companies are adopting the IFRS benchmark treatment of expensing interest costs and opting for the alternative treatment consistent with the U.S. approach. The proposed changes to the IFRS standard will have minimal impact.

An example accounting policy disclosure with respect to borrowing costs is as follows:

Example 2.9: Vedanta Resources Plc Borrowing Costs

Borrowing costs directly relating to the financing of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time as the related asset is substantially ready for its intended use ie. when it is capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available in the short term (from money borrowed specifically to finance a project), the income generated from such short term investments is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average rate applicable to the relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Source: Vedanta Resources Plc 2006 Annual Report

2.4.3 Start-up activities

Start-up activity expenditures are a further area of diversity. Consideration must be given to determining the date on which commercial production commences and whether revenue received prior to the production phase should be set-off against capitalized costs or recognized as revenue.

Under U.S. GAAP *FASB EITF Abstract – Issue No. 04-6: Accounting for Stripping Costs Incurred during Production in the Mining Industry*, provides a specific definition of the production phase. It states that the production phase of a mine is deemed to have begun when saleable minerals are extracted (produced), regardless of the level of production or revenues.

*"The survey found
that very few companies
provided disclosures
in start-up activities"*

AICPA Statement of Position (SOP) 98-5: Reporting on the Costs of Start-Up Activities provides guidance on the financial reporting of start-up costs and organization costs under U.S. GAAP. It requires costs of start-up activities and organization costs to be expensed as incurred. The definition of start-up activities is based on the nature of the activities and not the time period in which they occur. The SOP broadly defines start-up activities and provides examples to help entities determine what costs are and are not within the scope of this SOP.

The AICPA's Accounting Standards Executive Committee (AcSEC) considered requiring entities to disclose start-up costs incurred in an accounting period and total start-up costs expected to be incurred over the life of a project. AcSEC decided that the costs of recordkeeping to identify separately start-up costs incurred in an accounting period would likely outweigh the related benefits of disclosing those costs to users of financial statements. AcSEC also believes that it cannot provide an all-inclusive definition of start-up costs, which would ensure comparability between entities. In addition, AcSEC believes that if an entity discloses total start-up costs expected to be incurred, it is likely to do so outside the financial statements (eg. in Management's Discussion and Analysis for a public company).

For IFRS purposes, costs relating to start-up activities must be reported in accordance with IAS 16. Start-up costs are expensed as incurred, except when directly attributable to bringing an item of property, plant, and equipment to the location and condition necessary to operate as management has intended.



The survey found that very few companies provided disclosures in this area. Example disclosure from surveyed companies are as follows:

Example 2.10: Coal India Limited Development

Expenses net of income of the projects/mines under Development are booked to Development account and grouped under Capital Work-in-Progress till the projects/mines are brought to revenue account. Except otherwise specially stated in the project report to determine the commercial readiness of the project to yield production on a sustainable basis and completion of required development activity during the period of construction, projects and mines under development are brought to revenue:

- (a) From the beginning of the financial year immediately after the year in which the project achieves physical coal output of 25% of rated capacity as per approved project report, or
- (b) 2 years of touching of coal, or
- (c) From the beginning of the financial year in which the value of production is more than total expenses.

Whichever event occurs first.

Source: Coal India Limited 2005 Annual Report

Example 2.11: Gold Corp Inc.

Commercial production is deemed to have commenced when management determines that the completion of operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will be continued. Mine development costs incurred to maintain current production are included in operations.

Source: Gold Corp Inc. 2005 Annual Report

2.4.4 Disclosure of development expenditure

It is evident from our survey findings that companies use different captions either on balance sheet or in the notes, to describe their mining assets including:

Balances sheet descriptions of mineral assets

- | | |
|-------------------------|-----------------------------|
| • Mineral assets | • Mineral rights |
| • Mineral licenses | • Mining interests |
| • Mine development | • Mine properties |
| • Mine infrastructure | • Mine plant and facilities |
| • Plant and equipment | • Land |
| • Shafts | • Mobile equipment |
| • Rehabilitation assets | • Smelters and refineries |

The findings showed that all companies classified development costs as tangible. Further, of the 82 percent of surveyed companies who separately disclosed mineral rights, 77 percent classified mineral rights as tangible.

The survey found that only 14 percent of companies disclosed a policy on accounting for administration costs relating to development.

Examples of accounting policies with respect to development costs appear on the following page.

Example 2.12: Lihir Gold Limited

Development properties

A property is classified as a development property when a mine plan has been prepared, proved and probable reserves have been established, and the Company has decided to commercially develop the property. Development expenditure is accumulated separately for each area of interest in which economically recoverable mineral resources have been identified and are reasonably assured.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

No amortisation is provided in respect of development properties until they are reclassified as "Mine Properties" following the commencement of commercial production. For the years ended 31 December 2004 and 2005, the Company has had no properties in the development stage. No development expenditure is currently being incurred or capitalised.

Source: Lihir Gold Limited 2005 Annual Report

Example 2.13: Meridian Gold Inc.

Mineral property, plant and equipment

Mineral property, plant and equipment, including development costs and capitalized interest associated with the construction of certain capital assets, are recorded at cost. Start-up costs associated with new properties, net of revenues from pre-commercial production, are capitalized as part of the cost of the projects.

Depreciation, depletion and amortization for financial reporting purposes is provided on the shorter of the units-of-production basis, based upon the expected tonnes to be mined or on the straight-line basis over the estimated lives of the assets. Depreciation, depletion and amortization of mine development assets amortized on a units-of-production basis is recorded when a unit (a tonne of ore) is extracted "produced" from the mine regardless of whether the ore is added to the stockpiled ore inventory or sent directly to the mill.

Gains and losses are reflected in earnings upon sale or retirement of assets.

Source: Meridian Gold Inc. 2005 Annual Report

KPMG comment

Preferred disclosure would require that, at a minimum, each caption disclosed in the balance sheet and associated notes should clearly identify the nature of the asset for the user; and the accounting policies should be clearly linked, such that the caption caught on balance sheet, or in the balance sheet notes can be linked to the depreciation/depletion method and the applicable rates.

2.5 Mining and processing ore

2.5.1 Deferred stripping

Fifty-nine percent of surveyed companies disclosed an accounting policy in relation to stripping costs and lay-backs in open pit mines. This represents a significant increase since the previous survey where only 32 percent of companies disclosed such a policy.

This increase may reflect the heightened awareness arising from recent U.S. GAAP pronouncements which prohibit the deferral of production phase stripping costs for financial years beginning after 15 December 2005.

In accordance with EITF No. 04-6, stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced or extracted during the period these costs are incurred. The EITF does not address stripping costs incurred during pre-production, however, it is generally accepted in practice that stripping costs are capitalized as part of the depreciable cost of building, developing, and constructing the mine. These costs would then be amortized over the productive life of the mine using the units of production method.

In contrast, the Canadian Emerging Issues Committee has issued the following guidance in relation to deferred stripping costs:

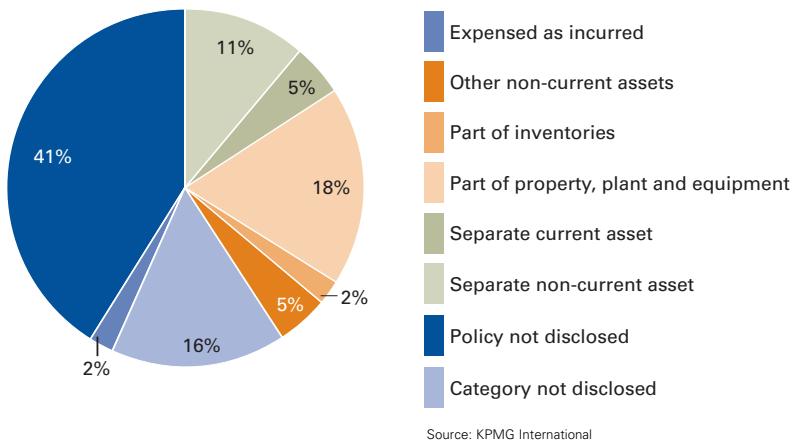
- Stripping costs should be accounted for according to the benefit received by the entity;
- Capitalized stripping costs should be amortized in a rational and systematic manner over the reserves that directly benefit from the specific stripping activity;
- Capitalized stripping costs should be classified as investing activities on the cash flow statement;
- The accounting policy applied should describe the amortization method and rationale supporting the reserves used in the amortization calculation.

Of the companies disclosing an accounting policy for stripping costs, 96 percent elected to defer these costs with the remainder expensing stripping costs as incurred. It is expected that this percentage will decrease in future surveys given the changes to U.S. GAAP.

Of those surveyed companies that disclosed an accounting policy of deferring their stripping costs while in production, the majority stated that they deferred costs to the extent that actual stripping ratios exceed average life of mine stripping ratios.

The survey found that the balance sheet classification of deferred stripping costs varied across the companies surveyed as follows:

Chart 2.2: Classification of deferred stripping costs



KPMG comment

The variety in classifications indicates that this is an area where further formal guidance may be worthwhile. It is recommended that capitalized deferred stripping costs be classified as tangible assets.

Examples of accounting disclosures with respect to deferred stripping costs are as follows:

Example 2.14: Kazakhmys Plc

Mining stripping costs	\$'000
Cost	
As at 1 January 2004	11,366
Additions	5,160
Disposals	(830)
Net exchange adjustment	1,362
As at 31 December 2004	17,058
Additions	26,486
Disposals	(386)
Net exchange adjustment	(659)
As at 31 December 2005	42,499
Depletion as at 1 January 2004	582
Depletion charge	372
Disposals	(830)
Net exchange adjustment	39
As at 31 December 2004	163
Depletion charge	920
Disposals	(386)
Net exchange adjustment	(8)
As at 31 December 2005	689
Net book value at 31 December 2005	41,810
At 31 December 2004	16,895
At 31 December 2003	10,784

Source: Kazakhmys Plc 2005 Annual Report

Example 2.15: Newmont Mining Corporation

Deferred Stripping Costs

In general, mining costs are allocated to production costs, stockpiles, ore on leach pads and inventories, and are charged to costs applicable to sales when gold or copper is sold. However, at certain open pit mines, which have diverse grades and waste-to-ore ratios over the mine life, the company defers and amortizes certain mining costs on a units-of-production basis over the life of the mine. These mining costs, which are commonly referred to as 'deferred stripping' costs, are incurred in mining activities that are normally associated with the removal of waste rock. The deferred stripping accounting method is generally accepted in the mining industry where mining operations have diverse grades and waste-to-ore ratios; however, industry practice does vary. Deferred stripping matches the costs of production with the sale of such production at the Company's operations where it is employed, by assigning each ounce of gold or pound of copper with an equivalent amount of waste removal cost. If the company were to expense stripping costs as incurred, there might be greater volatility in the company's period-to-period results of operations.

In March 2005, the FASB ratified Emerging Issues Task Force Issue No. 04-6 *Accounting for Stripping Costs Incurred during Production in the Mining Industry* (EITF 04-6) which addresses the accounting for stripping costs incurred during the production phase of a mine and refers to these costs as variable production costs that should be included as a component of inventory to be recognized in costs applicable to sales in the same period as the revenue from the sale of inventory. As a result, capitalization of stripping costs is appropriate only to the extent product inventory exists at the end of a reporting period and the carrying value is less than the net realizable value. Newmont will adopt the provisions of EITF 04-6 on January 1, 2006. The most significant impact of adoption is expected to be the removal of deferred and advanced stripping costs from the balance sheet, net of taxes and minority interests, and reclassifying the balances as a cumulative effect adjustment reducing beginning retained earnings by approximately \$75 to \$85. Adoption of EITF 04-6 will have no impact on the Company's cash position.

Source: Newmont Mining Corporation 2005 Annual Report

2.5.2 Depreciation of non current assets used in mining and processing ore

The various methods used by the companies surveyed to calculate depletion of mining interests are as follows:

Table 2.7: Depreciation and depletion

	Australia	Canada	South Africa	United Kingdom	United States	BRICs	Total
Units of production							
• proven and probable	3	9	3	2	6	2	25
• estimated economic life	1	2	-	4	-	-	7
• proven, probable and possible	-	-	-	1	-	-	1
Straight line	-	-	1	-	-	4	5
Other	1	1	2	-	1	1	6
Total	5	12	6	7	7	7	44

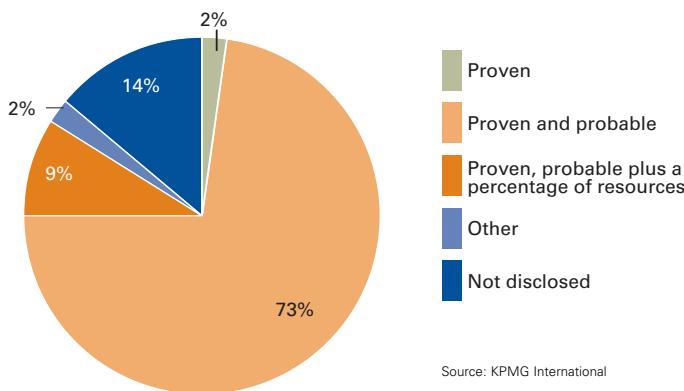
* Mining interests include mineral rights, mine development and mine properties

Source: KPMG International

Three quarters of surveyed companies disclosed that they account for the depletion of their mining interests using the units of production method. The majority of BRICs companies surveyed continue to use the straight-line method of depletion.

In defining estimates of useful life of reserves for depletion purposes companies surveyed disclosed the following categories:

Chart 2.3: Reserves/resources included in useful lives



The majority of companies include only proven and probable reserves accounting for depletion. It should be noted however, that companies seldom define within the financial statements how and what code has been used to calculate reserves for depletion purposes.

The various methods used by surveyed companies to calculate depreciation of plant and equipment related to mining assets are as follows:

Table 2.8: Depreciation methods

	Australia	Canada	South Africa	United Kingdom	United States	BRICs	Total
Units of production							
• proven and probable	3	1	2	-	1	1	8
• estimated economic life	1	1	-	1	-	-	3
Straight line	1	8	2	6	6	5	28
Other	-	2	2	-	-	1	5
Total	5	12	6	7	7	7	44

Source: KPMG International

In contrast to mining interests, the results of the survey show mining assets related to plant and equipment are typically depreciated using the straight-line method as opposed to units of production.

Examples of accounting policies with respect to property, plant and equipment are as follows:

Example 2.16: BHP Billiton Limited Depreciation of property, plant and equipment

The carrying amounts of property, plant and equipment (including initial and any subsequent capital expenditure) are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or mineral lease, if shorter. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. The major categories of property, plant and equipment are depreciated on a unit of production and/or straight-line basis using estimated lives as follows:

Buildings

25 to 50 years

Land

Not depreciated

Plant, machinery and equipment

4 to 30 years

Mineral rights

Based on the estimated life of reserves on a unit of production basis

Exploration, evaluation and development expenditure on mineral assets and other mining assets

Over the life of the proved and probable reserves on a unit of production basis.

Petroleum interests

Over the life of the proved developed oil and gas reserves on a unit of production basis

Leasehold building

Over the life of the lease up to a maximum of 50 years

Vehicles

3 to 5 years straight-line

Capitalized leased assets

Up to 50 years or life of lease, whichever is shorter

Source: BHP Billiton Limited 2006 Annual Report

"The survey shows mining assets related to plant and equipment are typically depreciated using the straight-line method as opposed to units of production"

Example 2.17: Inco Limited

Property, plant and equipment

Property, plant and equipment are stated at cost. Such cost, in the case of mines, mineral rights and undeveloped properties represents related acquisition and development expenditures. Costs are capitalized for an undeveloped property when it is probable that such costs will be recovered from the exploitation of the property. Financing costs, including interest, are capitalized when they arise from indebtedness incurred to finance the development, construction or expansion of significant mineral properties and facilities. Certain currency translation gains and losses have been capitalized in respect of Voisey Bay's mineral properties in the development phase. Capitalization of such gains and losses ceases when the development phase of the mineral property is substantially complete and ready for use. Development costs are charged as an expense in the period incurred unless we believe a development project meets generally accepted criteria for deferral and amortization.

Depreciation and depletion

Property, plant and equipment is generally depreciated on a straight line basis over the following estimate economic lives:

Mine and mobile equipment - 3 to 10 years

Processing facilities and smelter equipment - 15 to 20 years

Refinery equipment - 5 to 20 years

Power generation facilities and equipment - 10 to 40 years

Furniture and fixture - 10 years

Port facilities and transportation equipment - 14 years

The estimated economic life is assessed on an annual basis, taking into account the state of the equipment, technological changes and the related facilities or the estimated proven and probable ore/mineral reserves where the equipment is located. Some equipment has an estimated economic life in excess of 20 years, and is being amortized on a 5 percent declining balance basis. When an assessment is made that the remaining life of that equipment is less than 20 years, the depreciation method is switched to straight line. Depreciation starts when an asset is ready for use or, in the case of a new mining operation, when an asset achieves commercial production.

Depletion of deferred mine development costs, including costs of acquired mineral rights, is calculated on a units-of-production basis over the estimated proven and probable ore/mineral reserves which relate to the particular category of development, either life of mine plan or area-specific. No future development costs are taken into account in calculating the depletion charge.

Ongoing mine development costs that provide access to ore for less than two year's production are expensed as incurred.

Source: Inco Limited 2005 Annual Report

2.5.3 Inventory

The following table shows the inventory valuation methods used by the surveyed companies:

Table 2.9: Inventory valuation methods

	Australia	Canada	South Africa	United Kingdom	United States	BRICs	Total
Valuation of finished goods:							
Average cost	4	8	6	1	5	7	31
FIFO	-	-	-	1	-	-	1
LIFO	-	-	-	-	1	-	1
Combination	-	1	-	2	1	-	4
Not disclosed	1	3	-	3	-	-	7
Total	5	12	6	7	7	7	44
Valuation of work-in-progress:							
Average cost	5	8	6	3	5	3	30
FIFO	-	-	-	1	1	-	2
LIFO	-	-	-	-	1	-	1
Other	-	1	-	-	-	1	2
Not disclosed	-	3	-	3	-	3	9
Total	5	12	6	7	7	7	44

Source: KPMG International

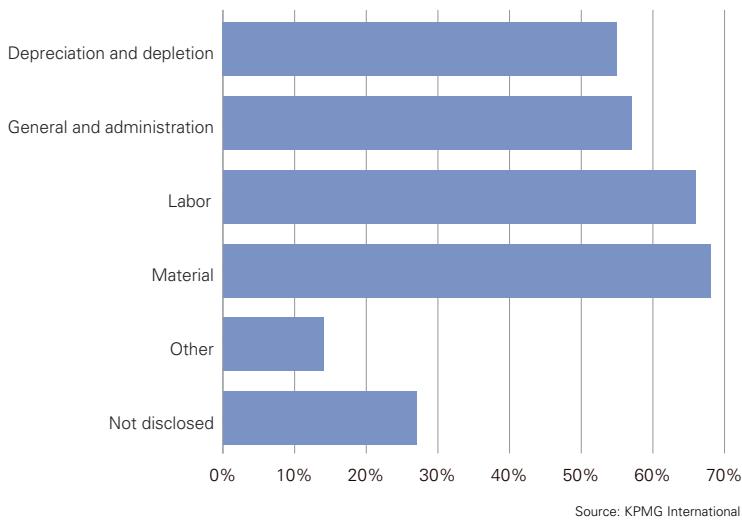
With approximately 70 percent of surveyed companies using average cost method for valuation of both finished goods and work in progress, this method continues to be one of the most widely used methods for inventory valuation (2003: approximately 60 percent).

KPMG Comment

Surprisingly 16 percent and 20 percent of companies surveyed did not disclose an accounting policy for the valuation of finished goods and work-in progress respectively. It is recommended that these policies should be disclosed given the importance of inventory to mining companies.

The components of costs included in the inventory accounting policy of the surveyed companies were disclosed as follows:

Chart 2.4: Components of inventory cost



The chart above demonstrates that the majority of companies surveyed include material, labor, general and administration and depreciation and depletion as a component of inventory cost.

Other observations in the inventory area were as follows:

- No company disclosed valuing its inventory at market value.
- Twenty-eight percent of surveyed companies disclosed a policy for assigning values to broken ore and 4 percent of companies disclosed assigning a value to ore before reaching the surface.
- Thirteen percent of surveyed companies disclosed their policy with respect to valuing low grade stockpiles.

Examples of accounting policies with respect to inventory valuation are as follows:

Example 2.18: Harmony Gold Mining Company Limited

Inventories which include bullion on hand, gold in process and stores and materials are measured at the lower of cost or net realizable value after appropriate allowances for redundant and slow moving items.

Stores and materials consist of consumable stores and are valued at average cost.

Bullion on hand and gold in process represent production on hand after the smelting process for most of the group's underground operations, predominantly located in South Africa. Where mechanized mining is used in underground operations, work in progress is accounted for at the earliest stage of production when reliable estimates of quantities and costs are capable of being made, normally from when ore is broken underground. Due to the different nature of the group's open pit operations, predominantly located in Australia, gold in process represents either production in broken ore form or production from the time of placement on heap leach pads. It is valued using the weighted average cost method.

Source: Harmony Gold Mining Company Limited 2006 Annual Report

Example 2.19: The Singareni Collieries Company Limited Inventory

- i) Wherever variation between volumetrically measured coal stocks and the book stocks at any particular area is more than 5%, the volumetrically measured stock balances are adopted. The quantities of closing stock of coal thus arrived at are valued after effecting a reduction of 5% to provide for anticipated losses due to storage.
 - Closing Stock of Coal (including stock at power houses and coal-in-wagons) is valued at lower of cost and net realizable value. The cost is calculated by taking average cost of production per tonne. The cost of production is arrived at after excluding interest and other borrowing costs, selling and distribution costs and administrative overheads etc, to the extent it is not related to production of coal. The net realizable value of grade-wise coal is arrived at on the basis of selling price for each grade less rehandling charges wherever applicable.
 - Coal issued for internal consumption is valued at grade-wise selling prices and exhibited as contra.

Source: The Singareni Collieries Company Limited 2005 Annual Report

2.6 Product sales

Selling the product (including establishing the terms of sale, managing the logistics of delivery and receiving payment) is a process that differs significantly across the mining industry, typically depending on the commodity sold.

Companies can sell their products directly to customers or for further processing to smelting or refining companies who in turn sell to the end users. The large diversified mining companies however, often smelt or refine product arising from their existing mining activities. In addition, these facilities can be used to toll third party material along with their own.

2.6.1 Revenue recognition

Of the 44 companies surveyed, 42 explicitly included a revenue accounting policy disclosing the timing of revenue recognition. This is consistent with the previous survey. However, the accounting policies have become even more consistent with all 42 companies disclosing that revenue is recognized at time of delivery, shipment or transfer of ownership/transfer of risk and reward. This reflects the continuing convergence of accounting standards.

An example accounting policy with respect to revenue recognition is as follows:

Example 2.20: Teck Cominco

Revenue Recognition

Sales are recognized and revenues are recorded when title transfers and the rights and obligations of ownership pass to the customer. The majority of the company's metal concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. In these circumstances, revenues are recorded at the times of sale based on forward prices for the expected date of the final settlement. Subsequent variations in the price are recognized in revenue as settlement adjustments each period end and in the period when the price is finalized.

Source: Teck Cominco 2005 Annual Report

2.6.2 Sale of by-products

Forty-three percent of surveyed companies disclosed how they record by-product credits. Of those, 13 disclosed that they recognize by-product credits as revenue, while the remaining six recognize them as a reduction of cost of sales. In the 2003 survey, 10 companies disclosed that they recognized by-product credits as revenue while six companies recognized the amounts as a reduction of cost of sales.

Table 2.10: Treatment of by-products

	South Africa	Canada	United Kingdom	Australia	United States	BRICs	Total
Revenue	2	1	5	1	4	0	13
Reduction of cost of sales	1	2	0	0	2	1	6
Not disclosed	3	9	2	4	1	6	25
Total	6	12	7	5	7	7	44

Source: KPMG International

2.6.3 Other sales disclosures

The survey found that other disclosures made by companies with respect to revenue were generally focused on volume rather than revenue. Certain companies have provided a particularly useful discussion of sales on a disaggregated basis as follows:

- Sixty-eight percent of surveyed companies discussed sale of product by type
- Forty-three percent of surveyed companies discussed sale of product by mine
- Fifty-two percent of surveyed companies included a discussion of sales contracts.



The following is an example sales disclosure:

Example 2.21: Falconbridge Limited Sales volumes and realized prices

Metal sales

		Falconbridge's beneficial Interest (%)	2005 ^{2,3}	2004 ^{2,3}
(tonnes)				
Copper				
CCR	100	298,286	293,174	
Collahuasi	37.3	26,137	25,330	
Kidd Creek	84.9	84,827	82,188	
Lomas Bayas	84.9	63,746	60,190	
Nikelverk	84.9	59,470	51,057	
Total		532,466	511,939	
Falconbridge share		497,104	422,027	
Nickel				
Nikelverk	84.9	85,374	71,374	
Falconbridge share		72,483	42,039	
Ferronickel				
Falcondo	72.4	26,289	28,936	
Falconbridge share		19,033	14,526	
Zinc				
Kidd Creek	84.9	116,071	119,535	
Noranda Income Fund	25	271,824	274,793	
Total		387,895	394,328	
Falconbridge share		166,500	139,104	
Lead				
Brunswick	100	73,730	83,194	
Falconbridge share		73,730	83,194	
Aluminum				
Noranda Aluminum				
Primary operations	100	247,771	248,977	
Falconbridge share		247,771	248,977	
Fabricated aluminum				
Norandal Rolling Mill	100	177,910	173,853	
Falconbridge share		177,910	173,853	
Cobalt				
Nikelverk	84.9	3,836	3,648	
Falconbridge share		3,257	2,149	
Gold (000 ounces)				
CCR	100	775	967	
Falconbridge share		775	967	
Silver (000 ounces)				
CCR	100	32,786	36,467	
Falconbridge share		32,786	36,467	

1. All production figures are shown on a 100% basis, with the exception of Collahuasi, which represents Falconbridge's 44% joint venture interest; Antamina which represents Falconbridge's 33.75% joint venture interest; St Ann, which represents Falconbridge's 50% joint venture interest; Gramercy, which represents Falconbridge's 50% joint venture interest and Louvicourt, which represents Novicourt's 45% joint venture interest.

2. Noranda Inc. amalgamated with Falconbridge Limited ("the former Falconbridge") on June 30, 2005 and was renamed Falconbridge Limited ("the amalgamated Company"). After June 30, 2005 the amalgamated Company owned 100% beneficial interest in the operations of the former Falconbridge and the 2005 annual weighted average beneficial interest in the former Falconbridge held by the amalgamated Company was 84.9% (2004 - 58.9%).

3. Falconbridge Limited sold the CEZ refinery to Noranda Income Fund in May 2002. The average beneficial interest was 25% in 2005 and in 2004.

Concentrate sales

		Falconbridge's beneficial Interest (%)	2005 ^{2,3}	2004 ^{2,3}
(tonnes)				
Copper				
Antamina		33.75	91,567	80,905
Collahuasi		37.3	119,212	167,261
Horne		100	56,385	27,091
Total			267,164	275,257
Falconbridge share			249,163	206,513
Zinc				
Antamina		33.75	40,699	51,951
Bell Allard		100	-	70,371
Brunswick		100	219,417	222,141
Kidd Creek		84.9	42,020	15,724
Total			302,136	360,187
Falconbridge share			295,791	353,724
Bauxite				
St. Ann		50	928,735	21,320
Falconbridge share			928,735	21,320
Alumina				
Gramercy		50	355,221	80,625
Falconbridge share			355,221	80,625
Molybdenum				
Antamina		33.75	2,468	613
Collahuasi		37.3	251	-
Total			2,719	613
Falconbridge share			2,681	613
Silver (000 ounces)				
Antamina		33.75	1,633	2,334
Falconbridge share			1,633	2,334
Average Realised Prices				
(US\$ per pound, except as noted)			2005^{2,3}	2004^{2,3}
Copper			1.71	1.30
Nickel			6.85	6.40
Ferronickel			6.74	6.37
Zinc			0.70	0.52
Aluminum			0.91	0.84
Lead			0.50	0.43
Cobalt			14.97	22.48
Molybdenum			31.09	16.21
Gold (US\$ per ounce)			444.08	402.17
Silver (US\$ per ounce)			7.32	6.51
Exchange Rate (equivalent of Ccn \$1.00)			0.83	0.77

Source: Falconbridge Limited 2005 Annual Report

2.7 Mine closure and rehabilitation

Mine closure and rehabilitation encompasses various activities such as decommissioning and dismantling of mine-related plant and equipment, restoration of a mine site as a result of damage caused to the environment during the development of a mine and from ongoing mining activities, and ongoing care and maintenance of closed mines.

Mine closure and rehabilitation is an important part of mining activities and depending on the nature of those activities, can result in significant liabilities being recognized by an entity. Associated accounting issues include the discounting of liabilities and the recognition of a related environmental asset. These are discussed in the following sections.

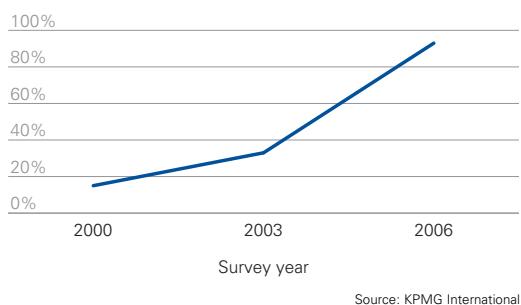
2.7.1 Mine closure and rehabilitation obligations

Measurement

Ninety-three percent of the surveyed companies disclosed that they accounted for mine closure and rehabilitation liabilities in full at reporting date. For the remaining 7 percent, all being companies from the BRICs category, it was not clear whether these companies accounted for mine closure and rehabilitation liabilities in full.

As shown below, there has been a dramatic shift in the number of companies who recognize mine closure and rehabilitation liabilities in full at reporting date. In the 2000 and 2003 surveys, 15 percent and 33 percent, respectively, of the companies recognized the full obligation up front. The increase to 93 percent in the current survey is mainly due to changes in United States and Canadian GAAP and also as a result of the first time adoption of IFRS by some companies.

Chart 2.5 Recognition of mine closure and rehabilitation liabilities in full



Ninety-five percent of the surveyed companies raised an asset for mine closure and rehabilitation, although the direct link between the asset and the associated liability was not always clear. The majority of these companies recognized the asset within property, plant and equipment.

Only 18 percent of the surveyed companies distinguished between liabilities relating to dismantling at the end of mine life (qualifying for capitalization to the associated asset) and liabilities relating to producing inventories from ongoing mining activities (should be charged to operating costs over the life of the mine as incurred) in line with IFRS requirements.

An example accounting policy disclosure with respect to mine closure and rehabilitation is as follows:

Example 2.22: Rio Tinto Plc

Provisions for close down and restoration and for environmental clean up costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, eg updated cost estimates and revisions to the estimated lives of operations and are subject to formal review at regular intervals.

Close down and restoration costs are a normal consequence of mining, and the majority of close down and restoration expenditure is incurred at the end of the life of the mine. Although the ultimate cost to be incurred is uncertain, the group's businesses estimate their respective costs based on feasibility and engineering studies using current restoration standards and techniques.

The amortization of 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortization of the discount is shown as a financing cost, rather than as an operating cost.

Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalized within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the income statement.

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the balance sheet date. These costs are charged to the income statement. Movements in the environmental clean up provisions are presented as an operating cost, except

for the unwind of the discount which is shown as a financing cost. Remediation procedures generally commence soon after the time the damage, remediation process and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

Source: Rio Tinto Plc 2005 Annual Report

Thirty-five of the 44 surveyed companies disclosed mine closure and rehabilitation as a critical accounting estimate and judgment (refer section 2.1). Of those companies, 15 did not disclose details of how the mine closure and rehabilitation liabilities, such as discount rates and other key factors impacting liability calculations, were calculated.

KPMG comment

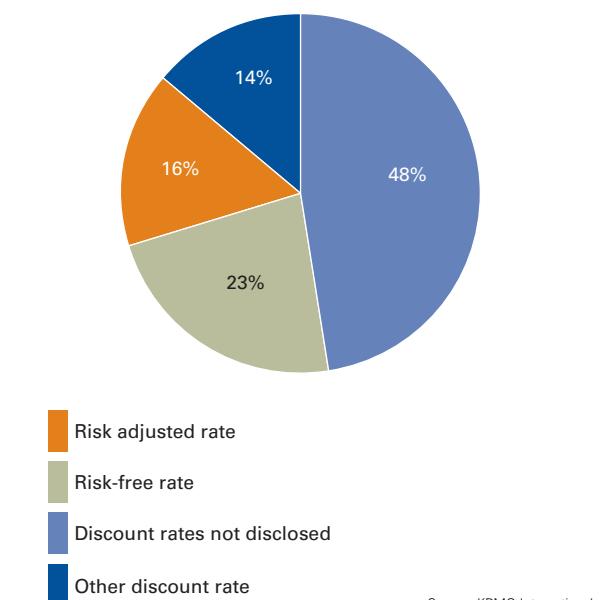
The limited disclosures are interesting to note considering that a significant portion of mine closure and rehabilitation responsibilities are expected to occur towards the end of the life of a mine and the expected costs and timing to rehabilitate are subject to various inherent uncertainties. It can be anticipated that enhanced disclosure in this regard will evolve over time.

2.7.2 Discounting of mine closure and rehabilitation provisions

With regards to the rate used to discount mine closure and rehabilitation liabilities to their net present value:

- The majority of the companies did not specify the discount rate used.
- Twenty-three percent of the companies stated that a 'risk-free rate' or 'credit adjusted risk-free rate' was used. The majority of these companies were domiciled in the U.S.A. and Canada (subject to U.S. GAAP and Canadian GAAP requirements).
- Sixteen percent of the companies stated that the rate used was adjusted for risks specific to their liabilities. These companies were primarily South African and Australian companies (subject to IFRS requirements).
- Fourteen percent of the companies used a variety of other discount rates.

Chart 2.6: Rate used to discount mine closure and rehabilitation liabilities



Source: KPMG International

An example disclosure with respect to discount rates and other assumptions used in estimating mine closure and rehabilitation is as follows:

Example 2.23: Inmet Mining Corporation Estimated reclamation liabilities

We estimate that \$96 million in undiscounted cash flows is needed to settle these liabilities, payable over approximately 20 years. Cash flows are discounted at interest rates that range from three percent to seven percent and depend on a number of factors, including the duration of the obligation and the jurisdiction where the obligation is owed.

Funding

At most of our properties, reclamation activities are funded when they are incurred. Ok Tedi sets aside cash in a trust account every year for future rehabilitation activities.

Using estimates

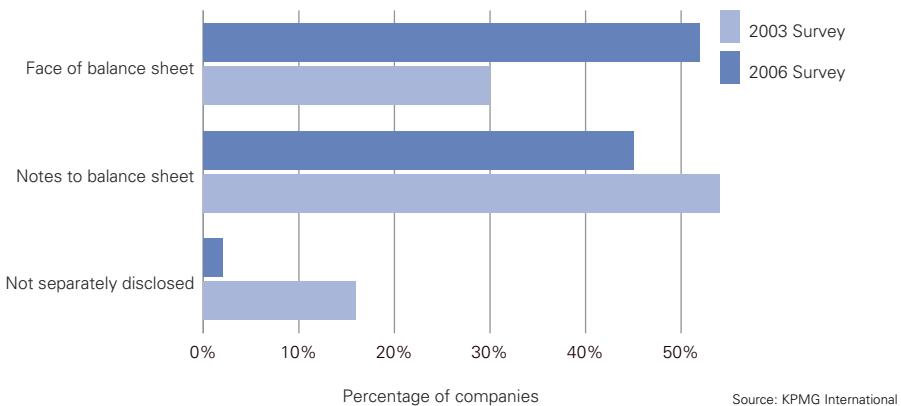
Due to uncertainties around environmental remediation, the actual cost of site restoration could be different from the amounts estimated. Our estimates can also change because of changes to the laws and regulations that govern them, and as new information about our operations becomes available. We also cannot predict the impact on our financial position of environmental laws and regulations that may be enacted in the future.

Source: Inmet Mining Corporation 2005 Annual Report

2.7.3 Disclosure of mine closure and rehabilitation liabilities

An analysis of where companies disclosed the mine closure and rehabilitation liabilities in the financial statements, as compared to the 2003 survey is as follows:

Chart 2.7: Mine closure and rehabilitation liability disclosure



It is not surprising, given the dramatic increase in companies who are now providing for these costs in full, that more prominence has been given to mine closure and rehabilitation liabilities by disclosing them as a separate line item in the balance sheet.

2.8 Impairment

Companies test for impairment to ensure that an asset is not recognized at an amount which is greater than that which will be recovered through the use or sale of that asset.

All companies surveyed, except for one from the BRICs category (2003: 72 percent) disclosed a specific accounting policy on impairment of assets. With the adoption of IFRS by many countries and the mandatory disclosure requirement under the various accounting frameworks, more companies, in particular those companies in the BRICs category, now have such disclosure.

Only 33 percent (2003: eight percent) of companies that disclosed an impairment accounting policy provided details of the assumptions underlying any impairment testing, such as discount rates, commodity prices, exchange rates and the expected timing of cash flows. While this indicated that more companies since the 2003 survey are willing to be transparent regarding the assumptions they used in performing their impairment tests, it is still surprisingly low given the high level of judgment involved in the determination of these assumptions.

The number of companies which disclosed details of impairment testing is broken down as follows:

Table 2.11: Companies disclosing details of impairment testing

Discount rates	Commodity prices	Exchange rates	Expected timing of cash flows
12	9	3	9

Source: KPMG International

Furthermore, it is interesting to note that of the companies which disclosed an accounting policy for impairment, 30 companies indicated that impairment was an area which required significant judgment (refer section 2.1 Critical Accounting Estimates), but only a third of these companies went ahead to disclose the details of impairment testing.

KPMG comment

The mining industry faces many inherent uncertainties in determining the life of a mine. Accordingly, it is encouraging to observe that some mining companies are disclosing information relating to their impairment calculations in this regard. However, over time it could be anticipated that all of the key drivers, together with associated sensitivity analysis would be presented in the critical accounting estimate disclosures.

Example accounting policies with respect to impairment are as follows:

Example 2.24: AngloGold Ashanti Limited

Impairment of assets

Intangible assets that have an indefinite useful life and separately recognized goodwill are not subject to amortization and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment calculation assumptions include life of mine plans based on prospective reserves and resources, management's estimate of the future gold price based on current market price trends, foreign exchange rates, and a pre-tax discount rate adjusted for country and project risk. It is therefore reasonably possible that changes could occur which may affect the recoverability of tangible and intangible assets.

Source: AngloGold Ashanti Limited 2005 Annual Report

Example 2.25: BHP Billiton Limited

Impairment of non-current assets

Formal impairment tests are carried out annually for goodwill, indefinite life intangible assets and intangible assets not yet available for use. Formal impairment tests for all other assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. The BHP Billiton Group conducts annually an internal review of asset values which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future processes, costs and other market factors are also monitored to assess for indications of impairment. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Direct costs of selling the asset are deducted. Fair value for mineral assets is generally determined as the present value of the estimated future cashflows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that a market participant could take into account. These cashflows are discounted by an appropriate discount rate to arrive at a net present value (NPV) of the asset.

Value in use is determined as the present value of the estimated future cashflows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the group's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value in use calculation is likely to give a different result (usually lower) to a fair value calculation.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The impairment assessments are based on a range of estimates and assumptions, including:

Estimates/assumptions	Basis
Future production	Proved and probable reserves, resource estimates and, in certain cases, expansion projects
Commodity prices	Forward market and contract prices, and longer-term price protocol estimates
Exchange rates	Current (forward) market exchange rates
Discount rates	Cost of capital risk adjusted for the resource concerned

Source: BHP Billiton Limited 2006 Annual Report

Of the companies which disclosed an impairment accounting policy, ten specifically defined what they regarded as a group of assets that generate cash inflows independently for use in an impairment calculation.

Examples of accounting disclosure in this respect were as follows:

Example 2.26: Newcrest Mining Limited

"Individual assets are grouped for impairment purposes at the lowest level for which there are separately identifiable cash flows. Generally, this results in the consolidated entity evaluating its mine properties on a geographical basis."

Source: Newcrest Mining Limited 2006 Annual Report

Example 2.27: Coeur D'Alene Mines Corporation

"In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other asset groups. Generally, in estimating future cash flows, all assets are grouped at a particular mine for which there is identifiable cash flow."

Source: Coeur D'Alene Mines Corporation 2005 Annual Report

Example 2.28: Newmont Mining Corporation

"With the exception of other mine-related exploration potential and greenfields exploration potential, all assets at a particular operation are considered together for purposes of estimating future cash flows. In the case of mineral interests associated with other mine-related exploration potential and greenfields exploration potential, cash flows and fair values are individually evaluated based primarily on recent exploration results and recent transactions involving sales of similar properties."

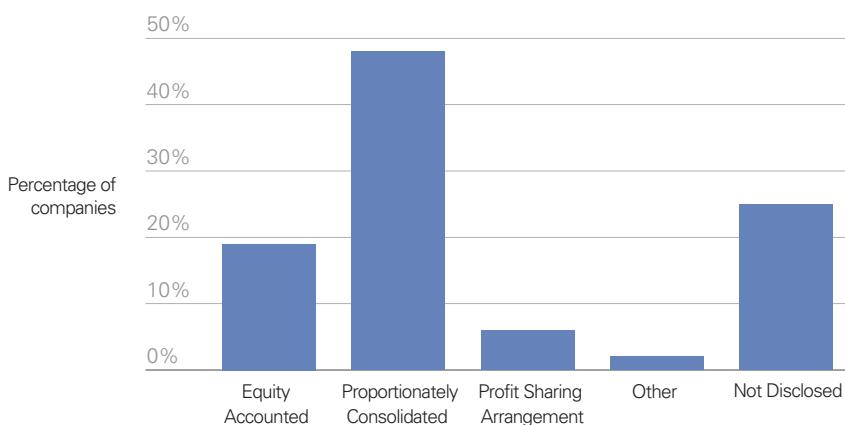
Source: Newmont Mining Corporation 2005 Annual Report

2.9 Accounting for joint venture arrangements

Joint venture arrangements are commonly used in the mining industry as a means for companies to reduce business risk, combine valuable resources and attract investors and appropriately skilled employees. The survey found that 75 percent (2003: 70 percent) of companies disclosed that they had at least one joint venture arrangement.

The chart below shows the accounting for joint venture arrangements disclosed by the 44 companies included in the survey:

Chart 2.8: Accounting treatment of joint venture arrangements



Source: KPMG International

On a country by country basis this can be broken down as follows:

Table 2.12: Accounting treatment of joint venture arrangements by country

	Australia	Canada	South Africa	United Kingdom	United States	BRICs	Total
Equity Accounted	3	1	—	2	1	2	9
Proportionately Consolidated	2	10	5	3	3	—	23
Profit Sharing Arrangement	—	—	1	—	2	—	3
Other	—	1	—	—	—	—	1
None or Not Disclosed	1	1	1	3	1	5	12
Total	6	13	7	8	7	7	48

Note: Four companies disclosed more than one type of joint venture arrangement in their accounts.

Source: KPMG International

The survey found a large portion of companies apply proportionate consolidation particularly in Canada and South Africa, while the United Kingdom and Australia showed a mix between equity accounting and proportionate consolidation.

For many companies, established industry practice pre-IFRS was often to recognize these joint arrangements by proportionate consolidation, such that each participant account for income from sales of their share of the product and their proportionate share of expense, assets and liabilities.

While this practice is still common for some types of arrangements, to continue to account in this manner under IFRS, it must be demonstrated that genuine joint control exists. Joint control is unanimous consent of all joint venture parties with respect to strategic financial and operating decisions. In addition Australian equivalents to IFRS (AIFRS) remove the proportionate consolidation alternative for jointly controlled entities and mandate equity accounting.

For many companies transitioning to IFRS and AIFRS this has caused a change in accounting as the unanimous consent test is not met in all circumstances, particularly when ownership interest is not '50/50'. Depending on the terms of the agreement, the changes have led to consolidation, where control rather than joint control exists; or more commonly to equity accounting for those who own less than 50 percent.

If a company's major asset is an active interest in a joint venture, then the requirement to equity account rather than proportionately consolidate will have a pervasive impact on the financial statements: all underlying assets and liabilities are replaced by one line 'investment in associates' in the balance sheet and revenue, costs and tax expense are replaced by one line in the income statement 'share of profits from associates', which is reported after tax.

As a consequence, there seems to be a growing trend for companies to disclose additional 'non-GAAP' measures to focus on the results which they previously reported on directly. This is covered in greater detail in section 2.14.

"The survey found a large portion of companies still apply proportionate consolidation"

Examples of accounting policies with respect to accounting for joint venture arrangements are as follows:

Example 2.29: Xstrata Plc

Interests in joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The financial statements of the joint ventures are prepared for the same reporting period as the company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Jointly controlled operations

A jointly controlled operation involves the use of assets and other resources of the group and other venturers rather than the establishment of a corporation, partnership or other entity.

The group accounts for the assets it controls and the liabilities it incurs, the expenses it incurs and the share of income that it earns from the sale of goods or services by the joint venture.

Jointly controlled assets

A jointly controlled asset involves joint control and offers joint ownership by the group and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity.

The group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture and any expenses it incurs in relation to its interest in the joint venture.

Jointly controlled entities

A jointly controlled entity involves the establishment of a corporation, partnership or other legal entity in which the group has an interest along with other venturers.

The group recognizes its interest in jointly controlled entities using the proportionate method of consolidation whereby the group's share of each of the assets, liabilities, income and expenses of the joint venture are combined with the similar items, line by line, in its consolidated financial statements.

When the group contributes or sells assets to a joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the group has transferred the risk and rewards of ownership to the joint venture, the group will generally only recognize the portion of the gain or loss attributable to the other ventures, unless the loss is reflective of an impairment, in which case the loss is recognized in full. When the group purchases assets from the joint venture, it does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. Losses are accounted for in a similar manner unless they represent an impairment loss, in which case they are recognized immediately.

Joint ventures are accounted for in the manner outlined above, until the date on which the group ceases to have joint control over the joint venture.

Source: Xstrata Plc 2005 Annual Report

Example 2.30: Anglo Platinum Limited

Joint ventures

The group's interest in jointly controlled entities is accounted for through proportionate consolidation. Under this method the group includes its share of the joint venture, individual income and expenses, assets and liabilities in the relevant components of its financial statements on a line-by-line basis.

Where a group company undertakes its activities under joint venture arrangement directly, the group's share of jointly controlled assets and any liabilities incurred jointly with other venturers is recognized in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the group's share of the output of jointly controlled assets is recognized when the revenue recognition criteria detailed in the accounting policy note 9 are met.

Source: Anglo Platinum Limited 2005 Annual Report

2.10 Financial instruments

2.10.1 Financial risk management and hedge accounting

Companies in the mining industry are exposed to fluctuations in commodity prices, foreign exchange rates, interest rates and energy prices. In order to manage or try to limit the impact of changes in prices or rates, many mining companies undertake financial risk management and hedging activities. These activities involve the use of derivative financial instruments to provide certainty over the future cash flows that will be received or paid for an existing or forecast transaction.

The survey assessed the number of companies that use derivatives to hedge commodity prices, foreign exchange, interest rates and energy prices. It was noted that the percentage of surveyed companies that hedge financial risks remained relatively consistent to the results of the 2003 survey.

The table below shows the percentage of companies surveyed who hedge commodity price, foreign exchange, interest rate or energy price risks by company:

Table 2.13: Breakdown of nature of risks being hedged

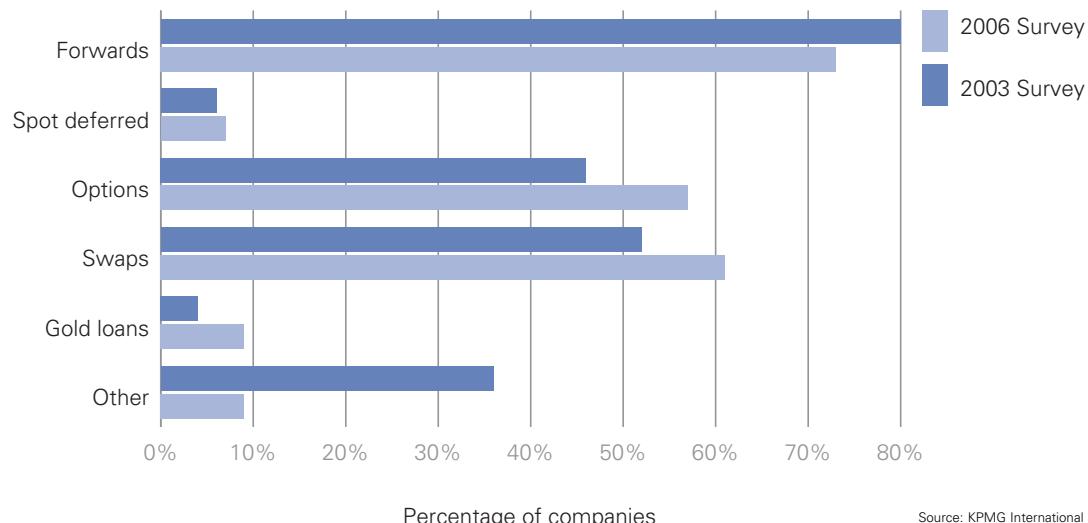
Nature of risk hedged	Number of companies	%
Commodity prices	31	70
Foreign exchange rates	30	68
Interest rates	28	64
Energy prices	9	20

Source: KPMG International

Various derivative instruments were used by surveyed companies to hedge financial risks. Consistent with the 2003 survey, the most commonly disclosed instrument was forward contracts which were used by 73 percent of companies surveyed.

The following illustrates a comparison of the types of instruments used by companies surveyed to the results of the 2003 survey:

Chart 2.9: Types of financial instruments used



Source: KPMG International

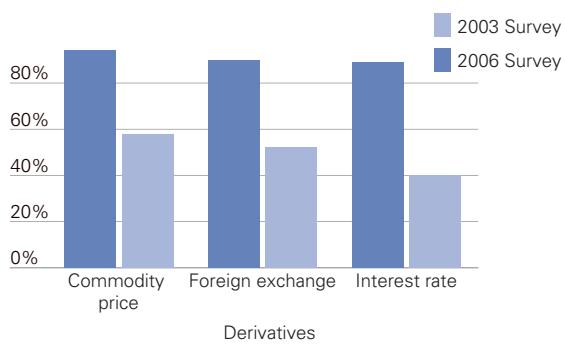


Source: Rio Tinto Iron Ore

The survey revealed a significant increase in companies disclosing the fair-value of derivative instruments by specific type of risk hedged.

The following chart shows with respect to derivative instruments the percentage of companies who included fair value disclosures:

Chart 2.10: Fair value disclosures of derivative instruments



The survey results found that:

- Ninety-four percent of companies surveyed separately disclosed the fair value of commodity price derivatives compared to 58 percent in 2003.
- Ninety percent of companies surveyed separately disclosed the fair value of foreign exchange hedges compared to 52 percent in 2003.
- Eighty-nine percent of companies surveyed separately disclosed the fair value of interest rate hedges compared to 40 percent in 2003.

The increase in the disclosure of fair values is most likely a result of developments since 2003 in accounting and disclosure requirements relating to financial instruments.

Hedge accounting

The financial report disclosures relating to hedge accounting vary according to the extent of hedging activities undertaken and the level of complexity associated with the requirements of the company's local GAAP.

The survey highlighted that 82 percent of companies surveyed included an accounting policy relating to its hedging activities. This is consistent with the results of the 2003 survey.

The following table illustrates the number and percentage of companies surveyed who apply hedge accounting principles to their derivatives hedging financial risks:

Table 2.16: Application of hedge accounting principles to derivatives hedging financial risks

Nature of risk hedged	Number of companies	%
Commodity prices	22	71
Foreign exchange rates	21	70
Interest rates	20	71
Energy prices	5	56

Source: KPMG International

Interestingly, in relation to hedges of energy prices, only companies located in the United States and Canada applied hedge accounting principles.

While the results of the survey indicate that a number of mining companies continue to apply hedge accounting principles, it was noted some companies have increased disclosures relating to hedge relationships which did not meet the requirements for hedge accounting. Such disclosures included the nature of the risk being hedged, the type of instrument used, the fair value of open positions at year end and amounts recognized in the income statement.

In the key area of effectiveness testing, few companies surveyed provided disclosure of the details of the methodology applied or key assumptions used.

An example of disclosure relating to derivative financial instruments and hedging is as follows:

Example 2.31: Barrick Gold Corporation Use of derivative instruments (derivatives) in risk management

In the normal course of business, our assets, liabilities and forecasted transactions are impacted by various market risks including:

Item	Impacted by
Cost of sales	
Consumption of diesel fuel and propane	Prices of diesel fuel and propane
Local currency denominated expenditures	Currency exchange rates – US dollar versus A\$, C\$, and ARS
Administration costs in local currency	Currency exchange rates – US dollar versus A\$ and C\$
Capital expenditures in local currencies	Currency exchange rates – US dollar versus A\$, C\$, ARS and Euro
Interest earned on cash	US dollar interest rates
Fair value of fixed-rate debt	US dollar interest rates

Under our risk management policy we seek to mitigate the impact of these market risks to control costs and enable us to plan our business with greater certainty. The time-frame and manner in which we manage these risks varies for each item based upon our assessment of the risk and available alternatives for mitigating risk. For these particular risks, we believe that derivatives are an effective means of managing risk.

Accounting policy for derivatives

We record derivatives on the balance sheet at fair value except for gold and silver sales contracts, which are excluded from the scope of FAS 133, because the obligations will be met by physical delivery of our gold and silver production and they meet the other requirements set out in paragraph 10(b) of FAS 133. In addition, our past sales practices, productive capacity and delivery intentions are consistent with the definition of a normal sales contract. Accordingly, we have elected to designate our gold and silver sales contracts as 'normal sales contracts' with the result that the principles of FAS 133 are not applied to them. Instead we apply revenue recognition accounting principles as described in note 5.

On the date we enter into a derivative that is accounted for under FAS 133, we designate it as either a hedging instrument or a non-hedge derivative. A hedging instrument is designated in either:

- a fair value hedge relationship with a recognized asset or liability or

- a cash flow hedge relationship with either a forecasted transaction or the variable future cash flows arising from a recognized asset or liability.

At the inception of a hedge, we formally document all relationships between hedging instruments and hedged items, including the related risk-management strategy. This documentation includes linking all hedging instruments to either specific assets and liabilities, specific forecasted transactions or variable future cash flows. It also includes the method of assessing retrospective and prospective hedge effectiveness. In cases where we use regression analysis to assess prospective effectiveness, we consider regression outputs for the coefficient of determination (r^2), the slope coefficient and the t-statistic to assess whether a hedge is expected to be highly effective. Each period, using a dollar offset approach, we retrospectively assess whether hedging instruments have been highly effective in offsetting changes in the fair value of hedged items and we measure the amount of any hedge ineffectiveness. We also assess each period whether hedging instruments are expected to be highly effective in the future. If a hedging instrument is not expected to be highly effective, we stop hedge accounting prospectively. In this case accumulated gains or losses remain in OCI until the hedged item affects earnings. We also stop hedge accounting prospectively if:

- a derivative is settled;
- it is no longer highly probable that a forecasted transaction will occur or
- we de-designate a hedging relationship.

If we conclude that it is probable that a forecasted transaction will not occur in the originally specified time frame, or within a further two month period, gains and losses accumulated in OCI are immediately transferred to earnings. In all situations when hedge accounting stops, a derivative is classified as a non-hedge derivative prospectively. Cash flows from derivative transactions are included under operating activities, except for derivatives designated as a cash flow hedge of forecasted capital expenditures, which are included under investing activities.

Changes in the fair value of derivatives each period are recorded as follows:

- Fair value hedges: recorded in earnings as well as changes in fair value of the hedged item.
- Cash flow hedges: recorded in OCI until earnings are affected by the hedged item, except for any hedge ineffectiveness which is recorded in earnings immediately.
- Non-hedge derivatives: recorded in earnings.

Summary of Derivatives at December 31, 2005¹.

Example 2.31: Barrick Gold Corporation (continued)

	Notional amount by term to maturity			Accounting classification by notional amount		Fair value (US\$ millions)
	Within 1 Year	2 to 5 years	Total	Cash flow hedge	Fair value hedge	Non- hedge
US dollar interest rate contracts						
Receive-fixed swaps (millions)	\$ –	\$ 975	\$ 975	\$ 425	\$ 500	\$ 50
Pay-fixed swaps (millions)	\$ –	\$ 125	\$ 125	–	–	125
Net notional position	\$ –	\$ 850	\$ 850	\$ 425	\$ 500	\$ (75)
Currency contracts						
C\$:US\$ contracts (C\$millions)	C\$ 297	C\$ 491	C\$ 788	C\$ 788	C\$ –	C\$ – ²
A\$:US\$ contracts (A\$millions)	A\$ 537	A\$ 1,676	A\$ 2,213	A\$ 2,212	A\$ –	A\$ 1
ARS:US\$ contracts (ARS millions)	36	–	36	36	–	(1)
Commodity contracts						
WTI contracts (thousands of barrels)	476	1,417	1,893	1,502	–	391
MOPS contracts (thousands of barrels)	121	–	121	121	–	–
Propane contracts (millions of gallons)	17	–	17	17	–	4

1. Excludes gold sales contracts (see note 5), gold lease rate swaps (see note 5) and Celtic Resources share purchase warrants (see note 11).

2. \$62 million of non-hedge currency contracts were economically closed out by entering into offsetting positions, albeit with differing counterparties.

Source: Barrick Gold Corporation 2005 Annual Report

Disclosure of financial risk management activities

The survey revealed that:

- Sixty-eight percent of the companies surveyed disclosed information about their risk management objectives and strategies.
- Thirty-two percent of companies disclosed information relating to responsibility for financial risk management such as the use of board committees and existence of Board approved limits on the use of derivatives to manage financial risks.

An example disclosure of financial risk management activities is as follows:

Example 2.32: AngloGold Ashanti Limited

Financial risk management activities

In the normal course of its operations, the group is exposed to gold price, currency, interest rate, liquidity and credit risks. In order to manage these risks, the group may enter into transactions which make use of both on-and off-balance sheet derivatives. The group does not acquire, hold or issue derivatives for trading purposes. The group has developed a comprehensive risk management process to facilitate, control and monitor these risks. The board has approved and monitors this risk management process, inclusive of documented treasury policies, counterpart limits, controlling and reporting structures.

Controlling risk in the group

The Executive Committee and the Treasury Committee are responsible for risk management activities within the group. The Treasury Committee, chaired by the independent chairman of the AngloGold Ashanti Audit and Corporate Governance Committee, comprising executives members and treasury executives, reviews and recommends to the Executive Committee all treasury counterparts, limits, instruments and hedge strategies. The treasurer is responsible for managing investment, gold price, currency, liquidity and credit risk. Within the treasury function, there is an independent risk function, which monitors adherence to treasury risk management policy and counterpart limits and provides regular and detailed management reports.

The financial risk management objectives of the group are defined as follows:

- Safeguarding the group core earnings stream from its major assets through the effective control and management of gold price risk, foreign exchange risk and interest rate risk.
- Effective and efficient usage of credit facilities in both the short and long term through the adoption of reliable liquidity management planning and procedures.
- Ensuring that investment and hedging transactions are undertaken with creditworthy counterparts.
- Ensuring that all contracts and agreements related to risk management activities are co-ordinated, consistent throughout the group and comply where necessary with all relevant regulatory and statutory requirements.

Source: AngloGold Ashanti Limited 2005 Annual Report

2.10.2 'Own use' or normal purchase and sale exemption

Contracts entered into by participants in the mining industry may possess characteristics which meet the definition of a derivative. In jurisdictions which use IFRS or U.S. GAAP, such contracts must be accounted for at fair value unless they satisfy conditions for the 'own-use' or 'normal purchase and sale' exemption.

Only five of the 44 companies surveyed disclosed information relating to the application of the own-use or normal purchase and sale exemption. Disclosures in this regard by Barrick are included at example 2.31. In addition, Anglo American Plc included the following in the notes to its financial statements:

Example 2.33: Anglo American plc

Normal purchase and normal sale contracts

Commodity based contracts that meet the requirements of IAS 39 in that they are settled through physical delivery of the group's production, or are used within the production process, are classified as normal purchase and normal sale contracts. In accordance with IAS 39 these contracts are not marked to market when they are settled through physical delivery.

At year end 6.6 million ounces of gold were sold forward under normal sale contracts that mature over periods up to December 2015. The mark to market value of these contracts at this date was \$1,281 million and is based on contracted gold prices of between \$310/oz and \$403/oz. This value at 31 December 2005 was based on a gold price of \$517/oz, exchange rates of \$/ZAR 6.305 and AUD/\$0.734 and the prevailing market interest rates and volatilities at that date.

As at 9 February 2006, the marked to market value of AngloGold Ashanti's total hedge book, including normal purchase and normal sale contracts, was a negative \$2.425 billion (negative ZAR14.99 billion), based on a gold price of \$557.75/oz and exchange rates of \$/ZAR6.18 and AUD/\$0.7398 and the prevailing market interest rates and volatilities at the time.

Source: Anglo American plc 2005 Annual Report

2.10.3 Embedded derivatives

Mining companies enter into numerous arrangements for the sale of product or supply of materials or services and in certain circumstances, the terms of these arrangements may contain embedded derivatives.

The survey revealed that 28 percent of mining companies surveyed included an accounting policy in their financial statements in relation to embedded derivatives. It was found 10 of the companies surveyed also included information in the notes to the financial statements in relation to the nature of contracts containing embedded derivatives.

BHP Billiton disclosed information on contracts containing embedded derivatives as follows:

Example 2.34: BHP Billiton Limited

Embedded derivatives

The following table provides information about the principal embedded derivatives contracts:

Commodity Price Swaps	Volume		Maturity date	Exposure price
Electricity purchase arrangement	240,000	MWh	31 Dec 2024	Aluminium
Electricity purchase arrangement	843,000	MWh	30 Jun 2020	Aluminium
Gas sale	150.67	Pj	31 Dec 2013	Electricity
Commodity Price Options	Volume		Maturity date	Exposure price
Finance lease of plant and equipment	39.5	Mmboe	30 Dec 2018	Crude oil
Copper concentrate sales	90,591,421	Pounds	31 Dec 2006	Copper
Lead purchase and sale	67,000	DMT	1 Jan 2007	Lead
Zinc purchase and sale	6,000	DMT	2 Jan 2007	Zinc

Source: BHP Billiton Limited 2006 Annual Report



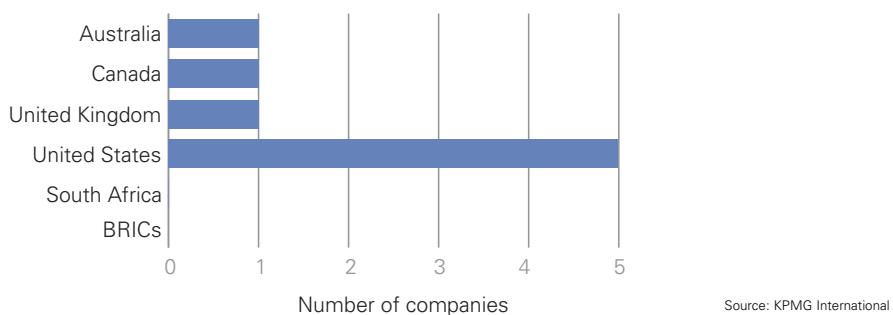
Provisionally priced contracts

It is common in the mining industry to sell commodities using contracts which include 'provisional pricing terms' where the final sales price of the product sold is based on quoted market prices at a date after the date of shipment and/or invoicing.

Of the 44 companies surveyed, only nine companies disclosed that provisional pricing terms in sales contracts are accounted for as embedded derivatives. The accounting policies for eight of these companies indicated that the fair value of the embedded derivative is measured by reference to quoted forward market prices and changes in fair value, were in the majority of cases, recognized as an adjustment to revenue.

Illustrated below is the percentage of surveyed companies that disclosed provisional pricing terms as being accounted for as embedded derivatives:

Chart 2.11: Disclosure of provisional pricing terms accounted for as embedded derivatives



An extract from the accounting policies of companies surveyed relating to provisional pricing arrangements follows:

Example 2.35: Coeur d'Alene Mines Corporation

Under our concentrate sales contracts with third-party smelters, final gold and silver prices are set on a specified future quotational period, typically one to three months, after the shipment date based on market metal prices. Revenues are recorded under these contracts at the time title passes to the buyer based on the forward price for the expected settlement period. The contracts, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. Final settlement is based on the average applicable price for a specified future period, and generally occurs from three to six months after shipment. Final sales are settled using smelter weights, settlement assays (average of assays exchanged and/or umpire assay results) and are priced as specified in the smelter contract. The Company's provisionally priced sales contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of concentrates measured at the forward price at the time of sale. The embedded derivative does not qualify for hedge accounting. The embedded derivative is recorded as a derivative asset in prepaid expenses and other, or a derivative liability on the balance sheet and is adjusted to fair value through revenue each period until the date of final gold and silver settlement. The form of the material being sold, after deduction for smelting and refining is in an identical form to that sold on the London Bullion Market. The form of the product is metal in flotation concentrate, which is the final process for which the company is responsible.

Source: Coeur d'Alene Corporation 2005 Annual Report

Example 2.36: Antofagasta plc

Copper and molybdenum concentrate sale agreements and copper cathode sale agreements generally provide for provisional pricing of sales at the time of shipment, with final pricing based on the monthly average London Metal Exchange (LME) copper price or the monthly average market molybdenum price for specified future periods. This normally ranges from 30 to 180 days after delivery to the customer. Such a provisional sale contains an embedded derivative which is required to be separated from the host contract. The host contract is the sale of metals contained in the concentrate or cathode at the provisional invoice price less tolling charges deducted, and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. At each reporting date, the provisionally priced metal sales together with any related tolling charges are marked-to-market, with adjustments (both gains and losses) being recorded in turnover in the consolidated income statement and in trade debtors in the balance sheet. Forward prices at the period end are used for copper concentrate and cathode sales, while period-end month average prices are used for molybdenum concentrate sales due to the absence of a futures market.

Source: Antofagasta plc 2005 Annual Report

2.11 Functional and reporting currencies

IFRS has brought 'regime change' in foreign currency accounting for those previously reporting under non-U.S. national GAAP.

Foreign currency accounting was about translating foreign currency transactions and balances into a company's home currency, and translating financial statements of foreign operations according to whether they were self-sustaining or integrated. Under IFRS, foreign currency accounting is about identifying the functional currency for each entity (which may not be the entity's home currency), translating transactions and balances into that currency, and then choosing a presentation currency for the financial statements.

Different entities within a multi-national group often have different functional currencies. Management must determine the functional currency of each entity based on the requirements of *IAS 21 The effects of changes in foreign exchange rates*.

An entity does not have a free choice of functional currency. Rather, it is a question of fact based on the underlying transactions, events and conditions. Once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions of the entity.

Each group entity translates its results and financial position into the presentation currency of the reporting entity. As a result, the 'group' does not have a functional currency. The presentation currency, however, can be in a currency that is different to the functional currency.

For entities that have a functional currency different to the presentation currency, the closing balance sheets and income statements are translated into the presentation currency at balance sheet date, with any currency related fluctuations recorded in a foreign currency translation reserve in equity. There is no profit impact on these entities.

IAS 21 includes some primary indicators that must be given priority in determining an entity's functional currency, and also some secondary indicators.

The primary indicators are:

(a) The currency:

- (i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled)
 - (ii) of the country whose competitive forces and regulations mainly determine the sales price of its goods and services.
- (b) The currency that mainly influences labor, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

If these primary indicators do not provide an obvious answer then management needs to turn to the secondary indicators, as follows:

- (a) The currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated.
- (b) The currency in which receipts from operating activities are usually retained.

Example secondary indicators - denomination currency of:

- issued capital
- debts
- dividends to shareholders
- large cash balances (eg built and retained from receipts from operations)
- loans to and from subsidiaries.

Management must exercise judgment in determining the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Decisions will often be based on a balance of circumstances and indicators. They may also have regard to business objectives, performance drivers and risks underlying the financial indicators referred to above. The nature of the judgments involved will often be disclosed under IFRS.

Accordingly, the identification of functional currency is new and presents challenges. Some mining companies have identified currencies other than their home currency as their functional currency, usually U.S. dollars, at least for some entities in a group. This trend relates mainly to global mining companies and mining companies with significant offshore operations, and less to companies operating only within their national borders.

The need to look at secondary factors will usually be greatest when revenues are denominated in U.S. dollars, but most costs are incurred in the company's home currency. Commodity selling prices are dictated by movements in global supply and demand. It may be difficult to identify the country whose competitive forces and regulations mainly determine the selling prices. The standard notes that the currency which mainly influences sales prices will often be the currency in which sales prices are denominated and settled. As an industry practice, selling prices are usually denominated and settled in U.S. dollar and many mining companies have viewed this as a primary factor guiding their functional currency determinations.

Functional currency determination has brought with it changes in non-reporting areas. BHP Billiton, which predominantly has U.S. dollar functional currency entities, declares and determines dividends in U.S. dollars, even though it pays them in Australian dollars and Pounds Sterling based on the exchange rate two days prior to dividend declaration.



There are no significant differences between IFRS and U.S. GAAP in the determination of functional currency relating to the mining industry.

The survey indicated that 41 out of 44 companies surveyed, or 93 percent, disclosed their functional currencies in the financial statements. It was noted that several surveyed companies had more than one functional currency as they have foreign operations in which the primary economic environment that the foreign operations conduct economic activities is different from that of the parent company. U.S. dollar was the most common with 30 of the 44 surveyed companies disclosing this as one of their functional currencies.

This was particularly apparent in Canada, the United Kingdom, Australia and the United States, whereas in South Africa and other surveyed countries use of the local currency as the functional currency was more prevalent.

In respect of the presentation currency, 66 percent of the companies surveyed used the U.S. dollar, which demonstrated that a high proportion of companies in countries other than the United States used it as their reporting currency. This probably was due to the fact that these companies have their primary and secondary listings in the United States.

The following table illustrates the use of functional and reporting currencies by country:

Table 2.15: Companies functional and reporting currency

	South Africa		Canada		United Kingdom		Australia		United States		BRICs		Total	
	FC	RC	FC	RC	FC	RC	FC	RC	FC	RC	FC	RC	FC	RC
U.S. Dollar	1	2	9	9	6	7	3	2	7	7	1	2	27	29
South African Rand	5	4											5	4
Canadian Dollar			1	3									1	3
Euro			1		1								2	0
Australian Dollar							2	3					2	3
Reminbi											2	2	2	2
Indian Rupee											2	0	2	
Brazilian Real										1		1	0	
Chilean Pesos									1		1	0		
Russian Rouble										1	0	1		
Not disclosed			1						2		3	0		
Total	6	6	12	12	7	7	5	5	7	7	7	7	44	44

FC = Functional Currency

RC = Reporting Currency

Source: KPMG International

A further observation is that 36 out of 41 companies that disclosed both functional and reporting currencies had one of the functional currencies the same as its reporting currency.

An example of functional and reporting currency disclosure is as follows:

Example 2.37: Rio Tinto Plc

Currency translation

The functional currency for each entity in the group, and for jointly controlled entities and associates, is determined as the currency of the primary economic environment in which it operates. For most entities, this is the local currency of the country in which it operates. Transactions denominated in currencies other than the functional currency of the entity are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at year end exchange rates.

The US dollar is the currency in which the group's financial statements are presented, as it most reliably reflects the global business performance of the Group as a whole.

On consolidation, income statement items are translated into US dollars at average rates of exchange. Balance sheet items are translated into US dollars at year end exchange rates. Exchange differences on the translation of the net assets of entities with functional currencies other than the US dollar, and any offsetting exchange differences on net debt hedging those net assets, are dealt with through equity.

Exchange gains and losses which arise on balances between group entities are taken to equity where that balance is, in substance, part of the group's net investment in the subsidiary and the balance is denominated in the functional currency of one party to the loan.

The group finances its operations primarily in US dollars and a substantial part of the group's US dollar debt is located in subsidiaries having functional currencies other than the US dollar. Except as noted above, exchange gains and losses relating to such US dollar debt are charged or credited to the Group's income statement in the year in which they arise. This means that the impact of financing in US dollars on the group's income statement is dependent on the functional currency of the particular subsidiary where the debt is located.

Except as noted above, or in Note (p) below relating to derivative contracts, all exchange differences are charged or credited to the income statement in the year in which they arise.

Source: Rio Tinto Plc 2005 Annual Report

2.12 Tax

The survey showed that the tax disclosures in general include the same information for many jurisdictions. However two areas were identified where specific disclosures were made by individual companies in relation to issues that have been identified under IFRS.

2.12.1 Tax base

IAS 12 Income taxes (IAS 12) measures deferred tax based on the difference between the book carrying amount and tax base of assets and liabilities. When determining the tax base of assets and liabilities, a company must reflect the tax consequences that will follow from the manner in which the book carrying amount of the asset or liability will be recovered or settled.

U.S. GAAP literature, *FAS 109 Income taxes* is largely consistent with IFRS in its approach to determining deferred tax balances with the exception that *FAS 109* does not consider intended use when determining the tax base.

In situations where no deductions for corporate income tax are allowed as an asset is used, but where deductions for capital gains tax can be claimed upon disposal, the issue needs careful analysis to determine whether the capital gains tax cost base is to be taken into account.

An example of this is mineral rights in Australia. While no tax base exists for income tax purposes, a tax base is available for capital gains tax. This capital gains tax base is not only deductible on sale of the asset, but also on expiry or abandonment of the mineral right.

There are alternative views as to how and when the capital gains tax base should be treated in these circumstances. One view is that if the company can access the capital gains tax base, at some point in the future this should be taken into account in reducing or eliminating any 'day one' temporary difference between the accounting and tax bases. Subsequently, a deferred tax asset would arise as the mineral rights are amortized, for which the probability of recoupment would need to be assessed.

An alternative view is that assessing the capital gains tax base at some remote future date should not be a key determinant for the non-recognition on and from day one of the deferred tax liability associated with the non-deductibility of mineral rights for income tax purposes.

The survey findings can only give limited insight as to whether companies have considered the use of capital gains tax bases in situations where these will be available to the company for reasons other than the sale or abandonment of the underlying asset.

Example accounting policy disclosure in respect to determining the tax base are as follows:

Example 2.38: BHP Billiton Limited

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. Where an asset has no deductible or depreciable amount for income tax purposes, but has a deductible amount on sale or abandonment for capital gains tax purposes, that amount is included in the determination of temporary differences. The tax effect of certain temporary differences is not recognized, principally with respect to goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable profit); and temporary differences relating to investments in subsidiaries, jointly controlled entities and associates to the extent that the BHP Billiton Group is able to control the reversal of the temporary difference and the temporary difference is not expected to reverse in the foreseeable future. The amount of deferred tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities, with the exception of items that have a tax base solely derived under capital gains tax legislation, using tax rates enacted or substantively enacted at period end. To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are deductible in determining future assessable income.

Source: BHP Billiton Limited 2006 Annual Report

Example 2.39: Rio Tinto Plc

On transition to IFRS with effect from 1 January 2004, deferred tax was provided in respect of fair value adjustments on acquisitions in previous years. No other adjustments were made to the assets and liabilities recognized in such prior year acquisitions and, accordingly, shareholders funds were reduced by US\$720 million on transition to IFRS primarily as a result of the deferred tax liabilities recognized on fair value adjustments to mining rights. In general, these mining rights are not eligible for income tax allowances. In such cases, the provision for deferred tax was based on the difference between their carrying value and their nil income tax base. The existence of a tax base for capital gains tax purposes was not taken into account in determining the deferred tax provision relating to such mineral rights because it is expected that the carrying amount will be recovered primarily through use and not from the disposal of mineral rights. Also, the Group is only entitled to a deduction for capital gains tax purposes if the mineral rights are sold for formally relinquished.

Source: Rio Tinto Plc 2005 Annual Report

2.12.2 Royalties and similar arrangements

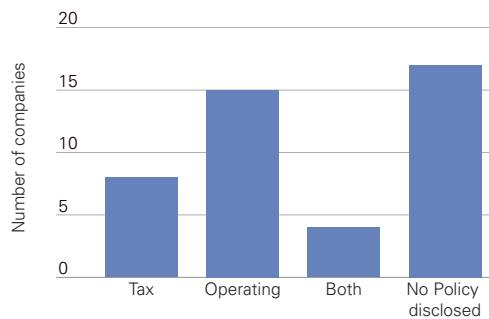
In addition to company tax, mining companies often make other payments to governments. These payments are made under a variety of names, including mineral royalties, resource rent tax, severance tax, net profit tax, mining tax etc. Broadly speaking, three approaches to accounting for such arrangements have been used:

- Cash accounting: expense when payment becomes due as an operating expense;
- Accrual accounting: expense based on units-of production as an operating expense;
- Deferred tax principles: with the expense being treated as an operating expense or a component of income tax expense.

Upon adoption of IFRS companies have considered whether these arrangements (mineral royalties) should be accounted for as income taxes under *IAS 12* or as operating expenses under *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* (*IAS 37*).

Only limited information is included in the financial statements of the surveyed companies as to whether royalties and similar arrangements are treated as a tax or as operating expense. The following chart shows the classification of royalties and similar arrangements by surveyed companies:

Chart 2.12: Classification of royalties and similar arrangements



Source: KPMG International

Nine percent of the companies surveyed disclosed royalties both under operating and tax expense, indicating that their treatment of arrangements depends on their characteristics. The remaining companies only disclosed royalties as tax expense or operating expense, or did not have specific disclosures in relation to royalties.

From a geographical perspective, disclosure of royalties and similar arrangements as a tax expense was most prevalent in the U.S. and Canadian companies. However, it is difficult to draw conclusions on these findings as the treatment is dependent on the characteristics of the arrangement which varies among different tax jurisdictions.

Examples of accounting policies with respect to treatment of royalties and similar arrangements are as follows:

Example 2.40: Newmont Mining Corporation Income and Mining Taxes

The company accounts for income taxes using the liability method, recognizing certain temporary differences between the financial reporting basis of the company's liabilities and assets and the related income tax basis for such liabilities and assets. This method generates either a net deferred income tax liability or asset for the company, as measured by the statutory tax rates in effect. The company derives its deferred income tax charge or benefit by recording the change in either the net deferred income tax liability or asset balance for the year. Mining taxes represent Canadian provincial taxes levied on mining operations and are classified as income taxes, as such taxes are based on a percentage of mining profits.

Source: Newmont Mining Corporation 2005 Annual Report

Example 2.41: BHP Billiton Limited

Royalties and resource rent taxes are treated as taxation arrangements when they have the characteristics of a tax. This is considered to be the case when they are imposed under Government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for items comprising temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognized as current provisions and included in expenses.

Source: BHP Billiton Limited 2006 Annual Report

BHP Billiton showed the most extensive disclosures in this area, with a split of tax expense on the face of the income statement as shown in the following extract of their consolidated income statement:

Example 2.42: BHP Billiton Limited

	2006	2005
Profit before taxation	14,166	8,940
Income tax expense	(3,207)	(1,876)
Royalty related taxation (net of income tax benefit)	(425)	(436)
Total taxation expense	(3,632)	(2,312)
Profit after taxation	10,534	6,628

Source: BHP Billiton Limited 2006 Annual Report

2.13 Segment reporting

Segment disclosure is a critical area within the financial statements as it provides the reader with a more detailed understanding of the diversification and performance of the various business operations. This information has been included in this survey for the first time given the increasing pressure from analysts and stakeholders to obtain increased transparency of reporting. Analysts and stakeholders request information from investor relations teams to analyze the performance of each commodity segment. They are also increasingly focusing on geographical location and other formerly not disclosed information such as mine specific results.

The companies surveyed have different GAAP and statutory reporting requirements. It is clear from the survey that there is an emerging trend for the segment note to be formatted in the prescribed fashion and then expanded to provide additional information so that the extra information being requested by analysts and other stakeholders is being provided to all users.

Given the significant movements in commodity prices over the past 12 months, the segment note is allowing analysts to review the underlying results of each segment in diversified companies. It is anticipated that over the coming years, in order to satisfy analysts and stakeholder requests as well as regulator requests for transparency, the segment note is likely to become increasingly important and more detailed.

This section deals with information disclosed by mining companies in respect of their segment disclosure.



Source: Rio Tinto Iron Ore

2.13.1 Primary reporting segments

Illustrated below is the basis on which the companies surveyed disclosed their primary segment information:

Table 2.16: Disclosure of primary segment information

	Australia	Canada	South Africa	United States	United Kingdom	BRICs	Total
Business	4	9	5	3	7	6	34
Geographical	1	3	1	4	-	1	10

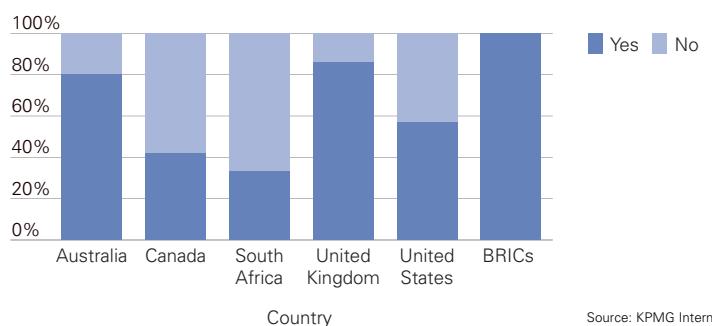
Source: KPMG International

Of the companies surveyed, 77 percent presented primary segment information by business segment as opposed to geographical segments.

2.13.2 Corporate segments

Illustrated below is the percentage of companies in the survey that disclosed segment information relating to unallocated or corporate:

Chart 2.13: Disclosure of 'unallocated' or 'corporate segments'



Source: KPMG International

Sixty-four percent of companies disclosed a 'corporate' or 'unallocated' business segment.

KPMG comment

Under IFRS, some entities use the 'corporate and other' to indicate the corporate function and other smaller parts of the business that do not meet the requirements for reportable segments. In our view, reconciling items (such as adjustments relating to the elimination of transactions between segments) should not be combined with unallocated corporate assets/activities and other smaller activities. Instead, we believe that unallocated items should be presented separately from consolidation and other adjusting items.

The effects of hedging centrally would be allocated to segments only if there is a reasonable basis for doing so. In our view, such a basis is likely to be available when appropriate hedge accounting documentation and testing is developed for the group (i.e. when it is possible to identify the hedged item at a segment level and one or more external derivatives qualify for hedge accounting on a group level).

An example disclosure with respect to segment reporting is as follows:

Example 2.43: Zinifex Limited

Notes to the financial statements 30 June 2006

Zinifex Limited and its controlled entities for the year ended 30 June 2006

3 Segment Information continued	Century Mine \$m	Rosebery Mine \$m	Hobart Refinery \$m	Port Pirie Smelter \$m	ARA \$m	Budel Refinery \$m	Clarksville Refinery \$m	Corporate and Expl- oration \$m	Elimin- ations \$m	Group \$m
Primary reporting – business segments 2006										
Sales to external customers	459.7	47.9	683.7	634.3	31.4	815.3	388.6	1.8	–	3,062.7
Intersegment sales	732.6	194.8	6.6	1.4	–	27.7	–	0.9	(964.0)	–
Total segment revenue	1,192.3	242.7	690.3	635.7	31.4	843.0	388.6	2.7	(964.0)	3,062.7
Changes in inventories	24.8	(2.9)	3.0	4.5	–	4.1	(1.2)	(0.4)	–	31.9
Raw materials	–	–	(383.3)	(390.5)	(7.8)	(553.2)	(264.3)	–	783.0	(816.1)
Stores and consumables	(126.3)	(16.8)	(19.4)	(26.4)	(3.3)	(17.9)	(17.5)	(2.1)	–	(229.7)
Other costs of production	(145.4)	(70.0)	(138.6)	(147.3)	(6.2)	(162.8)	(68.3)	–	37.8	(700.8)
Depreciation and amortization	(151.1)	(23.1)	(22.7)	(15.2)	(2.9)	(8.6)	(4.6)	(1.1)	–	(229.3)
Other income and expenses	(73.7)	(14.0)	(13.8)	(16.5)	(1.4)	(4.3)	(2.5)	(31.5)	(5.4)	(163.1)
Profit before net financing costs and before income tax	720.6	115.9	115.5	44.3	9.8	100.3	30.2	(32.4)	(148.6)	955.6
Net financing costs										(9.4)
Profit before income tax										946.2
Income tax benefit										134.0
Profit for the year										1,080.2
Segment assets	870.2	98.9	326.3	263.0	25.7	543.0	189.2	1,055.2	(329.8)	3,041.7
Inter-segment assets	475.0	146.7	72.6	49.4	31.8	0.5	–	776.2	(1,552.2)	–
Total assets	1,345.2	245.6	398.9	312.4	57.5	543.5	189.2	1,831.4	(1,882.0)	3,041.7
Segment liabilities	124.6	59.8	80.7	58.2	2.1	187.6	52.3	273.6	–	838.9
Inter-segment liabilities	959.6	109.4	54.3	150.9	0.2	178.7	43.2	55.9	(1,552.2)	–
Total liabilities	1,084.2	169.2	135.0	209.1	2.3	366.3	95.5	329.5	(1,552.2)	838.9
Acquisition of mine property, PP&E and major cyclical maintenance	217.0	25.3	46.7	37.3	0.7	26.2	3.3	4.3	–	360.8
	Australian \$m	Europe \$m		USA \$m		Eliminations \$m			Group \$m	
Secondary reporting – geographical segments – 2006										
Sales to external customers	1,858.8		815.3		388.6		–		3,062.7	
Total segment assets	2,478.1		543.5		189.2		(169.1)		3,041.7	
Acquisition of mine property, PP&E, and major cyclical maintenance	331.3		26.2		3.3		–		360.8	

Source: Zinifex Limited 2006 Annual Report

2.13.3 Additional segment disclosures

Of the mining companies surveyed, the following disclosures were those most regularly addressed in segment notes over and above the mandatory requirements of GAAP and other statutory requirements.

Financial disclosures

- percentage of consolidated turnover, profit, segment assets etc.
- financial information per mine, smelter or refinery
- income and deferred tax
- specific or unusual items
- detailed revenue/expense per segment beyond requirements
- breakdown in capital expenditure by segment between sustaining and expansionary spending.

Non-financial disclosures

- number of employees per segment and per geographical location.
- number of contractors per segment and per geographical location.

KPMG comment

Our professionals' discussions with analysts indicated that additional information provided by companies with respect to segment disclosures is valuable in assisting them understand what drives the business. The survey results highlighted that many companies were addressing these needs through alternative disclosures allowed under GAAP such as separate identification of non-cash items and cash cost information. Key segment disclosures that appeal to analysts and which they would like to see increased information on are shown in the following table:

Table 2.17: Key analyst requests for segment disclosures

Mine-by-Mine Details	Non-Recurring and/or Significant Items
<ul style="list-style-type: none"> Further information for analysis to enable accurate assessment of contribution to the group result. 	<ul style="list-style-type: none"> Clear indication of which segment these relate to and the impact on cashflows.
Cashflows	Tax
<ul style="list-style-type: none"> Cashflow details for both segments and mines to enable accurate forecasting. 	<ul style="list-style-type: none"> Desire for visibility around the tax regimes and effective rates for the segments.
Commodity Sensitivity	Year on Year Consistency
<ul style="list-style-type: none"> Increased disclosure on the impact of commodity prices on segment results for modelling purposes. 	<ul style="list-style-type: none"> Consistency between the classifications and disclosure within the segment to allow for easy analysis and investigation into forecasting accuracy.
Breakdown of Expenses	Getting it into the financials
<ul style="list-style-type: none"> Detailed analysis by segment and mine of expenses for the period. 	<ul style="list-style-type: none"> Transfer of financial information from outside of the financial statements (i.e. in the front half) into an easily analysed format in the segment note.

Source: KPMG International

2.13.4 Expense classification

The format of income statements are generally prescribed by the relevant GAAP. While formats are varied, many companies disclosed some form of disaggregation of expenses on the face of the income statement. Furthermore, 95 percent of companies disclosed disaggregated expenses either on the face of the income statement, in the notes to the accounts or in both. Generally presentation of expenses could be classified into two types, those disaggregated by nature (e.g. where costs were broken down by type) and those disaggregated by function (e.g. where cost of sales were presented).

The following table shows the type of disaggregation of expenses presented by surveyed companies:

Table 2.18: Income statement presentation of expenses

	South Africa	Canada	United Kingdom	Australia	United States	BRICs	Total
By Nature	-	-	-	1	-	3	4
By Function	4	7	5	1	2	3	22
Other or no disaggregation	2	5	2	3	5	1	18
Total	6	12	7	5	7	7	44

Source: KPMG International

The survey results identified that 50 percent of companies showed disaggregation of expenses by function while only 10 percent showed disaggregation by nature. Many of the remaining surveyed companies showed some form of disaggregation of expenses which often had characteristics of both nature and function. Five percent of companies did not show a full disaggregation of expenses by type.

Example disclosure of consolidated income statements presented by 'nature' and by 'function' are as follows:

Example 2.44: Zinifex Limited Expenses by nature

Consolidated Income Statements

Zinifex Limited and its controlled entities for the year ended 30 June 2006

	Consolidated 2006 \$m
Revenue	3,062.7
Other income	20.7
Changes in inventories of finished goods and work in progress	31.9
Raw materials used	(816.1)
Stores and consumables used	(229.7)
Employee benefits expense	(261.0)
Energy expenses	(278.6)
Depreciation and amortization expenses	(229.3)
Contracting and consulting expenses	(123.5)
Freight expenses	(96.7)
Royalties	(54.6)
Exploration and evaluation expenses	(11.8)
Other expenses	(58.4)
Profit before net financing costs and income tax	955.6
Interest revenue	14.4
Financing costs	(23.8)
Profit before income tax	946.2
Income tax benefit	134.0
Net profit for the year	1,080.2
Attributable to:	
Equity holders of the parent	1,079.9
Minority interests	0.3
Profit for the year	1,080.2

Source: Zinifex Limited 2006 Annual Report

Example 2.45: China Shenhua Energy Company Limited Expenses by function

Consolidated income statement for the year ended 31 December 2005 (expressed in Renminbi)

	2005 RMB million
Revenues	
Coal revenue	39,926
Power revenue	10,879
Other revenues	1,437
Total operating revenues	52,242
Cost of revenues	
Materials, fuel and power	(5,821)
Personnel expenses	(2,046)
Depreciation and amortization	(5,182)
Repairs and maintenance	(2,660)
Transportation charges	(6,215)
Others	(3,195)
Total cost of revenues	(25,119)
Selling, general and administrative expenses	(3,289)
Other operating expense, net	(150)
Total operating expenses	(28,558)
Profit from operations	23,684
Net financing costs	(2,060)
Investment income	10
Share of profits of associates	461
Profit before income tax	22,095
Income tax	(4,083)
Profit for the year	18,012
Attributable to:	
Equity shareholders of the Company	15,632
Minority interests	2,380
Profit for the year	18,012

Source: China Shenhua Energy Company Limited 2005 Annual Report

"The survey results identified that 50 percent of companies showed disaggregation of expenses by function, only 10 percent by nature"

KPMG comment

Under IFRS, individually material items are classified in accordance with their nature or function, consistent with the classification of items that are not individually material. In our view, the nature of an item does not change merely because it is individually material. We believe that consistent presentation by classification requires individually material items to be presented within, or adjacent to, the remaining aggregated amounts of the same nature or function.

Note: disclosure is sufficient for many items that individually are material. In our view, it is preferable for separate presentation to be made on the face of the income statement only when necessary for an understanding of the entity's financial performance. In such cases the notes to the financial statements should disclose an additional explanation of the nature of the amount presented.

In our view, it is preferable to include a subtotal of all items classified as having the same nature or function.

We believe that presentation of the effect of a particular event or circumstances as a single amount on the face of the income statement that overrides the requirement to classify expenses either by nature or function, can be justified only in very rare cases.

This aggregation of disclosures so that undue importance is not given to individually material or exceptional items, appears to be a particular focus of the regulators in a number of reporting jurisdictions at present. However, interestingly discussions with analysts who follow some of the companies covered by the survey indicated that more detailed and disaggregated information in this area is desirable to assist them in understanding underlying earnings. This is discussed further below.

2.13.5 Non GAAP measures

Any measure of disclosure that is presented on the basis of methodologies other than in accordance with generally accepted accounting principles is considered Non-GAAP. Accounting standards generally prohibit Non-GAAP measures on the face of the income statement.

As accounting standards are prescriptive in their definition of terms allowed within the financial statements the survey found that many companies were using the *Financial Management Discussion and Analysis*, press releases and other documents to disseminate this information to stakeholders.

For US filers the SEC has issued specific conditions for use of Non-GAAP Financial Measures. According to Regulation G and amendments to Item 10 of Regulation S-B, Securities Exchange Act of 1934, Forms 8-K and 20-F, public companies that disclose Non-GAAP financial measures must include, in that disclosure or release, the following:

- A presentation, with equal or greater prominence, of the most directly comparable GAAP financial measure to the Non-GAAP financial measure.
- A reconciliation between the GAAP financial measure to the Non-GAAP financial measure.
- A statement disclosing the reasons why the registrant's management believes that presentation of the Non-GAAP financial measure provides useful information to investors.

2.13.5.1 Underlying earnings

Our professionals' discussions with industry analysts suggested that the inclusion of Non-GAAP measures disclosed by management within the annual report with respect to income and earnings were useful. Such measures include revenue incorporating joint ventures and associate turnover, underlying earnings, EBIT and disaggregation of significant items.

Examples of Non-GAAP measures and the level of disclosure being made by companies outside the financial statements with respect to information on 'underlying earnings' are as follows:

Example 2.46: Rio Tinto plc

Net earnings and underlying earnings (Years ended 31 December)

	2005 US\$m	2004 US\$m
Underlying earnings	4,955	2,272
Items excluded from underlying earnings		
Profits on disposal of interests in businesses (including investments)	311	1,175
Impairment reversals/(charges)	4	(321)
Adjustment to Kennecott Utah Copper environmental remediation provision	84	–
Exchange (losses)/gains on external debt and intragroup balances	(87)	159
(Losses)/gains on currency and interest rate derivatives not qualifying for hedge accounting	(40)	8
(Losses)/gains on external debt and derivatives not qualifying as hedges in jointly controlled entities and associates (net of tax)	(12)	4
Total excluded from underlying earnings	260	1,025
Net earnings	5,215	3,297

'Underlying earnings' is an additional measure of earnings, which is reported by Rio Tinto to provide greater understanding of the underlying business performance of its operations. Underlying earnings and net earnings both represent amounts attributable to Rio Tinto shareholders. Items (a) to (f) below are excluded from Net earnings in arriving at Underlying earnings.

- (a) Gains and losses arising on the disposal of interests in businesses (including investments) and undeveloped properties
- (b) Charges and credits relating to impairment of noncurrent assets, excluding those related to current year exploration expenditure.
- (c) Exchange gains and losses on US dollar debt and intragroup balances
- (d) Valuation changes on currency and interest rate derivatives which are ineligible for hedge accounting, other than those embedded in commercial contracts.
- (e) The current revaluation of embedded US dollar derivatives contained in contracts held by entities whose functional currency is not the US dollar.
- (f) Other credits and charges that, individually, or in aggregate if of a similar type, are of a nature or size to require exclusion in order to provide additional insight into underlying business performance.

Source: Rio Tinto Plc 2005 Annual Report

Example 2.47: Anglo American plc

\$million (unless otherwise stated)	Year ended 31 Dec 2005	Year ended 31 Dec 2004	% Change
Group revenue including associates ⁽¹⁾	34,472	31,938	7.9
Operating profit including associates before special items and re-measurements ⁽²⁾	6,376	4,697	35.7
Profit for the financial year attributable to equity shareholders ⁽³⁾	3,521	3,501	0.6
Underlying earnings for the year ⁽⁴⁾	3,736	2,684	39.2
Net operating assets ⁽⁵⁾	35,753	38,222	(6.5)
EBITDA ⁽⁶⁾	8,959	7,031	27.4
Net cash inflows from operating activities	6,781	5,187	30.7
Earnings per share (US\$):			
Basic earnings per share	2.43	2.44	(0.4)
Underlying earnings per share	2.58	1.87	38.0
Ordinary dividends declared relating to the year (US cents per share)	90	70	28.6
Special dividend declared (US cents per share)	33	—	—
Total dividends (US cents per share)	123	70	75.7

(1) Includes the Group's share of associates' turnover of \$5,038 million (2004: \$5,670 million). See note 2 to the financial statements.

(2) Operating profit includes share of associates' operating profit (before share of associates' tax and finance charges) and is before special items and remeasurements.

See note 2 to the financial statements. For the definition of special items and remeasurements see note 7 to the financial statements.

(3) Profit attributable to equity shareholders does not increase in line with operating results due to a reduction in net profit on disposals compared to prior year.

(4) See note 11 to the financial statements for the basis of calculation of underlying earnings.

(5) Net operating assets are disclosed by segment in note 2 to the financial statements.

(6) EBITDA is operating profit before special items and remeasurements (2001 to 2003: exceptional items) plus depreciation and amortisation of subsidiaries and joint ventures and share of EBITDA of associates.

EBITDA is reconciled to cash inflows from operations in the financial statements below the consolidated statement of recognised income and expense.

Throughout this report 2001 to 2003 are presented under UK GAAP. 2004 and 2005 results are presented under IFRS. 2001 figures have been restated for FRS 19.

Unless otherwise stated, throughout this report '\$' and 'dollar' denote US dollars.

Source: Anglo American Plc 2005 Annual Report

2.13.5.2 Cash production costs

Cash production cost is an important measure of cost control and efficiency among commodity producers. Accordingly, 64 percent of companies surveyed disclosed cash production costs. Of those companies, 75 percent provided an explanation of cash production costs.

While The Gold Institute has recommended a format for cash production costs which is followed by some regions, cash production costs are not defined by any GAAP. It was therefore encouraging to note that many companies reconciled this Non-GAAP measure to GAAP expenses.

The following table illustrates the number of companies who disclosed cash production cost in the annual report:

Table 2.19: Companies disclosing cash production cost

	South Africa	Canada	United Kingdom	Australia	United States	BRICs	Total
By mine	3	6	1	1	-	1	12
By product	-	3	2	1	1	3	10
By mine and product	1	-	-	-	4	1	6
Not disclosed	2	3	4	3	2	2	16
	6	12	7	5	7	7	44

Source: KPMG International

The country analysis of cash production costs demonstrated that this disclosure was prevalent particularly in Canada, the United States, South Africa, and many BRICs countries, but to a lesser extent in other countries including Australia and the United Kingdom.

In addition, while the level of disclosure made by companies varied it was found that companies disclosed cash production costs by mine, by product or in some instances by both mine and product.



An example of disclosure with respect to cash costs of production is as follows:

Example 2.48: GlamisGold Limited

Cost of production

The company's total cash cost of production includes mining, processing, direct mine overhead costs and royalties, but excludes selling, general and administrative costs at the corporate level. Total production costs include depreciation and depletion and amortization of site closure and reclamation accruals but exclude future income tax effects. There is a difference between cost of sales and cost of production relating to the difference in the cost of the ounces sold out of inventory during the year, as well as revenues from silver which are treated as a by-product credit for calculation of the per-ounce cost of production. In 2005 the company produced 434,010 ounces of gold and sold 443,192 ounces out of inventory. The number of gold ounces produced in 2004 was 234,433 ounces compared to the number of ounces of gold actually sold of 227,700.

The table below reconciles total cash costs per ounce of production and total costs per ounce of production based on the Gold Institute production cost standard to cost per ounce sold per the financial statements:

Reconciliation of Gold Institute cash cost per ounce with cost of goods sold

(in millions of United States dollars, except for per-ounce amounts)	2005	2004	2003
Total ounces sold	443,192	227,701	228,219
Total ounces produced	434,010	234,433	230,294
Total cost of sales per the financial statements	\$87.7	\$43.9	\$41.6
Adjustments for revenue recognition (difference in cost of ounces sold out of inventory)	\$(1.1)	\$1.0	\$0.7
Adjustment for silver by-product credit	\$(2.1)	–	–
Total cash cost of production per Gold Institute Production Cost Standard	\$84.5	\$44.9	\$42.3
Total cash cost per ounce of gold sold	\$198	\$193	\$182
Total cash cost per ounce of gold produced per Gold Institute Production Cost Standard	\$195	\$192	\$184
Depreciation, depletion and amortization per the financial statements	\$51.1	\$20.8	\$17.7
Net adjustments for cost of ounces produced but not sold, non-production-related depreciation and future income tax effects	\$(5.0)	\$(1.0)	\$(0.0)
Total cost of production per Gold Institute Production Cost Standard	\$130.6	\$64.7	\$60.0
Total cost of production per ounce of gold produced per Gold Institute Production Cost Standard	\$301	\$276	\$271

Cash costs of production should not be considered as an alternative to operating profit or net profit attributable to shareholders, or as an alternative to other Canadian or U.S. generally accepted accounting principle measures and may not be comparable to other similarly titled measures of other companies. However, the company believes that cash costs of production per ounce of gold, by mine, is a useful indicator to investors and management of a mine's performance as it provides: (i) a measure of the mine's cash margin per ounce, by comparison of the cash operating costs per ounce by mine to the price of gold; (ii) the trend in costs as the mine matures; and (iii) an internal benchmark of performance to allow for comparison against other mines.

Source: GlamisGold Limited 2005 Annual Report

2.14 Transition to IFRS

Compliance with IFRS has had a significant impact on the preparation of financial statements of mining companies throughout the world. The following table shows the various frameworks applied by the companies included in this survey:

Table 2.20: Reporting frameworks by country

	Australia	Canada	South Africa	United Kingdom	United States	BRICs	Total
IFRS First time Adopter	4	-	-	7	-	-	11
Existing IFRS Reporters	-	-	6	-	-	4	10
U.S. GAAP	-	1	-	-	7	-	8
Canadian GAAP	-	11	-	-	-	-	11
Other	1	-	-	-	-	3	4
Total	5	12	6	7	7	7	44

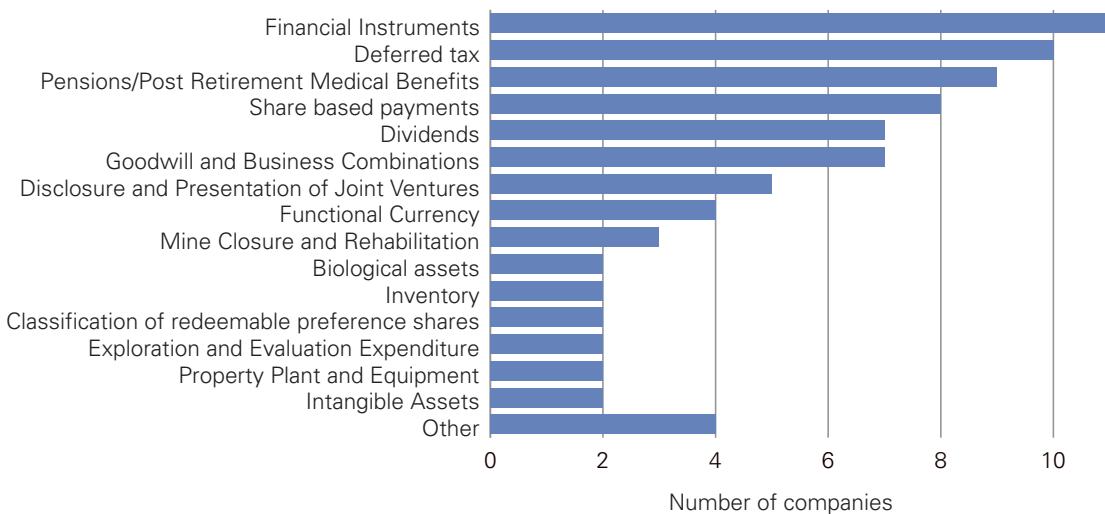
Source: KPMG International

2.14.1 IFRS first-time adopters

Eleven of the 44 companies included in the survey are 'IFRS first-time adopters' having undergone their first year of preparation of IFRS compliant financial statements.

The following chart shows the types of adjustments recorded and the number of companies recognizing such transitional adjustments:

Chart 2.14: IFRS transitional adjustments



Source: KPMG International

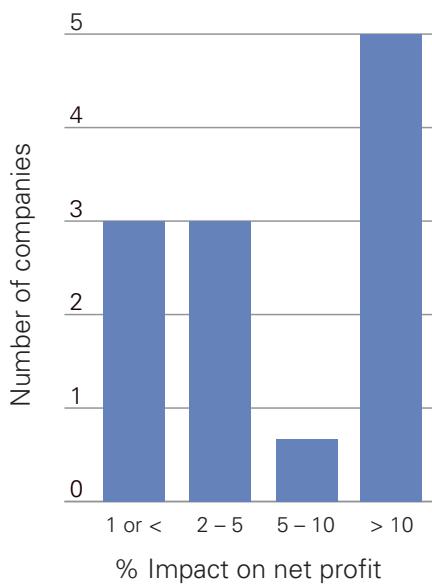
Of the 11 first-time adopters, all disclosed an adjustment in connection with financial instruments incorporating adjustments relating to hedge accounting, fair value measurement and embedded derivatives.

More than half the companies surveyed also had adjustments in respect of deferred tax, pensions and post retirement medical benefits, share-based payments, dividends and goodwill and business combinations.

Our survey identified that the impact of adopting IFRS on net profit after tax and total equity in the year of transition was varied. For almost half of the first-time adopters the impact of transition adjustments on net profit after tax was greater than 10 percent, while around one third of companies recorded a net profit impact of less than one percent.

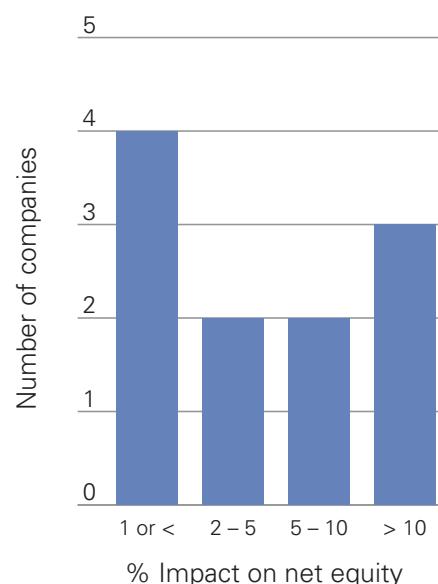
The following charts demonstrate the impact on both net profit after tax and total equity for first-time adopters in their year of transition:

Chart 2.15: Impact of IFRS on net profit for first time adopters

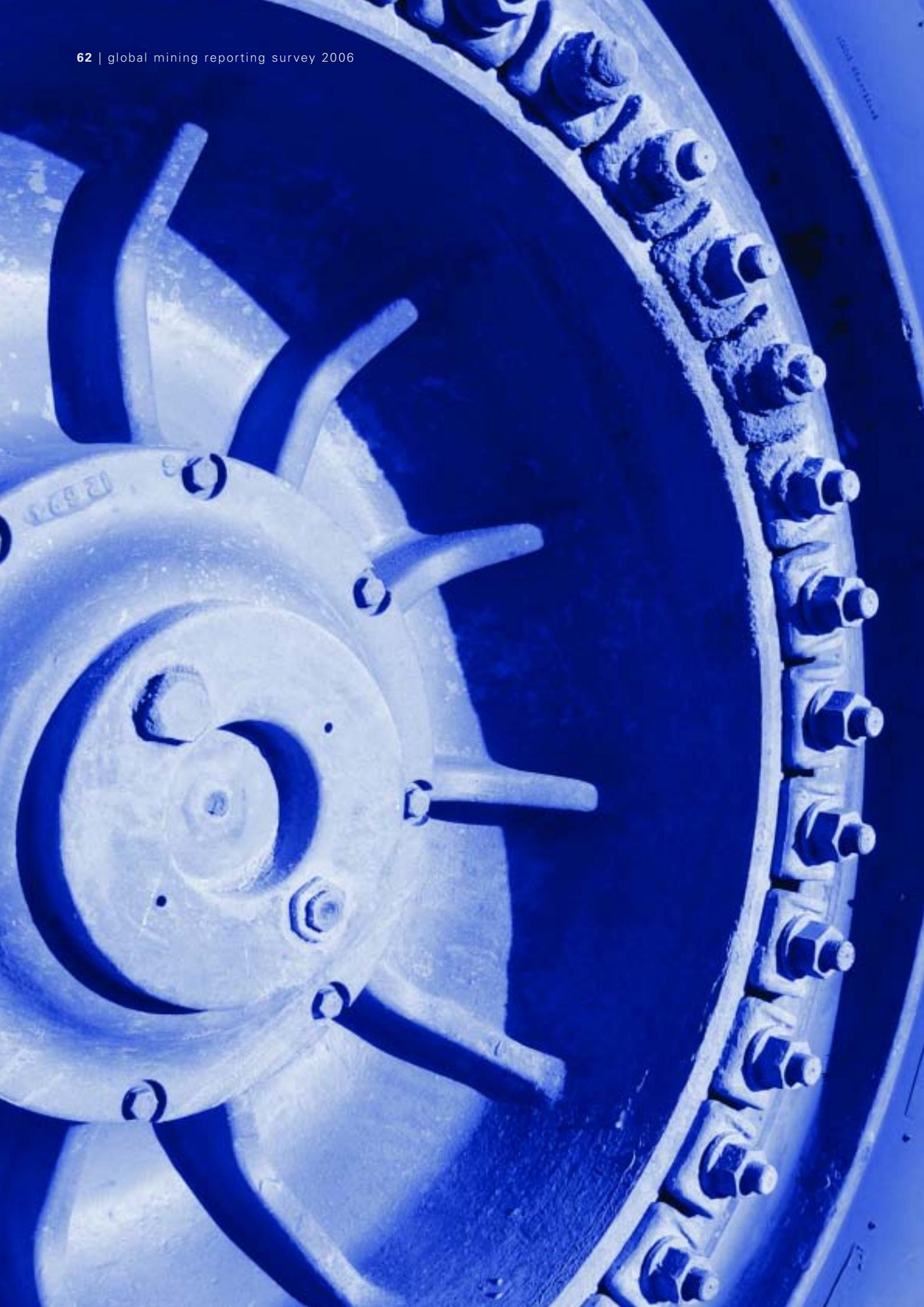


Source: KPMG International

Chart 2.16: Impact of IFRS on net equity for first time adopters



Source: KPMG International



2.14.2 Existing IFRS Reporters

Ten of the 44 companies surveyed were regarded as 'existing IFRS reporters' i.e. companies that adopted IFRS in a previous period and did not present IFRS financial statements for the first time. These companies represented countries such as South Africa, China, Russia and Papua New Guinea.

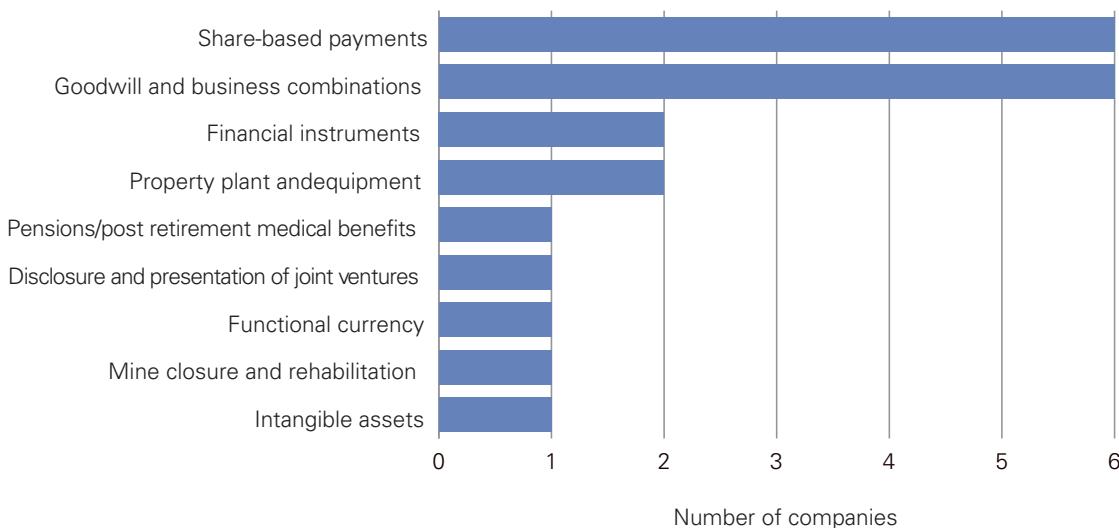
Existing IFRS reporters were not able to adopt IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Accordingly, they did not have the benefit of applying the transitional provisions which were available to the IFRS first-time adopters.

Despite this, 90 percent of the existing IFRS reporters reported changes in accounting policies as a result of the recent IFRS amendments. In terms of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, a company is required to change an accounting policy if such a change is required by an IFRS standard. The significant number of recent amendments to IFRS has resulted in the high number of accounting policy changes reported by existing IFRS reporters.

The changes in accounting policies reported, resulted in adjustments to the comparative results (including retained earnings), given that comparative financial information must be restated as if the new policy had always been in place.

The following chart shows the types of adjustments recorded and the number of companies recording such changes:

Chart 2.17: Changes in IFRS accounting policies



Source: KPMG International

As evident from the above chart, the greatest concentration of changes in accounting policies related to share-based payments and goodwill or 'negative' goodwill arising on business combinations. Although no companies elected to apply *IFRS 3 Business Combinations* to business combinations which occurred prior to March 31, 2004, many of the business combination adjustments related to negative goodwill at March 31, 2004, which was required to be reversed to retained earnings.

Various other adjustments were spread over a wide variety of accounting topics. While the magnitude of the adjustments varied, some significant adjustments relating to share-based payments were noted.

Furthermore, where existing IFRS reporters made adjustments to their retained earnings, it is encouraging to note that companies are differentiating between adjustments that arose as a result of a change in accounting policy, and adjustments that arose as a result of a prior period error.

3. Results – non financial reporting

3.1 Corporate governance and reporting

Corporate governance is defined and regulated differently around the world, however, generally organizations of every size, industry, and country agree on its ultimate goals – to help leaders maintain sustainable organizations that are accountable to shareholders, capable of returning value to them, and worthy of marketplace trust.

In the 2003 survey it was evident that the high profile corporate collapses over preceding years had prompted investor and regulator calls to tighten corporate governance regimes. In the three years since there has been a significant focus on the implementation, adherence to and reporting of corporate governance practices across organizations internationally.

This has been particularly evident in the United States with the introduction of the *Sarbanes-Oxley Act of 2002* and the requirement under section 404 for auditors to opine on the effectiveness of a company's internal controls over financial reporting, in addition to the financial statements.

In the ensuing period other governance reporting requirements have been adopted or amended in the U.K. (Combined Code), Australia (Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations), the European Union's Eighth Company Law Directive and the Netherlands (Tabaksblat Principles of Good Corporate Governance and Best Practice Recommendations) among others, accompanied by a plethora of amendments to laws and regulations and voluntary best practice guidelines including the revised OECD Principles of Corporate Governance.

KPMG firms have also seen a rise in interest in governance performance from key participants in the capital markets.

Many institutions such as the large mutual and pension funds have issued their own guidance on the governance principles that they expect to be adhered to in the companies in which they invest. Some of these institutions have since stepped back from active surveillance using their own criteria, given the greater reporting transparency in governance practices through the widespread adoption of legislated and principles-based guidelines and directives ('codes').

They nevertheless continue to see corporate governance as a key input into their analysis of company performance.

3.1.1 Corporate governance guidelines and directives

In considering the corporate governance practices of the companies surveyed, the following codes were disclosed as being used by companies:

Table 3.1: Codes used in considering corporate governance practices

- Combined Code (United Kingdom)
- Turnbull Report (United Kingdom)
- King II (South Africa)
- ASX Corporate Governance Guide (Australia)
- Toronto Stock Exchange Guidelines (Canada)
- NYSE rules (United States)
- Hong Kong listing rules (Hong Kong)
- Sarbanes-Oxley (United States)

Many of the surveyed companies have secondary stock exchange listings and as a consequence the survey results found that a number of companies referred to two or more corporate governance codes.

KPMG comment

One of the challenges going forward for 'global' mining organizations is to reconcile the governance requirements across jurisdictions where there may be differences in the form or substance of the principles applied (e.g. director independence and materiality requirements that differ somewhat between codes or the level of maturity of governance practices between traditional mining centers and BRICs countries). Cultural differences may also impact the relative performance of seemingly similar corporate governance practices (e.g. appropriate whistle-blowing procedures can pose difficulties if employees throughout a global group have different expectations as to what is right and wrong).

While geographic and cultural differences are a challenge for boards, corporate governance reform is an international phenomenon with many common areas of focus.

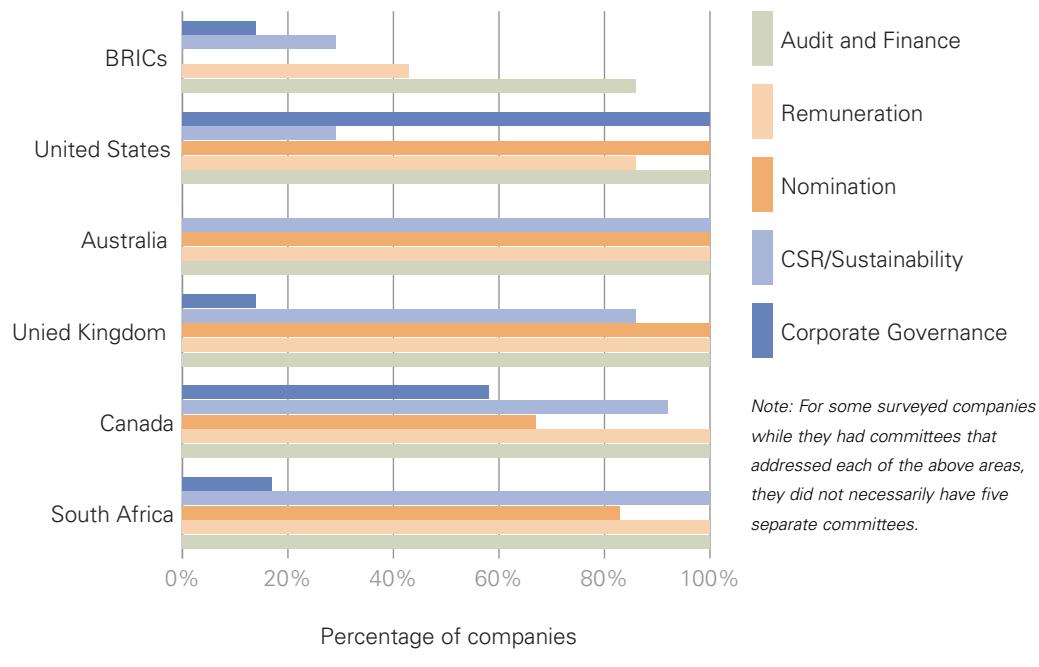
Unlike the movement to converge IFRS and U.S. GAAP, companies are unlikely to see a uniform, globally accepted governance model because the issues are not the same and the chemistries within boardrooms can vary widely. However, organizations can have key principles that can be applied worldwide in a way that engenders investor confidence and trust in capital markets.

Reporting should evolve to provide the investor with a clear picture of how governance performance is being achieved across jurisdictions and identify areas where international 'harmonization' does not yet exist.

3.2 Board of directors and committee structure

In ensuring the effective implementation and adherence to the various corporate governance codes there has been an increased focus by companies surveyed on establishing committees to support the board of directors' workload in meeting its corporate governance responsibilities. The survey results identified five committees as being the most common across the surveyed companies in managing governance practices, and are disclosed below:

Chart 3.1: Percentage of companies within board committee



The survey results highlighted that in North America all United States companies and the majority of Canadian companies surveyed have separate Corporate Governance committees which is a direct consequence of Sarbanes-Oxley legislation.

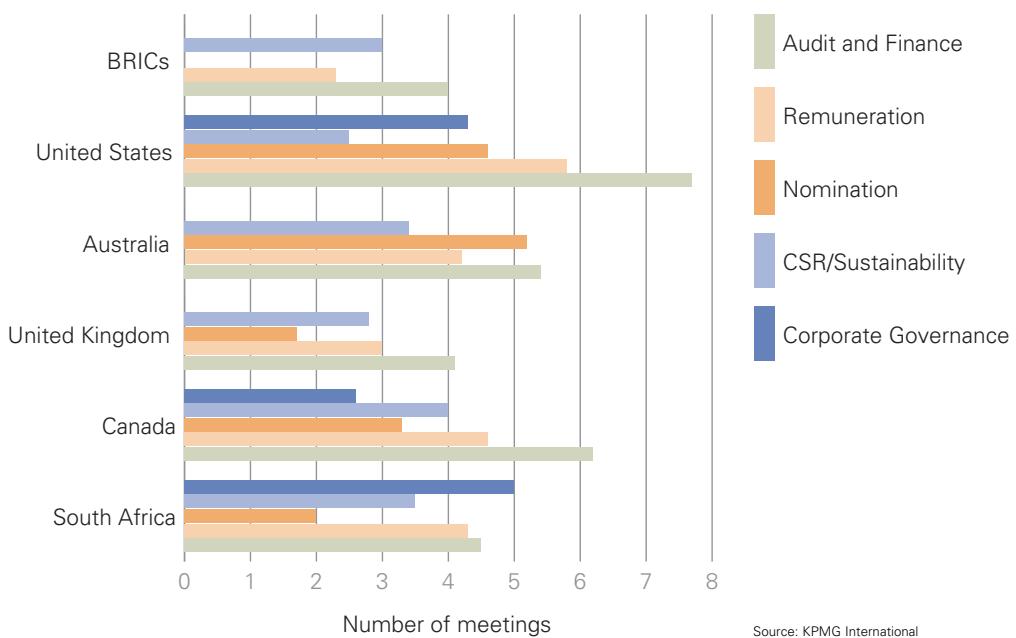
Of the surveyed companies Corporate Social Responsibility (CSR)/Sustainability committees were most prevalent in countries such as South Africa, the United Kingdom, Australia and Canada. This may be a function of greater focus by regulators and the organizations themselves on the board's responsibilities to stakeholders other than shareholders' and the importance of CSR-type risks to this industry.



3.2.1 Committee meetings

Illustrating the importance of the five key corporate governance committees to the companies surveyed, is the average number of meetings per annum disclosed as being held by each company:

Chart 3.2: Average number of committee meetings per annum



As expected, in all instances, the audit and finance committee meetings occur more frequently than other committee meetings.

The frequency of remuneration, nomination, sustainability and corporate governance meetings, with the exception of nomination committee meetings in the United Kingdom, is equal to or greater than twice per year.

While the results are not unexpected and serve as reasonable benchmarks, good practice suggests that the number of meetings should ultimately be a product of the committee's responsibilities and how it intends to discharge those responsibilities and the associated workload across each committee's annual agenda. This of course may differ between organizations and also be dependent on the committee chair's leadership style and the committee's collective effectiveness.

3.2.2 Committee roles and objectives

The survey indicated that 98 percent of companies publicly disclosed information relating to the roles and objectives of key committees. This is to be expected given that South African, Australian and United Kingdom companies are required to disclose this information in their annual reports. SEC listed companies are also required to disclose the roles and objectives of corporate governance related committees in their SEC filings.

For companies surveyed KPMG professionals investigated whether areas of business risk such as reserve estimates, sustainability reporting, asset custody and adherence to governance principles were specifically signed-off by the delegated committee. While it was evident that the majority of companies disclose the roles and objectives of key committees, it was noted that disclosure of the formal sign-off process from the committees to the board of directors was generally not detailed.

While U.S. audit committees report, and sign-off, as part of their organization's proxy statement that the board include the audited financial report in the annual report, board committees do not typically sign-off or attest externally on specific matters under its review. Committees usually do not make major decisions by themselves, rather, they tend to make recommendations to the Board for decision (e.g. the audit committee can recommend that the board approve the financial statements).

The board cannot divest itself of responsibilities for oversight of matters such as business risks, including issues like reserve estimates, sustainability reporting, asset custody, etc, to a committee.

Committee sign-off is a vexed topic as there are associated concerns of differential liability (e.g. if a sign-off infers that the audit committee has a higher level of duty of care to the shareholders).

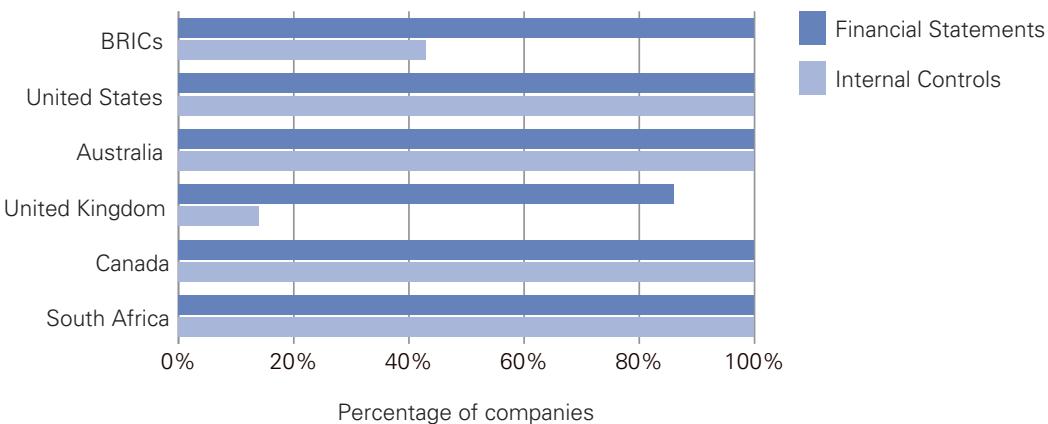
Whether committee sign-off is likely to increase is uncertain, but what may be achievable and less confrontational in the short to medium term is greater clarity in reporting on the performance of the committees in achieving their objectives (e.g. examples of where the audit committee has fostered better cooperation between the internal and external auditor to round out gaps in the assurance process). Such disclosure, supported by reporting on the process undertaken for a committee performance review, can provide investors and others with greater confidence that the committee is discharging its responsibilities accordingly.

3.3 CEO/CFO certification

An increasingly important aspect of several corporate governance frameworks is the requirement for CEO and CFO certification on particular aspects of financial and non-financial reporting.

Of the companies surveyed, the following percentages show where the CEO/CFO of the organization signs-off on either the financial statements or internal controls:

Chart 3.3: CEO/CFO sign off certification



Source: KPMG International

With regard to internal controls sign-off by CEOs and CFOs the survey results showed strong adherence by companies to legislative and principle-based requirements in the countries in which they report.

Many boards will now be positioning CEO/CFO certification in the context of the other assurances that they receive on the key risks their organization faces. These could include regular monitoring on the effectiveness of internal controls, compliance certification, internal audit, external audit, other assurance providers (e.g. environmental reporting certification, Occupational Health and Safety certification, compliance program certification, actuaries advice on options valuation, remuneration advice on executive compensation, etc).

Once a board has this picture, it is able to identify gaps in the assurances it receives and take active steps in bridging those gaps through either extended audit planning, further management attestation or rectifying deficiencies in the control environment. Some leading boards (through their audit committees) are beginning to report on their assurance structures and related accountabilities.

3.4 Remuneration reporting

As the mining industry continues to face significant challenges, companies are continuing to design more varied and complex compensation structures to remunerate senior executives and employees. These arrangements are designed to attract and retain key executives and to demonstrate a clear relationship between performance and remuneration.

Executive remuneration is increasingly linked to the achievement of goals. An example disclosure with respect to executive remuneration policy is as follows:

Example 3.1: IAMGOLD Corporation Compensation policy and objectives

The corporation's executive compensation program is designed to align the interests of executive officers with the short and long-term interests of the shareholders. Executive compensation is based on a combination of individual and corporate performance.

Executive compensation is comprised of annual salary, annual performance bonuses and long-term incentives in the form of stock options and restricted share units which are granted pursuant to the share incentive plan. Levels of compensation are established and maintained with the intent of attracting and retaining qualified and experienced executives.

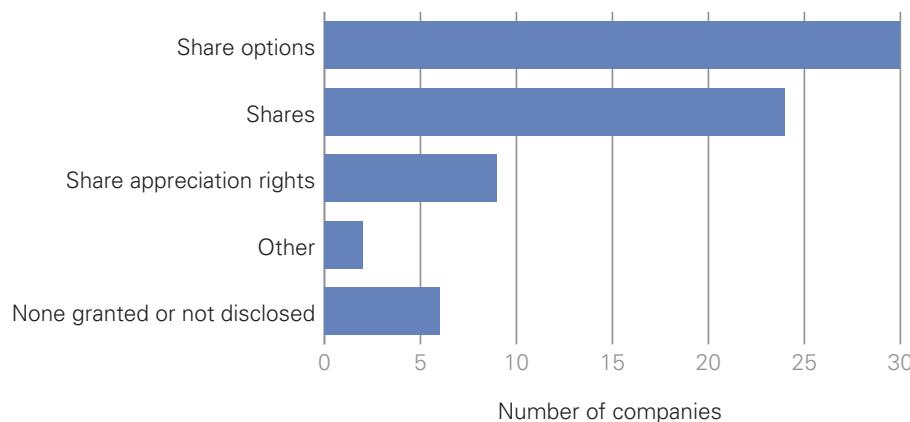
The compensation committee considers the performance of the corporation in determining executive compensation. Corporate performance factors receive approximately equal weighting with individual performance objectives. Corporate performance factors include financial objectives for earnings and relative share prices and operational objectives for production levels, production costs and annual replacement of reserves and resources.

Source: IAMGOLD Corporation 2005 Annual Report

Ninety-one percent of companies surveyed disclosed linking executive and/or management remuneration to the achievement of goals, compared to 81 percent in the 2003 survey. Of the 44 companies surveyed about 90 percent disclosed a split between short-term and long-term incentives. In addition, 86 percent of companies disclosed some form of share-based payment arrangement with employees.

The following chart shows the types of instruments being offered by companies as part of their share-based payment arrangements:



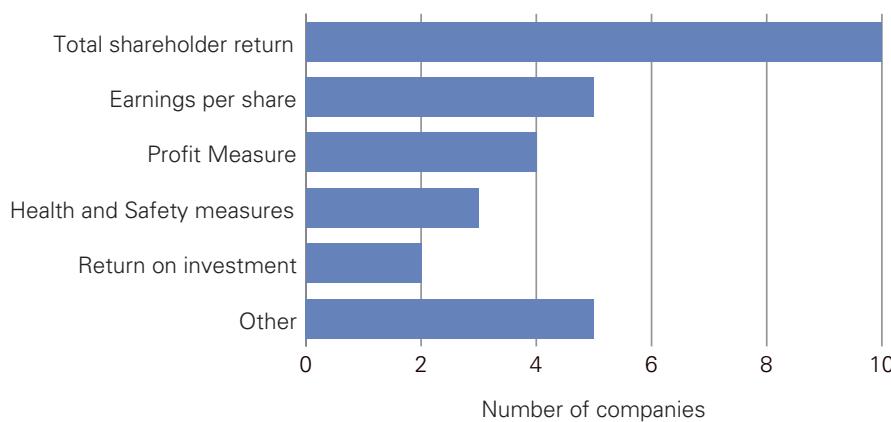
Chart 3.4: Share-based payment arrangements

Source: KPMG International

The results highlighted that around two thirds of the companies surveyed offered share options to employees as a means of compensation and over half of companies granted shares.

Where companies offered share-based payment arrangements, most companies disclosed a service requirement, while only 30 percent of companies disclosed a performance/market condition.

The types of performance/market vesting conditions attached to share-based payments varied. The following chart shows the types of performance/market conditions disclosed by companies in respect of their share-based payment grants:

Chart 3.5: Performance/market vesting conditions attached to share-based payments

Source: KPMG International

Performance measures linked to company share price were the most common conditions disclosed by companies. Total Shareholder Return (TSR), representing the increase in share price plus dividends reinvested, was the most prevalent. Nearly 80 percent of those companies that disclosed a performance/market condition selected a TSR hurdle.

Profit measures such as net profit or earnings before interest and taxation (EBIT) were also used as were health and safety measures (including community and social measures).

In response to the more complex remuneration arrangements being offered by companies and the needs of stakeholders, accounting disclosure and reporting requirements have become more onerous. With the SEC having recently issued new rules requiring a compensation discussion and analysis for US filers, this trend is expected to continue.

"The high cost of complying with section 4 of the Sarbanes-Oxley Act of 2002 was one of the most notable statistics derived from the survey"

3.5 Sarbanes-Oxley

Section 404 of the *Sarbanes-Oxley Act of 2002* (*S-O 404*), for those companies to which it applies, requires management to maintain effective internal controls over financial reporting and file a written assessment of the effectiveness of those internal controls.

Of the 44 surveyed companies, only eight were required to comply with *S-O 404* for the year ended 31 December 2005. Another eight will be required to comply with *S-O 404* in 2006 or 2007.

As a group, the eight companies did not analyze or make significant disclosures about *S-O 404* in their annual reports. Many of the companies simply mentioned the costs relating to complying with *S-O 404* in Management's Discussion and Analysis (MD&A) while explaining the change in certain expenses.

The high cost of complying was one of the most notable statistics derived from the survey. Aside from the increased costs relative to additional staff and outsourcing of *S-O* management, the surveyed companies disclosed average external audit fees up by 141 percent in the year of adoption. In the second year, six of eight companies reported decreases in their audit fees with an average decrease of 18 percent.

Of the eight companies that were required to comply with *S-O 404*, seven reported their internal controls over financial reporting were effective. The company that reported ineffective controls included an outline of the significant changes that the company had or is in the process of implementing in response to the material weaknesses. Refer to the extract below, which details the company's disclosure in their financial statements:

Example 3.2: Stillwater Mining Company

In the preliminary financial statements, these deficiencies resulted in material accounting errors, misclassifications, and insufficient disclosures to the company's consolidated financial statements as of and for the year ended December 31, 2005 and contributed to the development of other material weaknesses described below.

- Inadequate financial statement preparation and review procedures. The company's policies and procedures relating to the financial reporting process did not ensure that accurate and reliable annual consolidated financial statements were prepared and reviewed in a timely manner. Specifically, the company had insufficient review and supervision within the accounting and finance departments and preparation and review procedures for footnote disclosures accompanying the company's financial statements. These deficiencies resulted in material accounting errors, misclassifications and insufficient disclosures in the company's preliminary consolidated financial statements as of and for the year ended December 31, 2005.

Because of the material weaknesses described above, management concluded that, as of December 31, 2005, the company's internal control over financial reporting was not effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes, other than those discussed in the following paragraph, in the company's internal control over financial reporting (as such term is defined in Rules 31(a)-15(f) and 15d-15(f) under the *Exchange Act*) during the fourth quarter of 2005 that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

During the fourth quarter of 2005, in response to recommendations from the company's internal auditor and in order to address certain deficiencies in internal controls over financial reporting and strengthen management's ability to monitor certain asset and liability accounts, the company modified several of its account reconciliation processes. The deficiencies addressed by these changes were distinct from those identified during year end testing that remained unremedied at December 31, 2005.

Source: Stillwater Mining Company 2005 Annual Report

The following disclosure was made by a South African company in their 2005 financial report in respect of the company's future S-O 404 requirements:

Example 3.3: Harmony Gold Mining Company Limited

The Sarbanes-Oxley Act of 2002

Section 302

In terms of section 302 of *SOX*, our chief executive and chief financial officer are required to certify, and do hereby certify that:

- they have reviewed the annual report.
- based on their knowledge, the report contains no material misstatements or omissions.
- based on their knowledge, the financial statements and other financial information included in the annual report, fairly presents in all material respects the financial condition, results of operations and cash flows of the issuer (being Harmony) for the periods presented in this report.
- they are responsible for establishing and maintaining internal controls and procedures, and have properly designed and evaluated them.
- they have advised their auditors and Audit Committee of all significant deficiencies.
- they have identified any significant changes in internal controls in the report.

Section 404

Section 404 requires management to develop and monitor procedures and controls to make its required assertion about the adequacy of internal controls over financial reporting, as well as the required attestation by an external auditor of management's assertion.

In order to comply with section 404 of the Act Harmony's management has developed and is in the process of implementing an effective and efficient assessment process to manage reporting obligations in a way that will ensure public trust.

The section 404 assessment process entails the following:

Phase	Progress
Phase 1: Scoping	<ul style="list-style-type: none"> • The scoping of significant accounts, disclosures and processes, which have an impact on the financial statements, is complete.
Phase 2: Documentation	<ul style="list-style-type: none"> • The documentation phase is nearing completion. • Each documented process was reviewed at Control Group meetings held with the process owners. Thereafter, the Technical Review members reviewed the documented processes to establish whether internal controls were properly designed.
Phase 3: Testing and remediation	<ul style="list-style-type: none"> • The processes for testing operating effectiveness have started. • The testing results will be reviewed at Technical Review meetings to be held throughout the testing period. • Testing and remediation are done simultaneously and all design and operating effectiveness deficiencies are being addressed.
Phase 4: Reporting	<ul style="list-style-type: none"> • Harmony's Chief Executive and Chief Financial Officer will be required to confirm that the internal controls in Harmony are adequate and do not result in any material misstatements in the annual report in FY2007.

We anticipate the finalisation of the section 404 compliance project by the end of 2005. Although the prescriptions of *SOX* are much publicised in the United States, Harmony has always subscribed to honest, transparent and timeous reporting.

Source: Harmony Gold Mining Company Limited 2005 Annual Report

3.6 Reserves

Reserve and resource information is generally disclosed as part of a company's annual report, but outside the financial statements. The survey indicated that 91 percent (2003: 78 percent) of companies disclosed reserve and resource data in their annual reports. However, it was noted that companies present the information in a variety of ways, as follows:

Table 3.2: Disclosure of reserve and resource information

	South Africa	Canada	United Kingdom	Australia	United States	BRICs	Total
By geographical mineralization only	3	4	1	2	–	5	15
By commodity only	1	–	1	–	–	–	2
Both by geographical mineralization and commodity	2	8	3	3	7	–	23
Not disclosed	–	–	2	–	–	2	4
Total	6	12	7	5	7	7	44

Source: KPMG International

The table indicates that companies in all parts of the world are generally disclosing reserve information. It should be noted that three of the companies that did not include reserve information in the annual report did provide a detailed reserve statement as a separate report on their web sites.

The information included in the reserve statement generally disclosed the extent of proven and probable reserves and measured, indicated and inferred resources, and the grade and ownership interest where properties were not 100 percent owned.

3.6.1 Reserve information

The information included within the reserve statements was varied, reflecting the requirements of the various codes and the various reporting jurisdictions of the companies surveyed. The codes disclosed in the reserve statements were evenly distributed between those of the Australasian Joint Ore Reserves Committee (JORC), the South African Mineral Resource Committee (SAMREC), SEC Industry Guide 7 for the US, and the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) definitions required under Canadian National Instrument 43-101. The areas that were consistently disclosed were:

- Fifty-two percent (2003: 40 percent) disclosed prices used to calculate reserves.
- Ninety-three percent (2003: 44 percent) disclosed the code used to calculate reserves.
- Twenty percent (2003: 10 percent) provided a sensitivity analysis of reserves to commodity price movements.
- Sixty-one percent (2003: 46 percent) explained the changes or movements in reserves, of which 52 percent provided a year-over-year reconciliation to explain the change.

The level of information required to be provided in reserve statements is broadly consistent across the various codes, primarily driven by the main reserve reporting organizations, which form the Committee for Mineral Reserves International Reporting Standards (CRIRSCO), to provide an internationally consistent approach to reporting mineral assets.

While this initiative did encourage convergence between the main codes, nevertheless, some differences still remain, such as when mineralization can be classified as reserves. This can result in a requirement for additional disclosure by those companies that report in more than one jurisdiction, and can impact financial reporting through use of different reserves data for calculating depreciation.

However, it should also be noted that there is acceptance of reserve codes by other jurisdictions.

3.6.2 Verification of reserves

The issue of verification of reserves continues to be an area of discussion within the mining industry. With the various codes outlining the qualifications required by the qualified person taking responsibility for the reserve data, there is a continuing trend towards clear disclosure of this person, with our survey indicating that 66 percent (2003: 40 percent) of companies disclosed the qualified person.

In addition, companies are demonstrating a willingness to obtain assurance over reserves data, with 48 percent (2003: 10 percent) of companies obtaining third-party audits of the reserves data. The survey data therefore clearly suggests that companies are keen to demonstrate the integrity of the reserve data that they are presenting. However, there was no clear disclosure among the companies surveyed of whether board level responsibility was being taken for the reserves data.

An example of disclosure of reserves is shown below.

Example 3.4: Teck Cominco Limited

		Proven		Probable		Total		Teck Cominco interest (%)
		Tonnes (000s)	Grade (g/t)(2)	Tonnes (000s)	Grade (g/t)(2)	Tonnes (000s)	Grade (g/t)(2)	
Gold	Williams							50
	Underground	3,310	5.45	670	5.05	3,980	5.38	
	Open pit	8,380	1.78	5,340	1.87	13,720	1.82	
	David Bell	1,130	10.97			1,130	10.97	50
Copper	Pogo			7,000	16.12	7,000	16.12	40
	Antamina	76,000	1.12	374,000	1.19	450,000	1.18	22.5
	Highland Valley	260,200	0.43	58,500	0.44	318,700	0.43	97.5
Zinc	Antamina	76,000	1.40	374,000	0.84	450,000	0.93	22.5
	Red Dog	19,500	20.5	52,700	16.7	72,200	17.7	100
	Pend Oreille	4,300	7.1	400	6.4	4,700	7.0	100
Lead	Red Dog	19,500	5.7	52,700	4.3	72,200	4.7	100
	Pend Oreille	4300	1.3	400	0.5	4700	1.2	100
Molybdenum	Antamina	76,000	0.029	374,000	0.031	450,000	0.030	22.5
	Highland Valley	260,200	0.008	58,500	0.007	318,700	0.008	97.5
Coal	Fording River	127,000		112,000		239,000		39.0
	Elkview	198,000		48,000		246,000		37.1
	Greenhills	81,000		19,000		100,000		31.2
	Coal Mountain	25,000		1,000		26,000		39.0
	Line Creek	17,000				17,000		39.0
	Cardinal River	35,000		23,000		58,000		39.0

Source: Teck Cominco Limited 2005 Annual Report

An example definition of reserves and resources is shown below:

Example 3.5: Cameco Corporation

A mineral reserve is the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined. Mineral reserves are subdivided in order of increasing confidence into probable mineral reserves and proven mineral reserve.

A mineral resource is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade including base and precious metals, coal and industrial materials, or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are subdivided, in order of increasing geological confidence into inferred, indicated and measured categories.

Source: Cameco Corporation 2005 Annual Report

An example reconciliation of reserves is shown below.

Example 3.6: Centerra Gold Inc.

(in thousands of ounces of contained gold)	December 31, 2004	2005 Throughput	2005 Addition (Deletion)	December 31, 2005	Centerra's share December 31, 2005
Reserves – proven and probable					
Kumtor ⁽⁵⁾⁽⁹⁾	3,249	614	2,318	4,953	4,953
Boroo ⁽⁹⁾	1,172	303	349	1,218	1,157
Gatsuurt ⁽⁷⁾⁽⁸⁾	–	–	986	986	986
Total Reserves	4,421	917	3,653	7,157	7,096
Resources – measured					
Kumtor ⁽⁵⁾⁽⁹⁾	997	–	637	1,634	1,634
Boroo ⁽⁹⁾	–	–	147	147	140
Total measured resources	997	–	784	1,781	1,774
Resources – Indicated					
Kumtor ⁽⁶⁾⁽⁹⁾	917	–	470	1,387	1,387
Boroo ⁽⁹⁾	194	–	(140)	54	51
Gatsuurt ⁽⁷⁾⁽⁸⁾	890	–	(325)	565	565
REN ⁽¹⁰⁾	791	–	410	1,201	746
Total indicated resources	2,792	–	415	3,207	2,749
Total measured and indicated resources	3,789	–	1,199	4,988	4,523
Resources – inferred					
Kumtor ⁽⁶⁾⁽⁹⁾	1,448	–	(645)	803	803
Boroo ⁽⁹⁾	193	–	(26)	167	159
Gatsuurt ⁽⁷⁾⁽⁸⁾	152	–	153	305	305
REN ⁽¹⁰⁾	516	–	(388)	128	80
Total inferred resources	2,309	–	(906)	1,403	1,347

Source: Centerra Gold Inc. 2005 Annual Report

3.7 Other non-financial disclosures in the annual report

Certain disclosures made outside the financial statements provide useful information about a company's operating performance. For example, mining methods, mine development activities, production volumes, and cash production costs can provide insight into current and future production and profitability relative to competitors. Management cannot control commodity prices, so financial performance is usually focused on volume and cost.

3.7.1 Mining methods

Mining methods are generally classified as surface or underground. Surface or open-cut methods include area, contour, mountaintop removal and auger. Underground methods include block caving, stoping, room-and-pillar and longwall. Of the 44 surveyed companies, 35 discussed the mining methods used to extract minerals from their mines.

These discussions often included a detailed description of the company's operations, including technological developments. An example disclosure has been included below:

Example 3.7: AngloGold Ashanti Limited

The process of producing gold

The process of producing gold can be divided into six main phases:

- finding the orebody.
- creating access to the orebody.
- removing the ore by mining or breaking the orebody.
- transporting the broken material from the mining face to the plants for treatment.
- processing.
- refining.

This basic process applies to both underground and surface operations.

Creating access to the orebody

There are two types of mining which take place to access the orebody:

- underground – a vertical or decline shaft (designed to transport people and/or materials) is first sunk deep into the ground, after which horizontal development takes place at various levels of the main shaft or decline. This allows for further on-reef development of specific mining areas where the orebody has been identified.
- open-pit – where the top layers of topsoil or rock are removed in a process called 'stripping' to uncover the reef.

Removing the ore by mining or breaking the orebody

- in underground mining, holes are drilled into the orebody, filled with explosives and then blasted. The blasted 'stropes' or 'faces' are then cleaned and the ore released is now ready to be transported out of the mine.
- in open-pit mining, drilling and blasting may also be necessary to release the gold bearing rock. Excavators then load the material onto the ore transport system.

Source: AngloGold Ashanti Limited 2005 Annual Report



3.7.2 Development activities

Approximately 90 percent of the companies surveyed discussed development activities. This information often provides visibility into what will be produced, when production will commence, and potential production volumes.

An example disclosure with respect to the discussion of development activities is as follows:

Example 3.8: Coeur D'Alene Mines Corporation

Bolivia –The San Bartolome Project

Cœur acquired 100% of the equity in Empressa Minera Manquiri S.A. ('Manquiri') from Asarco on September 9, 1999. Manquiri's principal asset is the mining rights to the San Bartolome project, a silver property located near the city of Potosi, Bolivia, on the flanks of the Cerro Rico Mountain. The San Bartolome project consists of several distinct silver bearing gravel deposits, which are locally referred to as pallaco or sucu deposits. These deposits lend themselves to simple, free digging surface mining techniques and can be extracted without drilling and blasting. The deposits were formed as a result of erosion of the silicified silver-rich upper part of the Cerro Rico volcanic dome complex.

We completed a preliminary feasibility study in 2000, which concluded that an open pit mine was potentially capable of producing approximately 6 million ounces of silver annually. In 2003, SRK, an independent consulting firm, was retained to review the reserve/resource estimate to include additional sampling data to incorporate additional resources acquired with the Plahipo property, which lies to the east of Cerro Rico. During 2003, we retained Flour Daniel Wright to prepare an updated feasibility study which was completed at the end of the third quarter of 2004. The study provides for the use of a cyanide milling flow sheet with a wet preconcentration screen circuit which will result in the production of a dore that may be treated by a number of refiners under a tolling agreement which results in the return of refined silver to the company that is readily marketed by metal banks and brokers to the ultimate customer. Based upon the results of the updated feasibility study, we estimate the capital cost of the project to be approximately \$135 million. In the second quarter of 2004, we obtained all operating permits. In the fourth quarter of 2004, we commenced construction activities at the project. An updated project review has confirmed the capital cost estimate for the project.

Source: Coeur D'Alene Mines Corporation 2005 Annual Report

3.7.3 Production volumes

Production volumes are one of the most widely discussed operating measures disclosed by mining companies. All of the surveyed companies reported production volumes and 93 percent and 64 percent reported production by mine and product, respectively. An example disclosure has been included below:

Example 3.9: Southern Copper Corporation

Facility Name	Location	Process	Nominal Capacity (1)	2005 Production	2005 Capacity Utilization
PERUVIAN OPEN PIT UNIT					
Mining operations					
Cuajone Open-pit Mine	Cuajone (Peru)	Copper ore milling and recovery, copper and molybdenum concentrate production	870 ktpd – Milling	81.0 ktpd	93.1%
Toquepala Open-pit Mine	Toquepala (Peru)	Copper ore milling and recovery, copper and molybdenum concentrate production	60.0 ktpd – Milling	59.5 ktpd	99.1%
Toquepala SX –EW Plant	Toquepala (Peru)	Leaching, solvent extraction and electro cathode winning	56.0 ktpy – Refined	36.5 ktpy	65.2%
Processing operations					
Ilo Copper smelter	Ilo (Peru)	Copper smelting, blister production	1,131.5 ktpy – Concentrate feed	1,206.3 ktpy	106.6%
Ilo Copper Refinery	Ilo (Peru)	Copper refining	280 ktpy – Refined cathodes	285.2 ktpy	101.9%
Ilo Acid Plant	Ilo (Peru)	Sulfuric Acid	300 ktpy – Sulfuric acid	369.7 ktpy	123.2%
Ilo Precious Metals Refinery	Ilo (Peru)	Slime recovery & processing, gold & silver refining	365 tpy	311.4 tpy	85.3%

Source: Southern Copper Corporation, 2005 Annual Report

3.7.4 Sensitivities

Companies discussed the effects of changing commodity prices in relation to their earnings, cash flows, reserves, and depreciation among others. Fifty-seven percent of surveyed companies provided a sensitivity analysis in relation to commodity prices. An example discussion of sensitivity analysis follows:

Example 3.10: Inco Limited

Our financial results are sensitive to, among other things, changes in prices for nickel and other metals, the Canadian-US dollar exchange rate and interest rates and certain energy costs. Our financial results are also affected by changes in the Indonesian rupiah-US dollar exchange rate, but to a lesser extent since PT Inco's revenues and many of its expenses are denominated in US dollars. We have calculated the impact on our basic net earnings per share of a 10 percent change in the market risk exposures that we believe have the most significant impact on our net earnings. The following table shows the approximate full-year impact of a 10 percent change in our principal market risk exposures on our basic net earnings per share based on planned 2006 deliveries of Inco-source metals and after taking into consideration our principal derivative instrument positions as of December 31, 2005. These market risk exposures have been selected as management believes they have had, and are currently expected to continue to have, the most significant impact on our net earnings per share:

Sensitivities as of 31 December 2005	10% change	Impact on Basic Net Earnings per Share
Metals		
Nickel	\$0.60 per pound	\$0.84
Copper	0.21 per pound	0.18
Cobalt	1.17 per pound	0.02
Platinum	96 per troy ounce	0.05
Palladium	25 per troy ounce	0.02
Energy		
Fuel Oil	4.56 per bbl	0.03
Natural Gas	1.05 per MM BTU	0.02
Currencies		
US\$1.00 per Cdn\$ ²	0.086 cents	0.47
US\$1.00 per Indonesian rupiah (per thousand)	0.01 cents	0.01
Share appreciation rights	4.36 per share	0.02

Source: Inco Limited 2005 Annual Report

4. Results – corporate social responsibility reporting



Corporate social responsibility reporting in industrialized countries has now become a regular practice by many companies, particularly those in the mining industry.

Mining continues to be the focus of attention for its sustainability performance from a broad range of stakeholders, including shareholders, employees, non-governmental organizations (NGOs), financial institutions, and both local and international communities.

These stakeholders influence the performance of mining companies by impacting on license to operate, productivity, reputation, capital and operational expenditure, and access to capital. Mining companies therefore increasingly view sustainability as a real and pressing business issue.

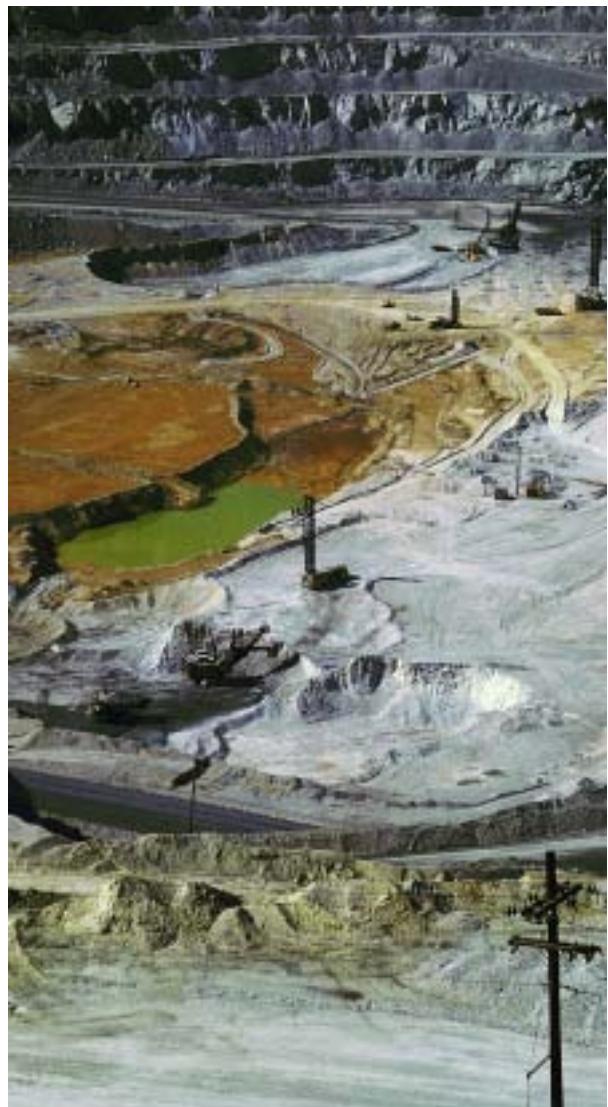
The International Council on Mining and Metals (ICMM), which consists of 14 of the largest mining and metal companies and 24 national mining and global commodities associations, continues to provide leadership towards achieving continuous improvements in sustainable development performance in the mining, minerals and metals industry.

A key objective of the ICMM is improved industry performance. Central to improved performance is ICMM's sustainable development framework. It consists of 10 principles, which were approved by the Council in May 2003. They identify the values and the policy directions that will help ensure that signatories continually improve the sustainability of their operations.

Further to the adoption of the 10 principles, in 2004 ICMM developed public reporting indicators which were devised in partnership with the Global Reporting Initiative (GRI) for reporting performance against the 10 principles.

The outcome of this was the Mining and Metals Sector Supplement to the GRI, which was released in February 2005 and comprises relevant indicators that allow companies to track performance against the principles and GRI guidelines. In addition, during 2006, Council approved ICMM's Assurance Procedure, which provides guidance on third party assurance over implementation of the 10 principles and of the commitment to report 'in accordance with' the GRI reporting framework.

Ninety-one percent of mining companies surveyed include information on their sustainability performance in their annual report and 100 percent had information addressing sustainability on their web sites.



There is also an increase in the number of companies who publish this information in a separate sustainability or corporate responsibility report. These separate non-financial reports, which were published by 28 of the companies surveyed, were considered as part of the survey to assess the coverage of a range of issues.

The reporting of performance is moving away from disclosure of quantitative data only, to the reporting of relevant information that is material to a company's key stakeholders and decision-makers.

4.1 CSR/sustainability sections in annual reports

The information presented in annual reports relating to environmental provisions, decommissioning and rehabilitation costs, and capital expenditure is analyzed in Section 2. This section addresses whether companies have included additional non-financial information, which is not legally required in their annual reports.

4.1.1 Reporting of issues

Of the companies included in the survey, a high proportion continue to provide varying levels of sustainability information within the annual report, with 91 percent (2003: 92 percent) providing this information. Some reports provided only basic information (acknowledgement of the impact of the company's operations and the need to address that) while others provided much more detail (performance data and achievement against sustainability targets).

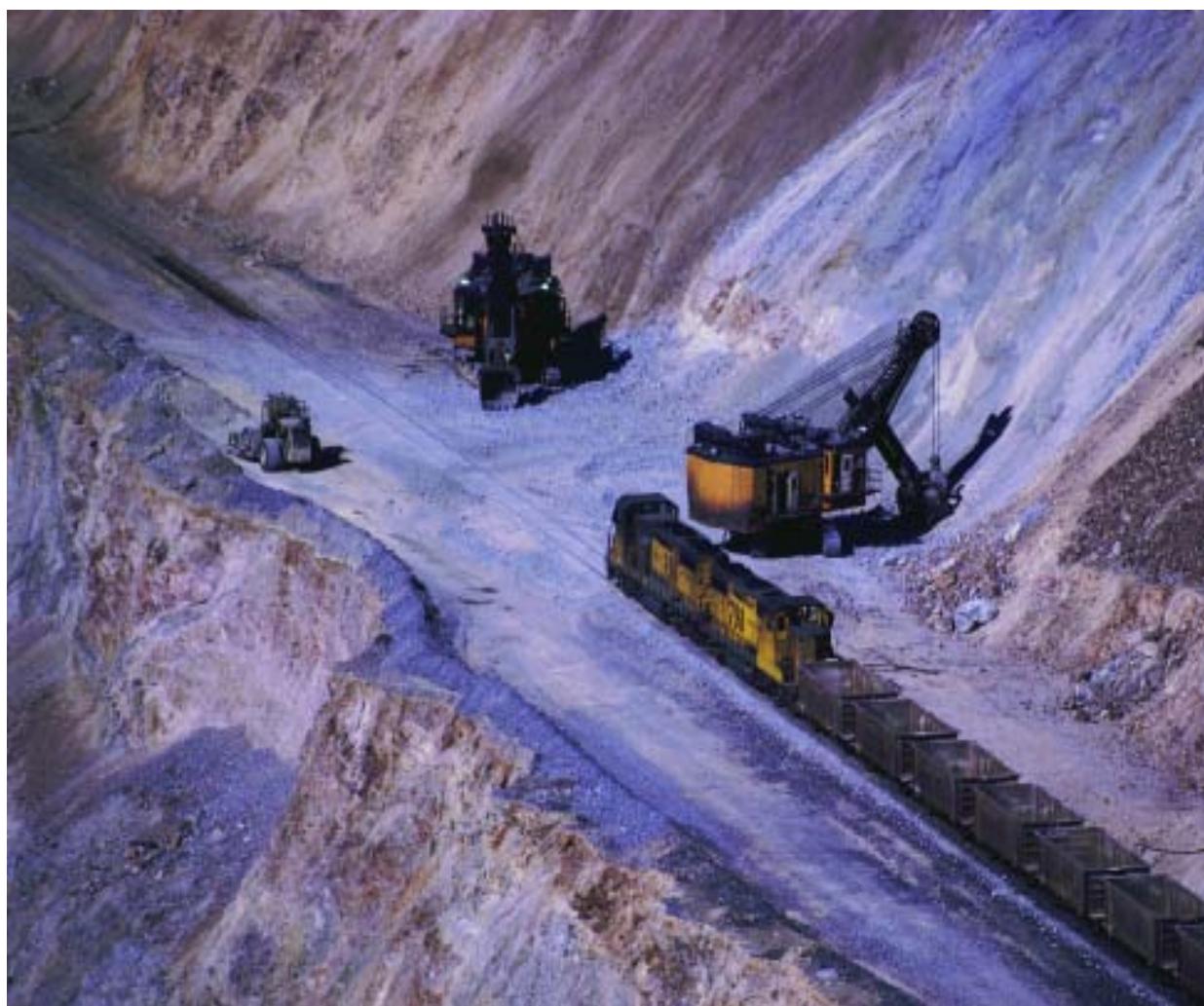
Of the companies that included sustainability disclosures in their annual reports, the level of detail included in reports varies, as follows:

Table 4.1: Level of sustainability disclosure

	Detailed	Basic
South Africa	50%	50%
Canada	25%	42%
United Kingdom	57%	43%
Australia	100%	0%
United States	86%	14%
BRICs	43%	57%
Total	60%	40%

Source: KPMG International

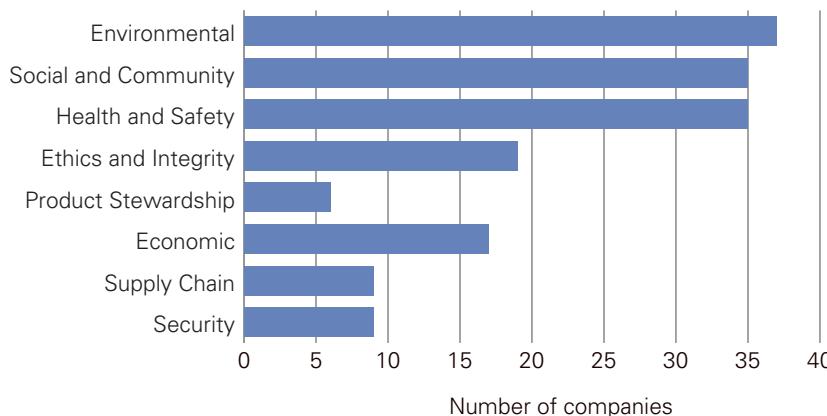
Of note from the data presented above is the fact that 60 percent of companies presenting sustainability information did so in a detailed manner, indicating a positive shift towards presentation of this information in the annual report. While some companies only showed basic disclosures in their annual reports, many companies prepared separate sustainability reports as discussed in section 4.2 below.



The high rate of detailed reporting in Australia could be partly due to the introduction by the Minerals Council of Australia of the Enduring Value Framework for Sustainable Development. This requires that members report on their sustainability performance and that they obtain independent assurance on this information.

The areas of sustainability reporting covered were also diverse, as shown in the following chart:

Chart 4.1: Focus of sustainability reports



Source: KPMG International

The chart indicates that the key issues addressed remain consistent with the previous survey, with more than 80 percent of companies providing information including discussion of environmental, social and community, and health and safety issues.

4.12 Top-management commitment to sustainability

The credibility of sustainability reporting by a company is increased if senior management shows a commitment to the company's sustainability efforts. One of the most effective ways to demonstrate this is to ensure that the CEO statement, or equivalent, mentions the importance of sustainability issues. Of the companies surveyed, 73 percent (2003: 38 percent) included sustainability content in the CEO's statement, suggesting an increased focus by top-level management on the importance of sustainability to their companies.

The following table shows a geographical analysis of companies that included a reference to sustainability in the CEO's statement:

Table 4.2: CEO-sustainability statement by country

	South Africa	Canada	United Kingdom	Australia	United States	BRICs
2006	100%	58%	86%	100%	57%	57%
2003	71%	23%	49%	83%	43%	8%

Source: KPMG International

Another way of assessing management commitment to sustainability is whether the board of directors includes a sustainability representative, who would chair the appropriate committee of the board of directors that oversees a company's sustainability efforts. The survey revealed that 75 percent (2003: 50 percent) of companies did so. Examples of board level committees addressing sustainability include environmental, health and safety, employment equity, and public policy committees.

Finally, a company's commitment to sustainability can be gauged by the linking of sustainability goals to the overall business goals of the company. The survey indicated that 48 percent (2003: 30 percent) of companies described a link between these goals within their annual report. An example of the manner in which company sustainability targets are presented in an annual report is shown below.

Example 4.1: Inmet Mining Corporation

2005 Targets	Results	2006 Targets
Reduce total injury frequency and disabling injury frequency by 10 percent.	In 2005, our total injury frequency rate was down 13 percent year-over-year, but our disabling injury frequency rate was up 25 percent, mainly due to a significant increase in our lost time injury frequency, particularly injuries involving contractors. We've established a company-wide safety task force to respond to the situation and improve our performance (page 120).	Reduce total injury frequency and disabling injury frequency by 10 percent.
Reduce the number of reportable environmental incidents by 5 percent.	In 2005, we had 22 reportable environmental incidents, 22 percent more than in 2004. This was mainly due to an increase in reportable petroleum and tailings spills at Troilus. When evaluating spills on a production basis, our performance was similar to 2004. Troilus will continue to implement its tailings Operations, Maintenance and Surveillance Manual to improve performance and avoid future incidents.	Reduce the number of reportable environmental incidents by 5 percent.
Develop and implement formal community engagement and dialogue plans.	Formal community engagement and dialogue has evolved slowly over that past few years. We now have the shared understanding and commitment we need throughout our organization to make good progress developing and implementing plans in 2006. Formal plans have been developed at our closed properties in Canada, and dialogue started at two locations in 2005.	Develop and implement formal community engagement and dialogue plans at Cayeli, Pyhasalmi, Troilus and Las Cruces.

Source: Inmet Mining Corporation 2005 Annual Report

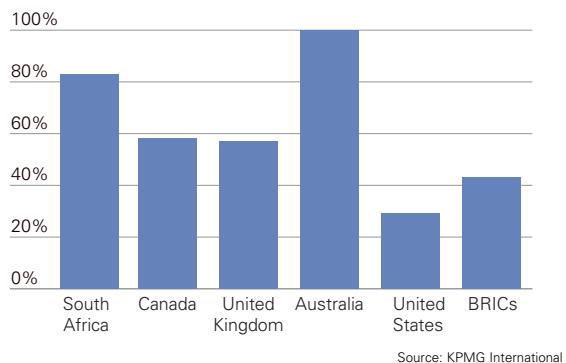
These results indicate that companies are more firmly embedding discussion of sustainability into their annual reports. However, it should be noted that the strength of a company's sustainability reporting should be considered in conjunction with other non-financial sustainability reports.

4.2 Separate CSR/sustainability reports

Of the companies surveyed, 59 percent (2003: 44 percent) published a separate sustainability-related report covering the company's operations. The increase is an indication of increased efforts made by companies to satisfy stakeholder requests for accountability and reporting of sustainable mining practices.

The table below illustrates, for those companies surveyed, the percentage that issue separate sustainability reports.

Chart 4.2: Preparation of separate sustainability reports

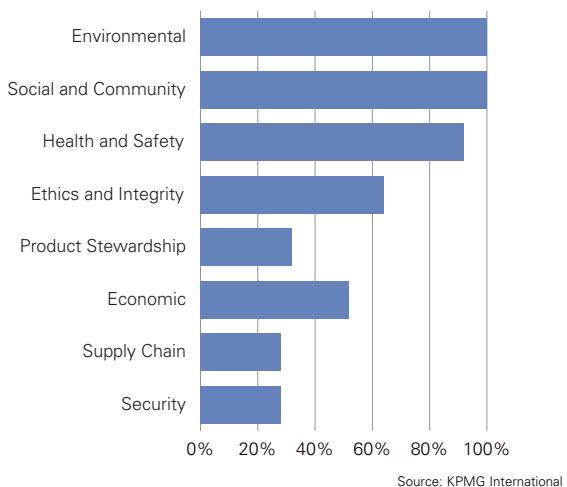


Of all the companies that produced a separate sustainability report, 96 percent made them available on their website, indicating a desire to broaden the accessibility of those reports to all stakeholders.

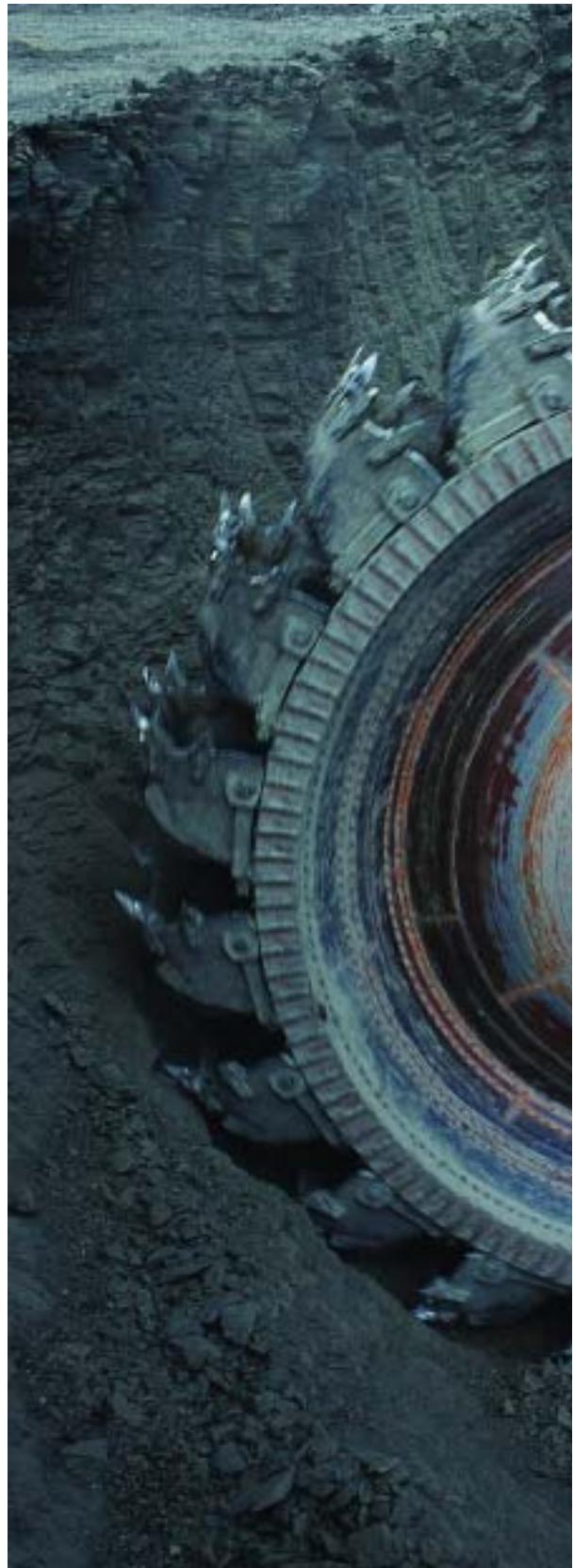
4.2.1 Focus of sustainability reporting

The separate sustainability reports featured key content that was largely in line with those previously surveyed in 2003. Reporting on environmental, social and community issues and health and safety again figured as key elements included in the reports and is illustrated in the survey results below:

Chart 4.3: Focus of separate sustainability reports



Goal setting and tracking achievement against those goals can help when assessing the success of a company's sustainability practices. Of the companies surveyed, 92 percent discuss their sustainability goals in their sustainability report.





4.2.2 Report assurance

In an effort to improve the reliability and transparency of published sustainability reports, the survey identified that of the 25 separate sustainability reports produced, 52 percent (2003: 27 percent) were independently verified. Assurance on the sustainability reports was provided either by one of the major auditing firms (54 percent) or by a specialist firm (46 percent).

4.2.3 Business principles and references to other standards

The existence of a set of business principles or code of conduct is a tool for linking business performance and sustainability. Eighty-four percent (2003: 59 percent) of the sustainability reports included information on companies business principles, or code of conduct.

Of these, 96 percent (2003: 50 percent) of companies referred to external codes, examples of which include *ISO 14001*, the guidelines of the GRI, the Johannesburg Stock Exchange Reporting Index, and ICMM Sustainable Development Principles.

The significant increase in references to external codes among those companies surveyed is a strong indication of the willingness of mining companies to apply a recognized framework to their sustainability assessment approach.

4.3 Key issues

There are a number of key sustainability issues specifically affecting mining companies and the countries in which they operate. With the increase in sustainability reporting KPMG firms have also seen a continued focus on reporting the following issues:

- **Climate change and greenhouse gas emission**

Climate change is widely acknowledged as a significant environmental issue globally. Regulatory frameworks and emissions trading schemes are being developed in response, such as the *Kyoto Protocol* and the *EU Trading Scheme* which came into force in 2005. Of the companies surveyed, 100 percent of Australian, United Kingdom and South African disclosed information on the subject of climate change or greenhouse gas emissions. In contrast, less than 50 percent of Canadian, United States and the BRICs companies surveyed disclosed information on this topic.

- **Stakeholder engagement and dialogue**

Landowners, neighbors, community leaders, regulatory authorities, governments, communities, shareholders, employees and contractors were all noted as stakeholders with whom the surveyed companies engage. Consistent with the increase in sustainability reporting by companies surveyed is an increase to 55 percent (2003: 41 percent) of companies that disclosed their approach to engagement and dialogue with their stakeholders.

- **Business benefits of sustainable development and sustainability reporting**

Of the companies surveyed, 43 percent have disclosed information that links their sustainability-related practices to overall business benefits. This is expected to be increasingly discussed in sustainability reports where companies seek to balance the demands of stakeholders interested in business performance to that of stakeholders interested in environmental and sustainable performance.

- **Mine closure**

The impact of mine closures was discussed by 61 percent of all companies surveyed with 100 percent of Australian companies highlighting this as a key area in their sustainability reporting.

- **HIV/AIDS**

This was reported as a key stakeholder issue by 100 percent of South African companies and 71 percent of United Kingdom companies. Geographic differences in the nature of the companies' operations resulted in lower surveyed results for Canada, Australia, the United States and the BRICs countries.

4.4 Emerging standards and guidelines

A significant step in the evolution of sustainability reporting occurred in October 2006, with the publication of the third edition of the GRI's *Sustainability Reporting Guidelines*, referred to as the GRI G3.

The GRI G3 builds on previous versions of the guidelines and is the outcome of three years of collaboration, research and development with stakeholders to create an improved framework for disclosing sustainability information.

Progress has also been made on assurance on sustainability reports, with two standards that have gained increasing acceptance for providing assurance.

- **The International Standard on Assurance Engagements ISAE3000**

Engagements ISAE3000 was published in December 2003 by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

The AA1000 standard was published in March 2003 by the Institute of Social and Ethical Accountability (AccountAbility) in the UK.

A comparison of the two standards was published in mid 2005 by KPMG and AccountAbility (*Assurance Standards Briefing: AA1000 Assurance Standard and ISAE3000, KPMG & AccountAbility, 2005*), and concluded that the two standards are technically complementary and can be applied together to provide assurance on sustainability reporting.

5. Future accounting developments



There are several recent and future international accounting developments that are set to impact mining companies.

IASB Extractive Activities Project

The IASB has asked a group of national standard setters (Australia, Canada, Norway and South Africa) to undertake a comprehensive research project, the first step towards the development of an acceptable approach to resolving accounting issues that are unique to upstream extractive activities. It focuses on the financial reporting issues associated with reserves/resources and includes an advisory panel of geographically diverse analysts, individuals from entities engaged in extractive activities, auditors, securities regulators and other users of financial reports.

Education sessions for extractive activities have been held by the IASB to generate a greater appreciation of the similarities and differences between minerals and oil and gas reserves/resources.

Comparisons between the major minerals and oil & gas industry definitions of reserves and resources resulted in similarities, but also differences in specificity, methodologies, language and the scope of the definitions. An industry working group comprising members of the CRIRSCO and the Society of Petroleum Engineers Oil and Gas Reserves Committee is undertaking a detailed review of their respective reserve and resource definitions to identify the potential for greater convergence and alternative approaches that may promote a common understanding of definitions. This working group has made significant strides in converging industry definitions and discussions continue.

The advisory panel has been assisting the team to identify attributes that reserves/resources must possess to be consistent with the IASB *Framework's* definition and recognition criteria for an asset and to research the measurement of reserves/resources.

The team has considered initial arguments for and against the use of fair value as the measurement objective for the balance sheet recognition of a reserve/resource asset and for disclosures. The aim was to gauge whether the project should continue considering the possible application of fair value models to reserve/resource assets or focus on historical cost models going forward. An assessment of the suitability of fair valuing reserves/resources was discussed with the IASB in October 2006.

At this meeting, the IASB acknowledged the difficulties in estimating fair value of reserve and resource assets. However, the IASB agreed with the project team that historical cost does not provide the most relevant information for these assets. Therefore, the IASB asked the project team to further research current value approaches as potential measurement bases.

At the conclusion of the research phase, the team aims to publish a discussion paper incorporating the IASB's preliminary views on financial reporting of reserves/resources.

United Nations Framework Classification for Fossil Energy and Mineral Resources

The UN Economic Commission for Europe (UNECE) has developed the United Nations Framework Classification for Fossil Energy and Mineral Resources and has convened a group of experts including representatives of both the Combined Reserves International Reporting Committee (CRISCO) and the Society of Petroleum Engineers (SPE).

The group of experts' work includes the harmonization of reserves and resources definitions between the mining and the oil and gas industries under the Framework Classification.

The IASB's research project on accounting for extractive industries is currently considering accounting for and disclosure of reserves and resources and so is linked into the UNECE's program. It is clear to us that the convergence of reserves and resources definitions will be one of the critical inputs to the research project's work.

KPMG Comment

With the positive convergence work between oil and gas and mining definitions, we believe that the best outcome for the IASB will be to adopt the industry definitions for reserves and resources in a future accounting standard at a sufficiently detailed level.

The use of a definition for financial reporting that is not consistent with those used for other purposes by companies in the industries would be far from optimal.

Firstly this would create a risk of artificiality and may tempt companies to 'flex' the definition to (in their view) better reflect commercial reality – something that may well have been the case for some oil companies reporting under the SEC reserves reporting regime.

Secondly this would require companies to maintain two sets of reserves and resources data which would absorb much valuable management time for little, if any, benefit.

Convergence of IFRS and U.S. GAAP

On February 27, 2006 the IASB and the FASB published a joint Memorandum of Understanding (MOU) that reaffirms the Boards' goal of developing a common international accounting framework.

The MOU does not represent a change to the principles and objectives described in the Norwalk Agreement published in October 2002, or the Boards' convergence work program.

Table 5.3 IFRS and U.S. GAAP convergence projects impacting the mining sector

Project description	Overview
Borrowing costs	<p>This is an IASB project aimed at removing the main difference between IAS 23 <i>Borrowing Costs</i> and SFAS 34 <i>Capitalization of Interest Cost</i>.</p> <p>The IASB issued an exposure draft in May 2006 proposing to eliminate the option currently available in IAS 23 to expense borrowing costs associated with the acquisition, construction or production of a 'qualifying asset'.</p> <p>A final IFRS is expected in the first half of 2007.</p>
Joint ventures	<p>This is an IASB project aimed at removing differences between IAS 31 <i>Joint Ventures</i> and U.S. GAAP. This project is likely to result in the removal of the option to use proportional consolidation to account for interests in joint venture entities currently available in IAS 31. Presumably, such interests would need to be accounted for using the equity method.</p>
Income taxes	<p>An ED is expected in 2007, and a final IASB standard is scheduled for 2008.</p> <p>This is a joint IASB/FASB project aimed at reducing the differences between IAS 12 <i>Income Taxes</i> and SFAS 109 <i>Accounting for Income Taxes</i>.</p> <p>Both IAS 12 and SFAS 109 are based on the balance sheet liability approach to accounting for deferred taxes. However, differences arise because both standards have exceptions to their basic principles. The objective of this project is not to reconsider the underlying approach, but rather to eliminate exceptions to the basic principles.</p> <p>Convergence issues being considered by the Boards include the definition of tax base, exemptions from the initial recognition of deferred tax assets and liabilities, the measurement of deferred taxes, accounting for uncertainties in income taxes, the allocation of income taxes to profit and loss or equity, and special deductions.</p> <p>An ED is expected early in 2007 and a final standard is scheduled for 2008.</p>
Impairment	<p>This is a joint IASB/FASB project aimed at reducing differences in identifying and measuring impairment of assets between IFRS and U.S. GAAP. The project is currently in the staff research phase.</p>
Segment reporting	<p>This is an IASB project to align IAS 14 <i>Segment Reporting</i> with SFAS 131 <i>Disclosure about Segments of an Enterprise and Related Information</i>.</p> <p>The IASB has issued ED 8 <i>Operating Segments</i> proposing adoption of the U.S. management approach to the identification of segments and reporting of segment information.</p> <p>A final IASB standard is expected in late 2006.</p>
Emissions trading schemes and government grants	<p>This is an IASB project to improve IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>.</p> <p>The IASB also decided to add emission trading to its agenda. Accounting for emission rights issued at less than full value will be considered as part of the amendments to IAS 20.</p> <p>Work on this topic has been deferred until related projects, including liabilities are advanced further.</p>
Business combinations	<p>This is a joint IASB/FASB project aimed at developing a single standard for business combinations that can be used for both domestic and cross-border financial reporting.</p> <p>Under the proposals, the total amount to be recognized by the acquirer would be the full fair value of the business over which it obtains control even if the combination is achieved in stages or if the acquirer owns less than 100 percent of the equity interest of the acquiree at the date of acquisition. Consequently, if the acquirer owns less than 100 percent of the equity interests in the acquiree, then goodwill attributable to the non-controlling (minority) interest would be recognized.</p> <p>The Boards anticipate a final standard will be available in the second half of 2007.</p>

Consolidation and minority interests	<p>Like business combinations, this is a joint IASB/FASB project aimed at the development of a converged standard on accounting for consolidations.</p> <p>Changes currently being proposed by the IASB will affect how non-controlling (minority) interests are accounted for. Under the proposals, losses would be allocated to non-controlling interests, with any guarantees or other support being accounted for separately; the recognition of gains or losses in profit or loss on changes in non-controlling interests that do not involve a change in control would be precluded; and the re-measurement of any remaining non-controlling interest in a former subsidiary to fair value upon the loss of control would be required.</p> <p>While some of these issues may be addressed in the business combinations project, the separate project may not produce a final standard before 2009.</p>
Fair value measurement	<p>FASB recently issued SFAS 157 <i>Fair Value Measurement</i> which provides comprehensive guidance on how entities should measure fair value when fair value measurement is required by an accounting standard.</p> <p>The IASB plans to publish a discussion paper in late 2006 setting out its preliminary views on fair value measurement. This discussion paper will be based on SFAS 157. A final IASB standard on fair value measurement is not expected until the second half of 2008.</p>
Revenue recognition	<p>This is a joint IASB/FASB project to develop a comprehensive set of principles for revenue recognition. The Boards are exploring a model of revenue recognition that would recognize revenue proportionately as performance occurs, if the customer must accept performance to date. Customer acceptance would be deemed to occur only when it gives the entity an unconditional right to receive payment for its performance to date.</p> <p>A discussion paper is expected in the second half of 2007. Timing for issue of a final standard has not yet been determined.</p>
Leases	<p>This is a joint IASB/FASB project to reconsider the accounting requirements for leasing arrangements. The project is expected to result in a fundamental change in accounting for leases by both lessors and lessees.</p> <p>The Boards expect to release a joint discussion paper in 2008.</p>
Pension accounting	<p>Both the IASB and FASB have initiated comprehensive projects to reconsider accounting for post retirement benefits including pensions. FASB recently issued SFAS 158 <i>Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans</i> which requires the net amount of the over-or under-funded obligation to be reported on the Balance Sheet. Although the timing and scope of the ongoing phases of each Board's project might differ, the objective of both Boards ultimately is to develop a converged standard.</p> <p>A final standard is not expected until 2010.</p>
Financial instruments (replacement of existing standards)	<p>As part of the MOU, the IASB and FASB added to each Board's research agenda a commitment to a long-term objective of simplifying and improving financial reporting requirements for financial instruments.</p> <p>The Boards have not yet added projects to their active agendas in respect of the above. Their present focus is on addressing the difficult technical and practical issues associated with the requirements of current accounting standards for financial instruments.</p> <p>The Boards anticipate issuing a due process document on accounting for financial instrument by 2008.</p>

6. History of the KPMG Global Mining Reporting Survey



The survey was first published in the early 1980s as a survey of Canadian mining companies. It developed with each subsequent version and in 2000 was expanded to include companies from the traditional mining bases of the United States, United Kingdom, South Africa and Australia.

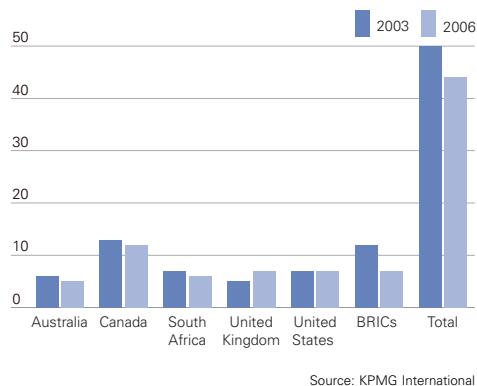
Global Mining Reporting Survey 2003

The 2003 survey examined 50 companies who were world leaders in the mining industry and came from Brazil, Chile, China, France, Germany, India, Japan, Mexico and Russia, as well as those covered historically in the survey.

Global Mining Reporting Survey 2006

The 2006 survey has examined 44 companies covering the traditional mining bases and the emerging mining nations of Brazil, Russia, India, Chile and China (BRICs). While the traditional definition of BRICs is Brazil, Russia, India and China, we have included Chile in our results as a BRIC country for simplicity of results. Research was done between July and October 2006 from annual reports of 2005 and 2006. Details of the time-frame that the research was conducted in is contained in section 7.

Chart 6.1: Number of companies surveyed



Approach to the survey in 2006

Information used in this survey is based on publicly available information from these companies, which have been referenced where applicable. Consent has therefore not been requested directly given the nature of the information.

The direction of the *Global Mining Reporting Survey 2006* is influenced by recent accounting and reporting developments within the mining industry and emerging issues.

In recent years, accounting and reporting developments have seen a focus on the companies transitioning from their local GAAP to IFRS, as well as the comparison to U.S. GAAP. In response to this, the 2006 Global Mining Survey has a clear focus on emerging issues within IFRS and U.S. GAAP, incorporating example disclosures.

The future focus of the *Global Mining Reporting Survey* is expected to cover the issues surrounding the convergence of U.S. GAAP and IFRS.

Further information

This survey only includes limited examples of disclosures from the surveyed companies and does not necessarily reflect preferred practice disclosure.

Should you wish to review a more extensive list of examples (or discuss examples) on a particular topic or should you have any specific questions on accounting standards, please contact your local KPMG firm professional listed in the back of this survey.

7. Companies surveyed

Table 7.1 Companies surveyed for Global Mining Reporting Survey 2006

Company	Domiciled	Primary Listed	Primary Commodity	GAAP	Year End	Web site
Anglo American plc	United Kingdom	LSE	Diversified	IFRS	Dec 31 2005	angloamerican.co.uk
Anglo Platinum Limited	South Africa	JSE	PGM	IFRS	Dec 31 2005	angloplatinum.com
AngloGold Ashanti Limited	South Africa	JSE	Gold	IFRS	Dec 31 2005	anglogold.com/default
Antofagasta plc	United Kingdom	LSE	Copper	IFRS	Dec 31 2005	antofagasta.co.uk
Barrick Gold Corporation	Canada	TSE	Gold	US GAAP	Dec 31 2005	barrick.com
BHP Billiton Limited	Australia*	ASX, LSE	Diversified	IFRS/AIFRS	Jun 30 2006	bhpbilliton.com
Cameco Corporation	Canada	TSE	Uranium	Canadian GAAP	Dec 31 2005	cameco.com
Centerra Gold Inc.	Canada	TSE	Gold	Canadian GAAP	Dec 31 2005	centerragold.com
China Shenhua Energy Company Limited	China	HKSE	Coal	IFRS	Dec 31 2005	csec.com
Coal India Limited	India	-	Coal	Indian GAAP	Mar 31 2005	coalindia.nic.in
Corporación Nacional del Cobre de Chile (Codelco)	Chile	-	Copper	Chilean GAAP	Dec 31 2005	codelco.cl
Coeur d'Alene Mines Corporation	USA	NYSE	Silver	US GAAP	Dec 31 2005	coeur.com
Companhia Vale do Rio Doce (CVRD)	Brazil	BOVESPA	Iron Ore	BRGAAP, USGAAP	Dec 31 2005	cprd.com.br
Falconbridge Limited	Canada	TSE	Diversified	Canadian GAAP	Dec 31 2005	archive.xstrata.com/Falconbridge
Freeport McMoran Gold & Copper Inc.	USA	NYSE	Copper	US GAAP	Dec 31 2005	fcx.com
Glamis Gold Limited	Canada	TSE	Gold	Canadian GAAP	Dec 31 2005	glamis.com
Gold Fields Limited	South Africa	JSE	Gold	IFRS	Jun 30 2005**	goldfields.co.za
Goldcorp Inc.	Canada	TSE	Gold	Canadian GAAP	Dec 31 2005	goldcorp.com
Harmony Gold Mining Company Limited	South Africa	JSE	Gold	IFRS and SA GAAP	Jun 30 2005**	harmony.co.za
IAMGOLD Corporation	Canada	TSE	Gold	Canadian GAAP	Dec 31 2005	iamgold.com
Impala Platinum Holdings Limited	South Africa	JSE	PGM	IFRS	Jun 30 2006	implats.co.za
Inco Limited	Canada	TSE	Nickel	Canadian GAAP	Dec 31 2005	inco.com
Inmet Mining Corporation	Canada	TSE	Copper	Canadian GAAP	Dec 31 2005	inmetmining.com
Kazakhmys plc	United Kingdom	LSE	Copper	IFRS	Dec 31 2005	kazakhmys.com
Kinross Gold Corporation	Canada	TSE	Gold	Canadian GAAP	Dec 31 2005	kinross.com
Kumba Resources Limited	South Africa	JSE	Diversified	IFRS and SA GAAP	Jun 30 2006	kumbaresources.com
Lihir Gold Limited	Australia*	ASX	Gold	IFRS	Dec 31 2005	lihir.com.pg
Lonmin plc	United Kingdom	LSE	PGM	IFRS	Sep 30 2005	lonmin.com
Meridian Gold Inc.	Canada	TSE	Gold	Canadian GAAP	Dec 31 2005	meridiangold.com
Newcrest Mining Limited	Australia	ASX	Gold/Copper	AIFRS	Jun 30 2006	newcrest.com.au
Newmont Mining Corporation	USA	NYSE	Gold		Dec 31 2005	newmont.com/
MMC Norilsk Nickel Group	Russia	RTS Moscow, MICEX	Nickel/Copper	IFRS	Dec 31 2005	nornik.ru
Oxiana Limited	Australia	ASX	Gold/Copper	AIFRS	Dec 31 2005	oxiana.com.au
Peabody Energy	USA	NYSE	Coal	US GAAP	Dec 31 2005	peabodyenergy.com
Phelps Dodge Mining Company	USA	NYSE	Copper		Dec 31 2005	phelpsdodge.com
Rio Tinto plc	United Kingdom*	LSE	Diversified	IFRS/AIFRS	Dec 31 2005	riotinto.com
Singareni Collieries Company Limited	India	-	Coal	Indian GAAP	Mar 31 2005	sclmines.com
Southern Copper Corporation	USA	NYSE	Copper	US GAAP	Dec 31 2005	southernperu.com
Stillwater Mining Company	USA	NYSE	PGM	US GAAP	Dec 31 2005	stillwatermining.com
Teck Cominco Limited	Canada	TSE	Diversified	Canadian GAAP	Dec 31 2005	teckcominco.com
Vedanta Resources plc	United Kingdom	LSE	Diversified	IFRS	Mar 31 2006	vedantaresources.com
Xstrata plc	United Kingdom	LSE, Swiss Stock Exchange	Diversified	IFRS	Dec 31 2005	xstrata.com
Yanzhou Coal Mining Company Limited	China	HKSE	Coal	IFRS	Dec 31 2005	yanzhoucoal.com.cn
Zinifex Limited	Australia	ASX	Zinc/lead	AIFRS	Jun 30 2006	zinifex.com

* Dual Listed

** 30 June 2006 preliminary results were referred to with respect to IFRS

8. Abbreviations

AASB	Australian Accounting Standards Board
AICPA	American Institute of Certified Practicing Accountants
AIFRS	Australian Equivalents to International Financial Reporting Standards
ASEC	Accounting Standards Executive Committee
ASIC	Australian Securities and Investment Commission
ASX	Australian Stock Exchange
BRICs	Brazil, Russia, India, China and Chile
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGT	Capital Gains Tax
CIM	Canadian Institute of Mining, Metallurgy and Petroleum
CRIRSCO	Committee for Mineral Reserves International Reporting Standards
CRISCO	Combined Reserves International Reporting Committee
CSR	Corporate Social Responsibility
EBIT	Earnings before Interest and Taxation
ED	Exposure Draft
EITF	U.S. Emerging Issues Task Force
FASB	U.S. Financial Accounting Standards Board
FIFO	First in First Out Method of accounting for inventory where the stock purchased first is assumed to be sold first
GAAP	Generally Accepted Accounting Principles/Practices
GRI	Global Reporting Initiative
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICMM	International Council on Mining and Metals
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISAE	International Standard on Assurance Engagements
JORC	Joint Ore Reserves Committee
LIFO	Last in First Out Method of accounting for inventory where stock purchased last is assumed to be sold first before earlier purchases
MOU	Memorandum of Understanding
OCI	Other Comprehensive Income
OECD	Organization for Economic Co-operation and Development
SAMREC	South African Mineral Resource Committee
SEC	Securities and Exchange Commission
SOP	AICPA Statement of Position
SPE	Society of Petroleum Engineers
U.S. GAAP	Generally Accepted Accounting Principles/Practices in the United States
UNECE	United Nations Economic Commission for Europe

9. Contributors



The KPMG Global Mining Reporting Survey 2006 research team met for detailed research in Melbourne, Australia – October 2006.

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