

# SUSTAINING OUR ECONOMIC PERFORMANCE

## ADDITIONAL INFORMATION

### Production levels impacted by plant failure, major disruptive events or ore extraction issues **MI**

MMG's risk management processes (see page 53) aim to ensure that potential impairments to economic performance by unexpected circumstances are limited.

As mining activity progresses through the final stages of the open-pit mine at Century, the average zinc grade of ore mined decreased from 11.9% in 2012 to 8.9% in 2013. Mining was impacted by ore accessibility and unfavourable mining conditions. This limits the quantity and quality of ore mined.

Gold production at Sepon began in 2002 and was originally due to cease production in 2011. Exploration success and high gold prices, however, resulted in extensions of gold production to 2013. However, the combination of lower grades and a weaker gold price, have made it uneconomic to continue gold production. Greenfield and extensional exploration continue to identify further oxide gold sources. The current plan is to focus on copper production with the gold processing plant on care and maintenance.

Due to ongoing shortages, Kinsevere power requirements continue to be sourced from diesel generators as well as the grid. The use of diesel and high-cost, grid-sourced power resulted in a US\$44.8 million increase in energy costs in 2013 compared to 2012. Approximately 57% of power requirements were met from electricity sourced via diesel generation.

Further geological and geotechnical analysis of the Dugald River ore body was conducted in 2013 and a trial stoping program in 2014 was approved. The program will provide greater certainty on the future direction of the project including project schedule, mining and processing methods as well as capital and operating costs. Processing Dugald River ore using existing infrastructure at Century remains a future option for the project. Due to the ongoing analysis, we will not achieve the previously announced schedule of first concentrate shipment in late 2015 and a change in project parameters arising from the 2014 work program could impact the future direction of the project.

### Investment in new acquisitions and projects **MI**

We continue to invest in new project assets and pursue business and asset acquisitions as part of our growth strategy. Our two key development projects are Dugald River and the Izok Corridor. Details of our development projects and our exploration activities are in the MMG 2013 Annual Report (pages 32–36).

To the end of 2013, our most recent material acquisition was the Anvil Mining group of companies (Anvil) in February 2012 for US\$1.3 billion. The key asset was the Kinsevere mine, an open-cut copper mine located in the Katanga Province of the DRC.

On 14 April 2014, as this report was being completed, we reached an agreement to acquire the Las Bambas project in the Apurimac region of Peru for US\$5.85 billion. This acquisition is in Joint venture with Guoxin International Investment Corporation Limited and CITIC Metal Co., Ltd. Las Bambas is the largest development project in Peru and will become one of the world's largest copper mines.

### Resource nationalism/legislative change **MI**

Changes in legislative, regulatory or compliance requirements can significantly impact our strategy, our results and the planning of our operations.

#### Australia's carbon tax repeal

In July 2011 the Australian Government announced a carbon pricing mechanism (commonly referred to as the 'Carbon Tax') on selected businesses of A\$23.00 per tonne of carbon dioxide equivalent (CO<sub>2</sub>-e) emissions. The carbon pricing mechanism came into effect on 1 July 2012 and was intended to increase at a rate of 5% annually until 1 July 2015. Following the federal election and subsequent change in Australian Federal Government in September 2013, legislation has been introduced into Parliament to repeal the Carbon Tax, which remains under review. The direct impact of the Carbon Tax on MMG's Australian operations has been through the reduction in fuel tax credits of approximately six cents per litre on diesel fuel excise since 1 July 2012.

#### Review of the DRC Mining Code

The current DRC Mining Code was enacted in 2002 and governs the prospecting, exploration, exploitation, processing, transportation and sale of mineral substances in the DRC. The proposed reforms by the DRC Government primarily relate to the granting of mining permits, the tenure for holding mining permits, the royalties and taxation regime, and government equity interest in mining projects. Consultative fora on the proposed reforms have been held between the DRC mining industry (including the Chamber of Mines) and the DRC Government. However, the DRC Government has yet to reach a point of finality on any proposed changes to the Mining Code. As such, it is not currently possible to provide reliable guidance on any potential impact on MMG.



Pit operations at Kinsevere.

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### Product shipping and logistics

Access to markets for our products is essential. We work with infrastructure service providers and regulators to maintain access responsibly.

We use a combination of logistics channels to transport product from our mines to customers. This is different at each mine site depending on its location and that of its customers. For example, at Century, concentrates are transported in slurry form in a 304-kilometre underground pipeline to our port facility in Karumba. Here they are dewatered and loaded onto a transfer vessel which delivers the concentrates to larger vessels for shipment to customers. At Sepon, located in land-locked Laos, copper cathode is transported by truck to customers in our largest market of Thailand. Product delivered to customers in other regions is loaded into sea containers and shipped through Bangkok Port. Product stewardship and material-handling challenges are present along all logistics chains as outlined in the product stewardship section on page 52 of this report.

### Customer economic sustainability

To maintain our economic sustainability, we must be able to sell our products to market, and therefore the demand for our products from customers is pivotal. Through the International Zinc Association, the ICMM and the MCA, we are working on initiatives to promote our products to the global market for established and new uses. We believe that access to growing economies, such as China, provides our products with strong customer markets.

Our customers are smelting businesses that on-sell our product after refining it further, for consumption in a range of end uses, such as construction materials or automotive vehicles. When global demand for these end uses falls, our customers may respond by reducing their demand for our product.

While we have life-of-mine contracts in place for a large portion of our current production, we negotiate annual treatment and refining charges. We also sell product to customers on short-term, spot-market contracts.

As with commodity prices, we monitor customer demand for our products and adjust our internal forecasts and operational plans accordingly.

### Management reporting and decision making

Good management reporting is necessary to facilitate effective decision making, execute our Sustainability Policy and improve our ability to integrate future acquisitions smoothly.

In 2013 we made significant progress in our program to review and upgrade information technology (IT) systems to eliminate reliance on legacy systems and to support management reporting and decision making. This transformational program aims to improve management responsiveness and overall operational efficiency.

Our investment and efforts continued in standardising our business processes under the Operating Model and adopting a common SAP1 platform. Under our integrated Business Management program (iBM), we are transforming key management systems to provide a foundation for MMG's streamlining and growth, including essential infrastructure. The system is underpinned by common global processes and a standard SAP mining platform.

Further IT modules were integrated in 2013, including standardised reporting and costing models, improved master data integrity to support sound decision making and common HR systems and processes.



Copper cathode packed for shipping.