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REPORT ON BUSINESS

Cover Story

Gold is back. So's Barrick

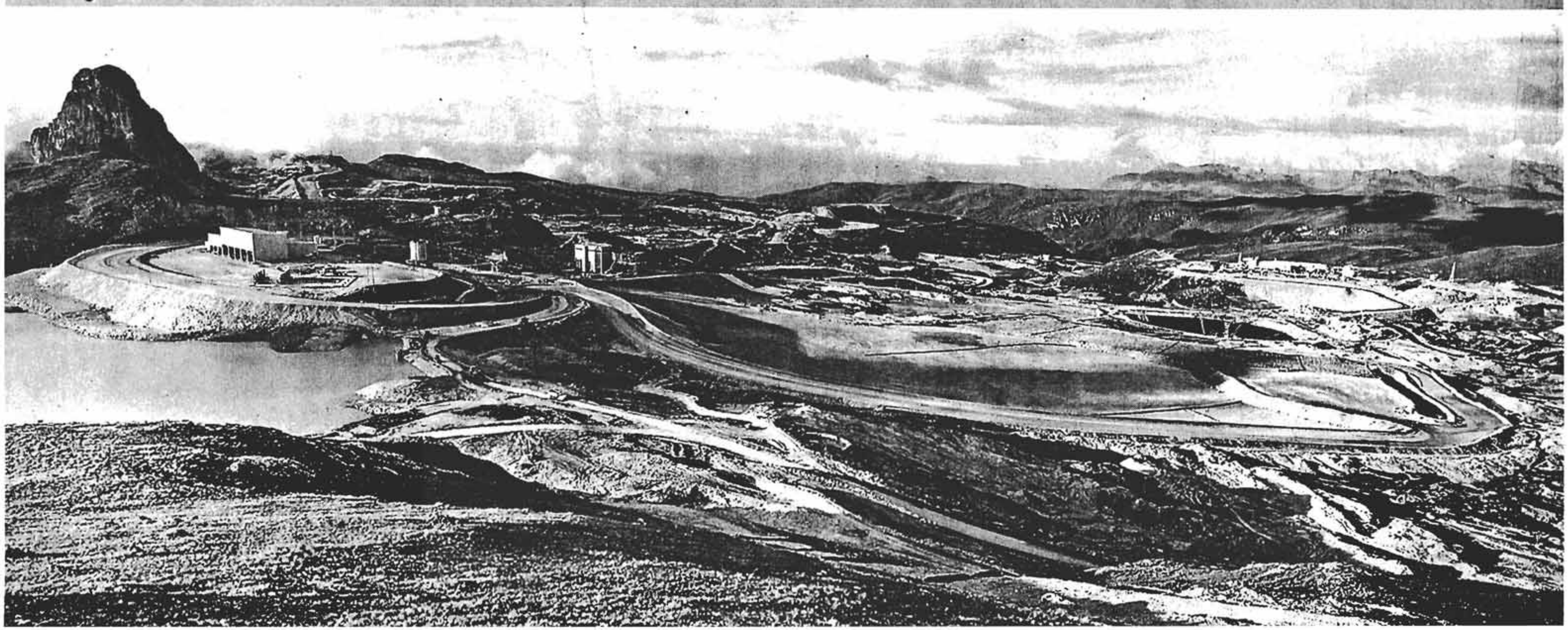
With Greg Wilkins at the helm, Barrick Gold has put its troubles behind it. He's cleaned up the firm's hedge book and turned its eye to growth — just in time for gold to join oil in the market's spotlight. WENDY STUECK reports. B4

FRED LUM/THE GLOBE AND MAIL

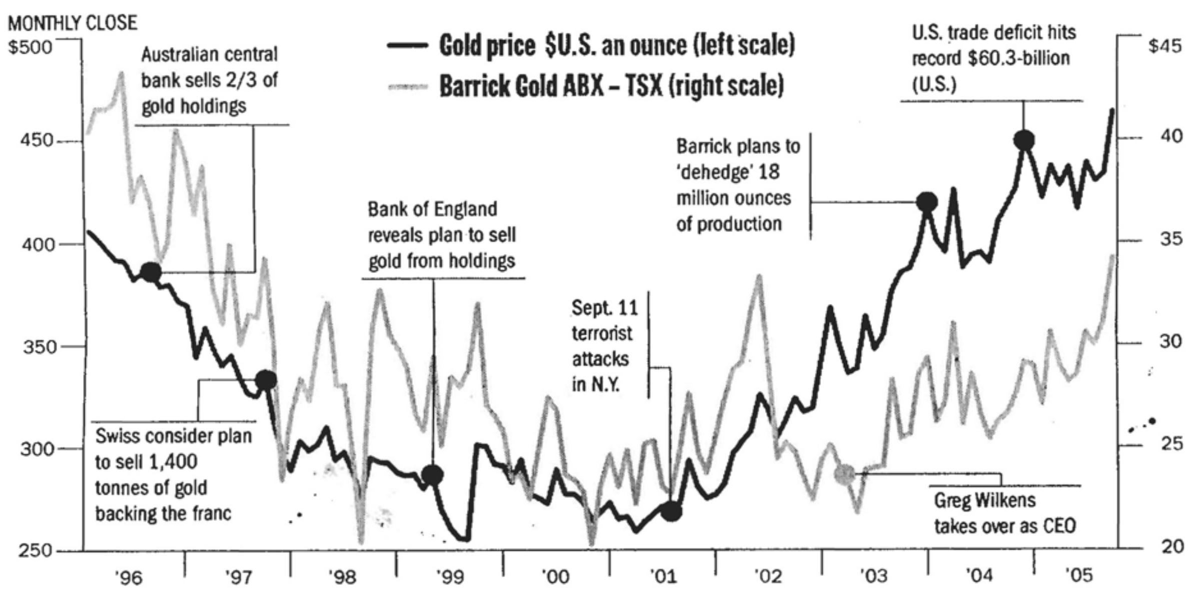
Greg Wilkins took the reins at Barrick Gold Corp. in early 2003, when the Toronto-based miner was undergoing some tough times. But the firm is now riding the wave of rising gold prices, **WENDY STUECK** writes

Revamped Barrick keeps eyes on the hunt for the golden prize

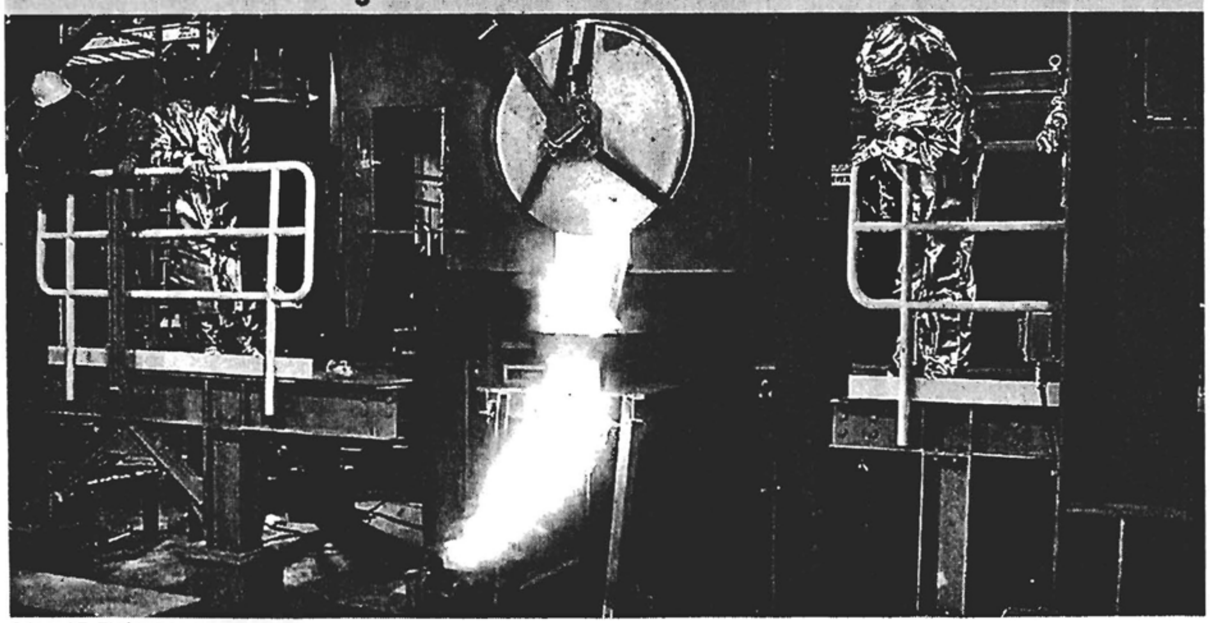
The Lagunas Norte mine in Peru



Gold price v. Barrick stock



The Veladero mine in Argentina



SOURCE: THOMSON DATASTREAM

Barrick's golden years

Barrick shares were the place to be for smart investors throughout the 1990s. The company built its name as a low-cost operator after the discovery of high-grade deposits in Nevada. It was also the leader in securing hedging contracts that allowed it to lock in sales at high prices, often above $400 (U.S.) an ounce, even as prices slid to about $250 at the end of the decade.

180%
BARRICK'S SHAREHOLDER RETURN DURING THE 1990s

-33%
PERFORMANCE OF THE TSX'S GOLD INDEX IN THE 1990s

Barrick loses its shine

In the three years to Jan. 31, 2003, Barrick established itself as one of the worst ways to play the recovery in bullion. The company's extensive hedge book began to work against it and Barrick proved itself to be uncharacteristically unreliable in meeting production and cost forecasts. The stumble gave Barrick a major credibility problem in the market and culminated with the shakeup that saw Greg Wilkins take over as CEO.

11.5%
BARRICK'S SHAREHOLDER RETURN, JAN. 31, 2000 - JAN. 31, 2003

48.4%
PERFORMANCE OF THE TSX'S GOLD INDEX, JAN. 31, 2000 - JAN. 31, 2003

Barrick gets its shine back

Wilkins's appointment coincided with a continued rally in gold prices, a sharp reduction in Barrick's hedge book and an aggressive plan to ramp up production. The goal to take annual gold production to about seven million ounces from the five million produced in 2004 caught the imagination of investors and has made Barrick shares outperformers once again.

41%
BARRICK SHAREHOLDER RETURN SINCE FEBRUARY, 2003

22%
PERFORMANCE OF THE TSX'S GOLD INDEX SINCE FEBRUARY, 2003

Revamped Barrick keeps eyes on the hunt for the golden prize

Globe and Mail
By WENDY STUECK
09/17/2005

When Greg Wilkins became chief executive officer of Barrick Gold Corp. in February, 2003, the company was not exactly having its finest hour.

Under fire for its controversial hedging strategy, suffering from a credibility problem after issuing a surprise profit warning in 2002, Barrick was losing ground to competitors considered to have more reliable operations and more room to profit from rising gold prices.

For Mr. Wilkins, who started his career at Barrick in 1981 and spent the dozen years before he became CEO as a director, the challenge was simple: Restore Barrick's status in the gold sector and the company's reputation for living up to its commitments.

The first item on his list: Visit Barrick's far-flung operations and talk to employees.

The tour, he says, confirmed impressions formed when he was a director. Barrick had outgrown its roots and needed an overhaul.

In September, 2003, the company adopted a new structure built around three regional divisions: North America, South America and a combined Australia and Africa.

'Barrick had always been run on this command-and-control model, a centrist approach that saw all the decision making made in Toronto,' says Mr. Wilkins, 49. 'That worked while the company was small and operating only in North America. But all of a sudden we are in four continents and seven countries and it becomes pretty clear that you just can't do it any more.'

During those first few months, Mr. Wilkins spent little time talking to investors. The idea, he says, was to have a plan nailed down before trying to sell it to the Street.

In February, 2004, a year after his appointment, Mr. Wilkins updated Barrick's growth plans, saying the company would build four new mines over a one-year period.

Mr. Wilkins readily admits he can't claim sole credit for the growth plan. The four projects had been in Barrick's pipeline for years. And part of the momentum that Barrick has picked up over the past year can be chalked up to the rising price of gold, which hit a 17-year high last week. Still, analysts say he can take the credit for reassuring investors that the projects could be built on time and on budget.

This year, two of the mines are up and running. A third — Veladero in Argentina — poured its first bar of gold last week and is expected to be in full production by October. The fourth, Cowal in Western Australia, is expected to start up early next year.

Despite rising costs for fuel and materials, Barrick expects the tab for the four mines to ring in within 5 per cent of a $1.2-billion estimate announced last year.

As the new mines have come on stream, Barrick has seen its shares rise by 18 per cent so far this year — outperforming the S&P/TSX gold index and the shares of many of its competitors. Analysts say Barrick has done much to restore its tarnished reputation.

'Barrick has been helped by the [rising] gold price as have many companies,' says Victor Flores, an analyst with HSBC Securities.

'But I think it's fair to say that this was a company under the cloud. And that outlook has changed and the Street is taking a much greater liking to this company.'

Barrick has always aimed to be the most popular in its class. Launched in 1983 by entrepreneur and current chairman Peter Munk, Barrick was created to focus on gold and, in the early days, on oil and gas. Oil and gas interests fell by the wayside as Barrick zeroed in on gold through a string of acquisitions.

The biggest came in 2001, when Barrick gobbled up California-based

Homestake Mining Co. in a deal worth about $2.1-billion.

As it grew, Barrick became known as the bullet-proof gold stock, the company whose financial engineering allowed it to make money even as gold prices swooned.

But by the beginning of this decade, cracks were showing. The company took a $1.1-billion after-tax writedown in 2001, a step related to pricey acquisitions made during a period of lousy gold prices.

Barrick was also feeling heat over hedging. The technique, in which a company contracts to deliver gold in the future at a particular price, is commonly used to help finance mines and to protect companies from flat or falling gold prices. Barrick used the method during much of the 1990s, when gold at times slipped below $300. When gold started to climb in 2000, some analysts and investors began to question the practice.

Mr. Flores, the HSBC analyst, says the hedging issue was overblown. What was really hurting Barrick in 2002, he says, were operating problems, related mostly to higher costs of mining lower-grade ore in some aging mines, since addressed.

Long-time gold watcher John Ing, however, sees the matter differently, saying Barrick's hefty hedge book drew the ire of many investors. ‘That was one of the lightning rods,’ says Mr. Ing, president of Toronto-based Maison Placements Canada Inc.

Whether hedging was the defining issue or note, Barrick decided drastic change was in order.

On Feb. 12, 2003, the company appointed Mr. Wilkins as CEO, ousting Mr. Oliphant, who had been with the company since 1987 and CEO since 1999. In a statement, Barrick said the move was made to ‘address its concerns over the company's recent performance and to restore Barrick to the leadership position in the gold industry it has consistently maintained throughout much of its existence.’

Quietly, many analysts and fund managers said Mr. Oliphant was a fall guy, the person who would take the very public rap for Barrick's hedging program. And just as quietly, they began speculating about what Mr. Wilkins would do to get Barrick back on track.

Later that year, in November, Peter Munk vowed that Barrick would not hedge another ounce of gold for the next 10 years. Since then, Barrick has been trimming its hedge book by delivering gold into some contracts as they come due, at times taking a loss in the process. But the company still has a substantial amount of its reserves — about 14.7 per cent, including the agreement tied to the Pascua Lama project — committed under hedge agreements.

In describing the changes he has made since coming on board, Mr. Wilkins sounds like a cross between sports coach and a management professor. An amateur car racer, he talks about ‘looking way down the road instead of over the front bumper.’

His mentors, he says, were Mr. Munk and former Barrick chief operating officer Bob Smith, who died in 1998. Mr. Munk taught him about entrepreneurship and vision. Mr. Smith, an operations expert, taught him about the importance of putting the right people in the right jobs and then getting out of the way.

Barrick employees collectively represent a wealth of financial, exploration and operating expertise, Mr. Wilkins says. ‘I think, every day, that there is not an issue in the industry that somebody in this organization hasn't seen and solved.’

At the moment, Barrick, like other large gold producers, faces the twin demons of spiralling costs and dwindling reserves.

Barrick's four new mines will increase its production — conveniently, just as gold prices are enjoying upward momentum. But the next project on the company's books is bigger, more complex and vastly more expensive.

Pascua Lama is a massive deposit that straddles the Chile-Argentina border. Containing an estimated 17.6 million ounces of gold, the project was part of the growth plan announced by Mr. Oliphant in 2002, when Barrick floated a startup date of 2008 for the project.

Under Mr. Wilkins, Barrick gave Pascua Lama an official green light in the summer of 2004. The project now has a target startup date of 2009 and an estimated cost of $1.4-billion to $1.5-billion.

The proposed mine would involve removing parts of glaciers from the high, dry site, an element that has not gone over well with some local residents and environmental groups.

Those concerns are part of the broader issue of ‘social licence’ that will become ever more important for gold producers when it comes to building new mines or expanding existing ones, says HSBC's Mr. Flores.

‘More and more we are seeing production move into the developing world, and increasingly we're seeing community issues at the fore,’ Mr. Flores says.

Mines are taking longer and are costing more to build. And meanwhile, companies like Barrick have assets that inexorably dwindle over time, creating endless pressure to find or buy new assets.

‘All of the majors have flat production profiles,’ says Maison Placements' Mr. Ing. ‘And so I think you'll see among the first-tier gold companies, the consolidation trend will continue.’

Pressure to bulk up could intensify as more institutional investors seek gold exposure. Benoit Gervais, assistant portfolio manager with Mackenzie Financial Corp.'s precious metals and resource funds, says he has been loading up on gold equities since early this year, while at the same time ratcheting down oil and gas holdings. Mr. Gervais would not comment specifically on Barrick.

But in the next leg of what he predicts will be a bull market for gold, he'll be looking for gold producers with strong, low-cost operations in locations where the currency is not working against them.

Gold producers in Canada, Australia and South Africa have all struggled as local currencies rose against the greenback — meaning the higher price of U.S.-dollar priced gold wasn't necessarily reflected on the bottom line. ‘The worst possible thing you could have is a marginal operation in a country with a strong currency.’

About 44 per cent of Barrick's production comes from the U.S., where costs are not climbing as a result of a strengthening local currency, as they are in Canada and South Africa.

Mr. Wilkins says Barrick is hunting for potential acquisition targets. The company has also invested in joint ventures in Russia and considers the country a treasure chest of undeveloped gold deposits.

But there are no plans to shift the company's focus, despite a joint nickel venture in Tanzania with Falconbridge Ltd.

‘Our focus is gold, and as we look forward, that is the industry we are in, that is the industry that we hope to be best in class and have a leadership role in.

‘The nickel project [in Tanzania] is great for shareholders, the silver associated with our projects is great for shareholders — but we're not looking to go in a different direction.’