

Minerals Industry 2003

SURVEY REPORT

SURVEY CONDUCTED BY

PRICEWATERHOUSECOOPERS 

data funds balance expenditure ratios labour costs outlook profit assets



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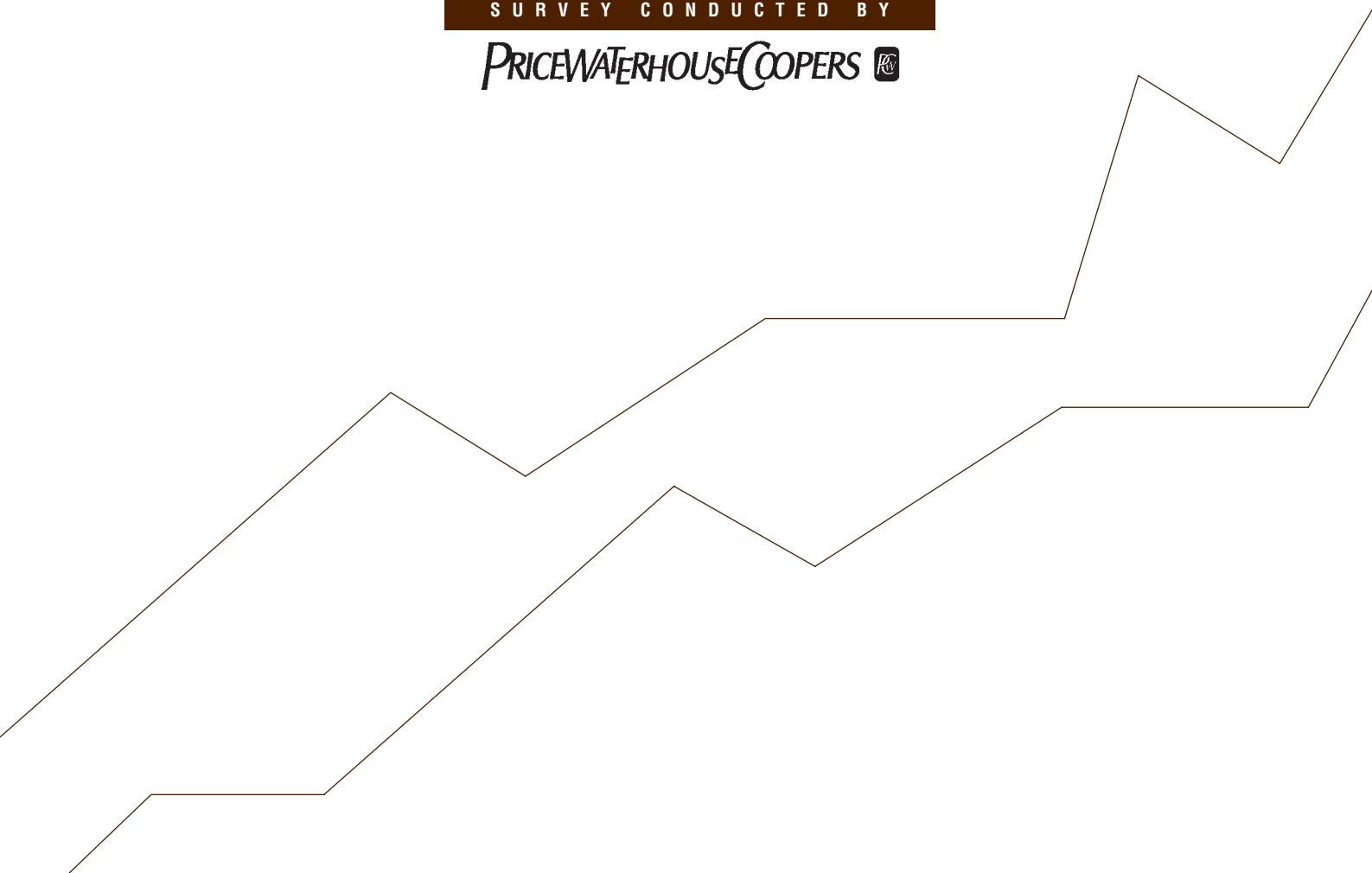
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Background

The aim of this annual survey is to provide timely and accurate financial data on the Australian minerals industry and to facilitate more informed debate on the industry's role and importance in the economy. The report also includes information on the safety and health performance of the industry, environmental rehabilitation, native title and Indigenous development and overseas exploration expenditure by the respondents.

This twenty-seventh survey relates to the year ended 30 June 2003, although a number of respondents reported data relating to earlier balance dates.

The Minerals Council of Australia is very grateful for the support of all respondents, without whose assistance this report could not have been completed.

An electronic version of this report can be downloaded from the Minerals Council's web site at www.minerals.org.au (under 'Economics & Commerce, Publications').

Definition of the minerals industry

The minerals industry is defined as including exploration for, and extraction and primary processing of, minerals in Australia. Primary processing is taken to include the processing of minerals up to the first pouring of the refined metal but fabrication beyond that stage is excluded. The oil and gas and iron and steel industries are also excluded from the survey. The definition of the minerals industry used in this survey differs from that employed by the Australian Bureau of Statistics (ABS) and the Australian Bureau of Agricultural and Resource Economics (ABARE). While the definitions in all three sources are consistent in terms of the definition of individual commodity sectors, they differ in terms of the range of sectors included.

The ABS distinguishes 'metal product industries' from 'mining', which includes the oil and gas industry. The ABARE category 'mineral resources sector' is similar to that used in this report except that ABARE includes the iron and steel and the oil and gas industries.

Coverage

The survey aims to report on the financial position of all of Australia's minerals industry activity as defined. This has been successful in that the survey coverage accounts for:

- All Australian alumina, diamond, lead, nickel, tin and zinc production and over 90 per cent of bauxite, iron ore and rutile production.

- Around 80 per cent of copper, gold, ilmenite, silver and zircon production, over 70 per cent of black coal and uranium production and over 50 per cent of aluminium production.

The respondent companies range from the largest companies to small exploration ventures. Respondent companies include Minerals Council of Australia members, but not exclusively so. The survey has not captured some of the smaller mining, prospecting and exploration companies, some foreign owned companies and a portion of some joint venture operations.

The proportion of activity covered in this year's survey is generally similar to the coverage in the 2002 survey, except for diamonds, nickel and rutile, which are better covered, and ilmenite and uranium, which are less well covered.

Constant group

As respondents vary slightly from year to year, figures are not precisely comparable between annual surveys and it is not practical to correct for this by 'weighting' the data. For a more precise comparison, companies that responded to the survey in 2001/02 and 2002/03 are treated as a smaller "constant group". The major accounting items for this constant group are separately reported and compared with the total group in Appendix 2. This procedure allows the reduction of any bias in trends across survey years arising from changes in survey coverage. The companies included in the constant group had a total value of assets equal to around 90 per cent of the total value of assets of all survey respondents.

Acknowledgments

The Minerals Council acknowledges the assistance of the NSW Minerals Council, the Queensland Mining Council and the Australian Aluminium Council in survey sample and design.

The Minerals Council also acknowledges the investment made in the industry by PricewaterhouseCoopers through its involvement in this survey.

PricewaterhouseCoopers prepared the tables in this survey, based on information supplied to them in confidence by the respondents. This information was occasionally supplemented by publicly available reports. While PricewaterhouseCoopers has reviewed the responses for consistency, it has not audited them and cannot be held responsible for errors in the data supplied. The Minerals Council prepared the text commenting on the tables.

Overview for 2002/03

Industry profitability fell in 2002/03, but remained similar to the average of the past ten years, and the long-term bond rate. This profitability outcome reflects lower sales revenue attributable to the impact of the strengthening \$A/\$US exchange rate during the year.

Industry investment has risen strongly, in line with expectations, but is expected to fall in 2003/04, reflecting the cyclical nature of investment in the industry.

The overall industry statement of financial position remains sound, with an increase in total value of assets employed of 18 per cent.

Continuing micro-economic reform and capacity building, combined with prudent macroeconomic policy are vital if Australia is to consolidate its minerals growth potential.

Safety and Health

The 2002/03 safety performance reporting year was a profound disappointment for the minerals industry. Eleven men and one boy lost their lives at Australian mine sites in the twelve months to June 2003.

The Minerals Council regards any fatality as unacceptable and is disappointed that there is any fatality, and worse increased fatalities occurring in the minerals industry.

However, the other key performance measure – Lost Time Injury Frequency Rate (LTIFR) – saw an improvement from nine the previous reporting year to an estimated rate of six. As the official figures are not yet available, it is likely the final LTIFR will need to be adjusted.

An outcome of last year's CEO safety and health roundtable on the elimination of fatalities from rockfall was the development and publication in October this year of the Rockfall Management Guideline for metalliferous mines. The Guideline was launched as a national initiative at the Minesafe International Conference in Perth by the Hon Clive Brown MLA, WA Minister for State Development. The publication comprises a booklet, *Industry Guideline for Rockfall Risk Management* and the larger, more technically-oriented *Management of Rockfall Risks in Underground Metalliferous Mines Reference Manual*. The Guideline was developed and written by Professor Yves Potvin at the Australian Centre for Geomechanics (ACG) with significant input based on industry expertise and experience. The Guideline is being used as a course text book in a number of the ACG courses and is available for purchase through the Minerals Council's web site at www.minerals.org.au

As part of the Minerals Council's ongoing leadership strategy and a direct outcome of last year's national safety and health conference on the theme of quality front line supervision, a thought-provoking CD has been released which offers a candid analysis of managers' and supervisors' views on their roles. Frontline management has seen an increasing focus on the skills required for such a role and the CD provides an aid to company training packages.

In all its activities, the Minerals Council pursues its vision of *an Australian minerals industry free of fatalities, injuries and diseases*.

Profitability

On all indicators of profitability, the performance of the minerals industry in 2002/03 was down on the previous year, but remained at a level similar to the average for the last ten years. Net profit return on average shareholders' funds was 7.3 per cent in 2002/03, compared with 12.9 per cent in 2001/02 and 13.9 per cent in 2000/01 (the 2000/01 result was the highest recorded since 1989/90). The ten-year average (1993/94 to 2002/03) for the industry is 7.4 per cent.

The 2002/03 profitability result mainly reflects lower sales revenue attributable to the impact of the strengthening \$A/\$US exchange rate during the year although this was partly offset by some increase in US dollar mineral prices.

Net profit return on average assets employed fell, from 4.5 to 2.7 per cent, below the ten-year average of 3.5 per cent.

Prices

In 2002/03, average US dollar world mineral prices rose by 4 per cent, following a 2 per cent rise in the previous year. However, with the Australian dollar rising around 12 per cent between 2001/02 and 2002/03, this translated into **a 9 per cent fall in the Australian dollar commodity price index between 2001/02 and 2002/03**.

The rise in the US dollar price index reflected rises in average US dollar prices for a number of mineral commodities, particularly nickel, iron ore and coking coal. These increases were partly driven by a recovery in commodity demand due to renewed economic activity in Asia, principally China, and the impact on supply of further industry consolidation.

Official expectations (from ABARE) are for there to be no homogeneity in world prices for mineral commodities in 2003/04. This is expected to result from differing demand and supply conditions for individual commodities.

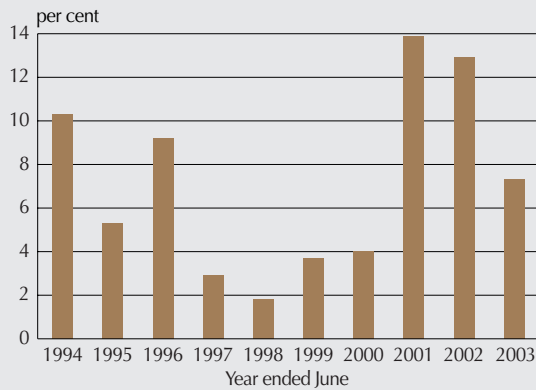
Production

Mine production by respondents to the survey, as measured by the Minerals Council of Australia Mine Production Index, rose by 5 per cent in 2002/03, following a rise of 7 per cent in the previous year. Overall, the Mine Production Index has risen by 36 per cent over the last ten years.

The Smelting and Refining Production Index rose by 2 per cent in 2002/03, with respondents' production results varying across the range of metals produced.

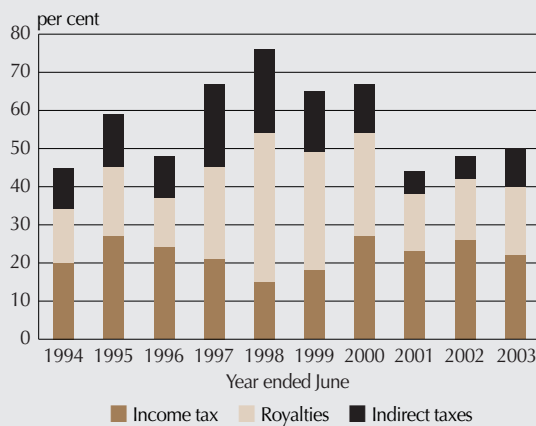
Production of alumina, as reported by respondents, rose by 2 per cent in 2002/03, and production of aluminium rose by 3 per cent. Refined base metals

Net Profit – Return on shareholders' funds

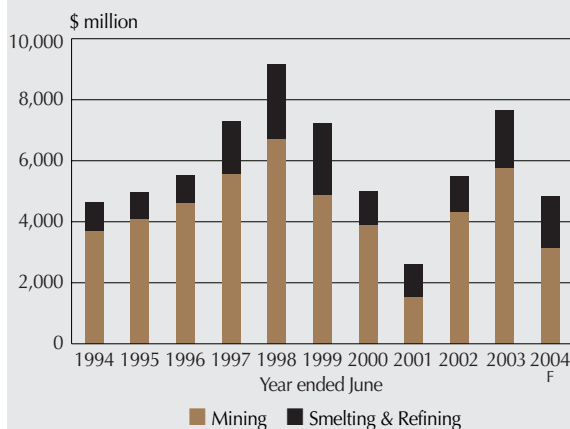


Taxes and Royalties

Share of profit before all taxes



Real spending on fixed assets (2001/02 dollars)



production in 2002/03 rose by less than 1 per cent following a 6 per cent rise in 2001/02. Australian smelter and refinery production is expected to stabilise until longer-term projects come on line, such as the Comalco Alumina Refinery, near Gladstone in Queensland, which is due to commence production in 2005 and the new Aldoga Aluminium Smelter, also near Gladstone, which is due to be fully operational in 2006.

Industry revenues

Total revenue recorded by respondents to the survey fell 4 per cent, to \$37.4 billion. Smelting and refining sales revenue fell 9 per cent, while mining revenue rose slightly. This decrease reflects the impact on Australian dollar prices of the relatively higher level of the \$A/\$US exchange rate during the year.

According to ABARE statistics (which have a broader coverage than this survey), the value of exports of minerals rose by 2 per cent in 2002/03 to \$42.0 billion, as a result of improved world prices and increased export volumes. Increases in export revenue (in \$A terms) were reported for iron ore and nickel.

Expenses

Total expenses were effectively unchanged, following an 11 per cent rise in 2001/02. Labour costs fell 4 per cent, while other expenses rose.

Taxation

The total amount of direct and indirect tax liabilities incurred by respondents in 2002/03 was \$3.3 billion (around 9 per cent of total revenue), 7 per cent lower than in the previous year. In 2002/03, total tax expensed by companies represented 50 per cent of net profit before all taxes, compared with 48 and 45 per cent in 2001/02 and 2000/01 respectively. Income tax expense fell by 24 per cent in 2002/03, reflecting lower profitability.

The share of royalties and indirect taxes in total payments increased during 2002/03, and was also up in aggregate terms, from \$1.6 billion in 2001/02 to \$1.8 billion in 2002/03.

Employment

The number of people directly employed in respondent companies fell by 9 per cent in 2002/03 (offset to some degree by an increase in contracting) and follows a 6 per cent fall in the previous year. This fall is due to the ongoing effects of company restructures, productivity improvements, cost reduction programs and industry consolidation.

Direct employment has fallen in each of the past seven years after being relatively constant in the previous five-year period. Respondents have forecast their direct employment levels to decrease by 3 per cent next year.

In 2002/03, there were 16,697 full-time equivalent contractors engaged by respondents. This represents an increase of 5 per cent on the 15,951 full-time equivalent contractors engaged by respondents in 2001/02.

Thus, approximately 28 per cent of full-time employment provided by respondents in 2002/03 was contracted-out. This compares with 25 per cent in 2001/02 and 24 per cent in 2000/01.

Taking contractors into account, total employment by respondents to the survey fell by 5 per cent, from 63,955 to 60,619.

Investment

Net capital expenditure on fixed and deferred assets rose by 39 per cent in 2002/03 to \$7.9 billion. It rose by 33 per cent in the mining sector and rose by around 59 per cent in the smelting and refining sector of the industry.

This increase in investment spending reflects the development of a number of significant projects in the mining and minerals processing industry during the year.

Borrowings / Shareholders' Funds

At the end of 2002/03, borrowings were \$12.1 billion, 25 per cent lower than at the end of the previous year. Other sources of funding came from equity raisings (which increased 126 per cent from 2001/02) and retained earnings. As a result of the fall in borrowings and rise in the level of shareholders' funds, the gross debt to debt plus equity ratio fell, from 0.35 in 2001/02 to 0.26 in 2002/03, slightly below the average for the past ten years of 0.29.

Exploration

In 2002/03, respondents spent \$171 million on overseas exploration activities and \$438 million in Australia. Total exploration expenditure by all survey respondents, of \$609 million, was 5 per cent higher than the \$582 million spent in 2001/02.

Larger Australian minerals company respondents are currently spending around 36 per cent of their exploration budgets overseas. This underlines the critical importance of Australia's mineral investment climate remaining competitive.

There were a number of key developments in this area during the year that sought to address the low level of mineral exploration expenditure in Australia. These included:

- the report of the Mineral Exploration Action Agenda Strategic Leaders Group to the Government in July 2003. The Action Agenda comprises a suite of twelve recommendations that are designed in a comprehensive and complementary way to address the impediments facing the industry. The recommendations are designed to improve the processes governing access to land, improve the fiscal environment to remove impediments to the flow of investment into the sector, provide and improve access to high quality pre-competitive geoscience data, better focus research and development on deep ore discovery and revitalise the higher education system towards the importance of earth sciences; and
- the release of the report of the House of Representatives Standing Committee on Industry and Resources *Inquiry into resources exploration impediments* in September 2003. The report, *Exploring: Australia's Future – impediments to increasing investment in minerals and petroleum exploration in Australia*, identified fundamental issues besetting the Australian resources industry that require responses and, in some cases, quick responses. The report contains twenty eight recommendations aimed at building industry recovery through a collaborative approach between Commonwealth/state/territories and the industry.

Outlook for 2003/04

The increase in investment activity in the industry during 2002/03 is expected to moderate in 2003/04 reflecting completion of a number of previously committed projects, particularly in the smelting and refining sector of the industry, and the deferral/cancellation of some projects. Net capital expenditure on fixed and deferred assets is forecast to decrease by 37 per cent. Fixed asset expenditure in the mining sector is expected to decrease by 46 per cent while in smelting and refining it is expected to fall by 10 per cent.

Exploration expenditure in Australia is forecast to further fall by 19 per cent in 2003/04. The outlook for research and development expenditure is also lower, with the 2003/04 result forecast to be down 34 per cent on the 2002/03 outcome. This represents the eighth year in a row where research and development expenditure has fallen.

Together with the fall in investment, employment and the low level of total exploration expenditure, this may have significant consequences for the next generation of minerals developments in Australia. Encouragement and support of exploration together with research and development is essential to ensure a sustained “pipeline” of new projects and technology evolution continues. This will be critical to maintain long-term global participation and competitiveness of the Australian minerals industry.

The Economic Policy Environment

In addition to market conditions, government macroeconomic and microeconomic policies have an important influence on decisions to invest in the Australian minerals industry and ongoing operational competitiveness.

A **macroeconomic environment** characterised by stable growth, low inflation, fiscal prudence and relatively steady interest rates is critical to the industry’s competitiveness. It is important that an appropriate balance between fiscal and monetary policy be maintained. Therefore, any new spending in the 2004/05 Budget should focus on one-off capital works (ports – including rail access – and land transport are areas of particular need) rather than embedding larger tax cuts or locking-in higher levels of recurrent spending. To do otherwise would stimulate Australian consumption and housing expenditure, which would in turn stimulate the economy, running the risk of a tightening in monetary policy (raising interest rates) and artificially boosting the Australian dollar thus harming minerals and other export industries. The focus should be on building and maintaining essential infrastructure – infrastructure that helps the bulk commodity sector maximise its export potential – rather than financing current spending.

A key factor in improving Australia’s attractiveness to investors is sustained **improvements in productivity**. Issues affecting competitiveness and the ability to improve productivity include **native title and Indigenous heritage regimes, environmental requirements** and **microeconomic reforms**, including removal of tariffs and other imposts on business inputs, labour market policies and practices, provision of world-class economic infrastructure and streamlining of approvals processes.

In this context, **fuel tax** has been a major issue for the minerals industry for many years. Fuel represents one of the principal variable inputs into the diverse, capital intensive, internationally competitive minerals industry. Policies in relation to the taxation

of fuel are therefore critical, not only to government revenue, but also to the sustainability of export oriented business operations.

The Minerals Council is fundamentally opposed to taxes on business inputs. A tax on business inputs distorts both production and consumption decisions, adversely impacting on resource allocation decisions and reducing overall economic welfare. For this reason, the Council welcomed the **new Energy Grants (Credits) Scheme**, which replaced the Diesel Fuel Rebate Scheme (DFRS) and the Diesel and Alternative Fuels Grants Scheme (DAFGS) from 1 July 2003, as maintaining entitlements equivalent to those available under the DFRS and the DAFGS.

The Council notes the Commonwealth Government announced in the 2003/04 Budget that it had decided to rebate the **higher excise charge on diesel introduced from 1 July 2003** to the agricultural sector but not to any other users.

The Council has consistently argued that there should be no additional tax on business inputs and that other users of off-road diesel should have the higher excise charge rebated. As the conversion to **Ultra Low Sulphur Diesel (ULSD, 50 parts per million)** will be supply driven, the more effective means of encouraging users to switch would be to remove the additional excise impost and replace it with a production subsidy. The additional excise rate is unlikely to encourage users to switch from Low Sulphur Diesel (LSD) to ULSD as producers will generally set prices for ULSD equivalent to the LSD price including the additional 2 cents per litre excise. In addition, a production subsidy directly aids the conversion of Australian refineries, whereas the excise impost benefits all providers of ULSD even if the refineries are based offshore.

In relation to **business taxation**, the Minerals Council has long argued that it is the combination of all business tax rates and measures, and not just the corporate rate (or any other single tax measure), that is important in assessing project viability. In this context, the Minerals Council continues to endorse the pragmatic approach the Government has taken in many aspects of its ongoing reform of the Australian business taxation system.

The Government announced in the 2002/03 Budget that it would introduce **statutory caps on the effective lives**, for taxation purposes, of aeroplanes, helicopters, gas transmission and distribution assets, oil and gas production assets and assets used to manufacture condensate, crude oil, domestic gas, liquid natural gas or liquid petroleum gas.

This decision is commendable in so far as it represents a step in the right direction. It also provides the basis for developing a consistent policy approach regarding the effective life, for taxation purposes, of all long-lived assets across all sectors. It would not be in the national interest if special consideration were given to any one sector in the absence of a consistent public policy position on *all* long-lived assets. The Minerals Council has long advocated a cap (say of 20 years) on the effective lives of all long-lived assets for depreciation purposes. This would provide a consistent policy approach.

The **consolidated taxation of wholly owned groups, or tax consolidation regime**, for some groups, commenced on 1 July 2002. This new regime has far reaching commercial implications. In fact, it represents the largest change to the tax system since the introduction of the GST and surpasses it in many circumstances.

The major legislative elements of the tax consolidation regime are in place. It is the case, however, for companies operating in the minerals industry, that there remain a number of unresolved issues which creates significant uncertainty. These issues have the potential to significantly disadvantage companies in relation to tax consolidation election decisions. The Minerals Council is working with the Government and relevant officials to resolve these issues.

The industry is committed to forming **mutually beneficial partnerships with Indigenous peoples** and has achieved considerable success in negotiating access agreements and fostering Indigenous participation in the industry via increased training, employment and business opportunities. The industry is increasingly bypassing the legislative processes which are complex, cumbersome and slow, preferring to develop partnerships with Indigenous stakeholders irrespective of whether or not there is a formal determination of native title. Notwithstanding, the industry advocates a legislative system that produces workable outcomes within realistic time frames.

In addition, the industry is concerned that **regulation**, including **environment** and **land access**, should not impose unnecessary cost, time and administrative burdens.

The ongoing international and Australian response to the issue of **climate change and greenhouse gas emissions abatement** will be critical to decisions on locating energy intensive minerals processing operations in Australia, and will also influence the nature and competitiveness of Australia's coal sector.

It is therefore important that Australia's response to climate change and greenhouse gas stabilisation continues to be considered as part of a broader global solution. The Minerals Council supports the need for all parts of the Australian economy to make an equitable contribution to the international effort to reduce greenhouse emissions.

The Minerals Council opposes a blunt, indiscriminate carbon tax and considers that it is premature to be making any decisions, including in-principle decisions, to proceed with broad, market-based measures, and specifically emissions trading.

The Council has strongly supported the recommendations of the Climate Change Dialogue Working Groups – particularly the promotion and national coordination of Research, Development and Demonstration of new technologies; the Greenhouse Gas Acquisition Scheme – whereby industry and government agencies tender for greenhouse gas abatement with Greenhouse Challenge membership a pre-requisite for participation; fiscal incentives for adopting more greenhouse friendly plant and equipment; and improved end-use efficiency.

Annual abatement savings over the past decade of 21 megatonnes of carbon dioxide have been achieved through the Greenhouse Challenge Program. Industry is also investing in significant technological development.

Indeed, the industry considers technology to be the key to achieving consistent, large-scale emission reductions. This includes building on Australian industries' R&D in areas such as coal gasification, geological sequestration, coal to gas to liquids, reductions in aluminium industry PFC (perfluorocarbon compounds) emissions, renewable technologies, alternative fuels and the hydrogen economy, and industry's involvement in a range of cooperative research centres, the Coal21 program and Carbon Sequestration Leadership Forum.

However, Australian industry remains concerned about the risks and uncertainty of uncoordinated national and State-based measures. It is important to address this by effective industry-government cooperation to develop and implement a national greenhouse gas abatement strategy that maintains the competitiveness of industry and promotes Australia's economic growth.

The Minerals Council continues to be a strong advocate of **trade liberalisation**, primarily through the World Trade Organisation (WTO) multilateral system but complemented by regional and bilateral

Free Trade Agreements (FTA). Trade liberalisation has the capacity to reduce levels of poverty and increase standards of living across the globe, while fostering business expansion and export growth.

As a medium-sized economy whose prosperity significantly depends on exports, the Australian economy has been a major beneficiary of trade liberalisation. Accordingly, Australia has a key stake in maintaining an open, non-discriminatory system of enforceable international trade rules.

The **November 2001 declaration of the Fourth Ministerial Conference in Doha, Qatar**, provides the mandate for the current round (the so-called 'Doha Round') of trade negotiations. The Minerals Council recognises the challenges in reinvigorating the **WTO Doha Round of multilateral trade liberalisation negotiations** and in particular, the sensitivities which remain in relation to agriculture, and the so called "Singapore issues" of trade and investment, trade and competition policy, government procurement and trade facilitation. The Council also recognises the necessity of bringing developing countries into the world trade system to ensure they can capitalise on their comparative advantages, such as lower labour costs, just as the developed countries capitalise on their natural comparative advantages.

The Minerals Council supports the **comprehensive approach to trade liberalisation** adopted by the Government and recommends a continuing focus on:

- placing the WTO "Doha Development Round" round of trade negotiations back on track;
- preventing trade sanctions and other trade restrictive measures as a means of achieving non-trade outcomes (for example, environmental and social);
- encouraging all nations to conform to the existing compliance provisions of WTO Agreements;
- the successful conclusion of an FTA with the US and comparable initiatives with China, Japan and possibly India;
- closer economic integration of countries within our region, to complement advances in both multilateral and bilateral trade negotiations;
- ensuring the application of Australia's laws governing anti-dumping and countervailing measures are not used for disguised protection and trade distortion but rather for the principal focus of protecting industries from predatory dumping; and
- reducing Australian tariffs to provide more appropriate market-based rewards for exporters.

The conventional distinction between **trade and investment** no longer reflects business circumstances where trade and investment decisions are inexorably linked to how business decisions are made.

While there has developed a comprehensive and uniform body of multilateral rules to govern international trade, cross-border investment remains subject to a patchwork of rules contained in many bilateral investment treaties, other commercial accords and a few WTO Agreements. Access to global capital markets is vital to the Australian minerals industry, particularly as the scale of most minerals projects is beyond the ability of a capital market the size of Australia's to support (the Australian share market, for example, represents only around 2 per cent of the global equity market). While recent reforms have enhanced the capacity of Australian business to attract capital, there is no room for complacency. International capital is highly mobile, competition for investment is vigorous and a number of nations provide investment incentives to Australia's detriment. The Minerals Council supports a **foreign investment policy** designed to maximise the benefits to Australians of increasing globalisation and the unfettered flow of capital in most parts of the globe.

Australia's mining and minerals processing sector is one of the **most technologically developed in the world**. To retain its competitive advantage it must remain at the cutting edge of technological excellence in exploration, extraction and processing activities.

Australia's minerals sector is at the forefront of harnessing new technology (including

biotechnology, IT, e-commerce, high technology equipment, remote sensing, satellite imagery, airborne magnetic surveying, and so on).

While new products are invented from time to time, it is a mature industry where the emphasis is more on process innovations aimed at reducing costs to remain competitive.

Technology is a fundamental contributor to improved productivity and economic growth. However, Australia's level of industrial research and development continues to be low by international standards. The viability of Australian mining and minerals processing is highly dependent on the sector's accumulation of technological expertise and the knowledge that flows from it.

Greater emphasis needs to be placed on promoting policies conducive to innovation and technology advancement.

This should include enhanced fiscal incentives for industrial R&D, commitment to industry relevant social and socio-economic research in the context of the Federal Government's National Research Priorities for Australia, but coordinated with state/territory programs, and increased industry participation in collaborative R&D – including international collaboration in areas of international importance such as Climate Change research.

The Minerals Council is a strong advocate for reliable and cost effective **energy, water and transport services**.

The Council supports in-principle the **national energy market** proposed by the Ministerial Council on Energy covering governance, economic regulation, and transmission and enhancing the participation of energy users in the markets.

The Council also supports the establishment of a **national water market** within and between states/territories based on established property rights and which is free of subsidies or rebates, artificial barriers or impediments to trade, and with water pricing based on the 'user pays' principle.

The Minerals Council welcomed the release of, and generally supports the initiatives set out in, the Commonwealth Government's **AusLink Green paper Towards the National Land Transport Plan**, including:

- the need for multi-modal transport solutions rather than a focus on improving individual modes; and
- taking a long-term strategic approach to national transport planning and funding.

The Council also supports the establishment from 1 January 2004 of the new **National Transport Commission**, which will have responsibility for road and rail reform. It is important that:

- strategic investment in rail is undertaken as a means of making it a competitive alternative to road;
- given the continued growth in the road freight transport task, there also needs to be ongoing efficiency, safety and environmental improvements in the nation's road system; and

- the Commonwealth Government assist the states and territories
 - in the provision of adequate port and related facilities to ensure sufficient port capacity is available to meet the expanding needs of Australia's trade; and
 - in long-term planning of land use around ports to allow adequate buffer zones, future port expansion and expansion of the related transport corridors.

In 2004, the Council will be continuing to work with officials involved in implementing **enhanced maritime and land-based security measures including the protection of critical infrastructure**. It will also act to ensure the **tax treatment of shipping operating from Australia** does not involve taxes on business inputs.

In addition, the Council continues:

- to play a key role through the **National Introduced Marine Pests Coordination Group** to ensure an effective integrated national approach to the prevention and management of introduced marine pests is developed consistent with international developments and sustainable development principles; and also
- to work with the Australian Maritime Safety Authority regarding **International Maritime Organisation (IMO)** initiatives and Australia's policy positions. This includes the **proposed IMO Convention on "The control and management of ships' ballast water and sediments"**.

Note: As discussed in the Background above, the aim of this annual survey is to provide timely and accurate financial data on the Australian minerals industry and to facilitate more informed debate on the industry's role and importance in the economy. The report also includes information on the safety and health performance of the industry, environmental rehabilitation, native title and Indigenous development and overseas exploration expenditure by the respondents.

This report does not, therefore, discuss in detail the full range of Minerals Council policy positions on matters such as education, workplace relations, innovation, social principles and community relations. For further details on these, and other, Minerals Council positions, please visit our web site at www.minerals.org.au.

| Items of Interest | 2002/03 | 2001/02 | 2000/01 |
|--|-------------------|-------------------|-------------------|
| Financial information | \$ million | \$ million | \$ million |
| Operating Revenue | 37,419 | 38,833 | 36,080 |
| Total Assets at Year End | 99,899 | 84,799 | 85,234 |
| Borrowings at Year End | 12,133 | 16,181 | 15,925 |
| Interest Expense | 3,123 | 2,834 | 2,613 |
| Direct Taxes | 2,642 | 3,086 | 2,783 |
| Operating Profit | 4,414 | 5,797 | 6,243 |
| Net Profit | 2,477 | 3,834 | 4,010 |
| Net Capital Expenditure (Investment) on Mining, Smelting and Refining Assets | 7,851 | 5,643 | 3,604 |
| – mining fixed assets | 5,890 | 4,413 | 1,525 |
| – smelting and refining assets | 1,960 | 1,230 | 2,079 |
| Employment information | Number | Number | Number |
| Direct employees at Year End | 43,922 | 48,004 | 50,944 |
| Contractors considered a substitute for full time employees | 16,697 | 15,951 | 16,069 |
| Total Employment | 60,619 | 63,955 | 67,013 |
| Rates of Return | Per cent | Per cent | Per cent |
| Operating Profit Before Abnormals Return on Average Shareholders' Funds | 13.0 | 19.5 | 21.7 |
| Net Profit Return on Average Shareholders' Funds | 7.3 | 12.9 | 13.9 |
| Net Profit Return on Average Assets Employed | 2.7 | 4.5 | 5.6 |
| Gross Debt to Debt plus Equity Ratio | 0.26 | 0.35 | 0.36 |

| Forecasts | 2003/04 forecast \$ million | 2002/03 actual \$ million | Forecast Percentage Change |
|---|--|--|---|
| Net expenditure on mining assets | 3,198 | 5,890 | -45.7 |
| Net expenditure on smelting and refining assets | 1,764 | 1,960 | -10.0 |
| Total net expenditure on mining, smelting and refining assets | 4,962 | 7,851 | -36.8 |
| Employment information | Number | Number | |
| Direct employees at Year End | 42,782 | 43,922 | -2.6 |

Safety and Health Performance

The Minerals Council's highest priority remains the elimination of minerals industry fatalities, injuries and diseases.

The industry's main lag indicator, the Lost Time Injury Frequency Rate (LTIFR), is estimated to have fallen to 6 per million hours worked for 2002/03, with declines across all sectors of the industry.

The Minerals Council has continued its efforts to provide reliable, comprehensive and consistent data on the industry's safety and health performance.

The Minerals Council regards any fatality as unacceptable and is disappointed in both the number and the increase of fatalities in the 2002/03 reporting year. However, the declining trend in the number of lost time injuries (LTIs) has been sustained with an estimated LTIFR equivalent to a record low.

As the Australian minerals industry moves towards its vision of an industry free of fatalities, injuries and diseases, traditional outcome measures, such as fatalities and lost time injuries and their frequency rates, are declining. A set of consistently low numbers is not a statistically satisfactory measurement of the industry safety and health performance. As a result, the industry has endorsed the reporting of a broader outcomes measure: Total Recordable Injuries (which includes fatalities, lost time injuries, injuries resulting in that person not returning to his/her complete range of normal duties, and medical treatment injuries). The reporting of this measure is gaining momentum throughout the industry.

The Minerals Council's Safety and Health Committee continued its strategic leadership program to drive improvements to the industry's safety and health performance.

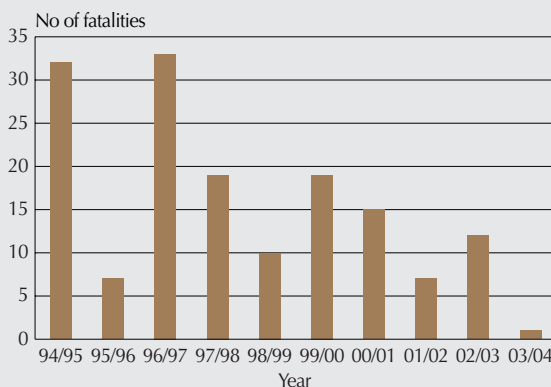
Fatalities

Of the twelve fatalities this reporting year, five occurred in open-cut metalliferous mines, six in underground metalliferous mines and one in the extractives sector (quarries). There were no fatalities attributed to the coal sector. The exploration sector was also fatality-free.

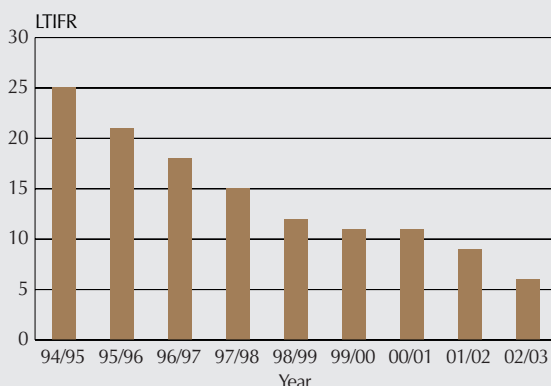
The following are minerals industry colleagues who have died in this reporting year (2002/03). This list acknowledges their loss to their families, the community and the industry.

| | |
|--|------------|
| Kelvin Hill, aged 8 | Queensland |
| Daniel Comrie | WA |
| Gary Holloway | Victoria |
| Darren Andrew | NSW |
| Graham Fogarty | Queensland |
| Philip Strauss | WA |
| Galia Bercovich | WA |
| Lindsay Pope | Queensland |
| Robert Gould | WA |
| Michael Knights | Tasmania |
| Sidney Pearce | Tasmania |
| Indigenous employee whose name cannot be released for cultural reasons | WA |

Australian Minerals Industry Fatalities, 1994/95 to date



Australian Minerals Industry Lost Time Injury Frequency Rate, 1994/95 to 2002/03



Lost time injuries

The *Safety Survey Report* published by the Minerals Council estimates the Australian minerals industry's LTIFR at six (lost time injuries per million hours worked) for the year ending June 2003. It is likely that the figure will have continued to decline from the previous year's nine when the official 2002/03 results are released in the new year.

In a comparison of data from the *Safety Survey Report* (approximately 80 per cent coverage of the Australian minerals industry), all sectors have shown improvement over the previous year. Significantly the LTIFR for underground coal has dropped to 16 for the year, compared with a rate of 23 for the previous year.

Total recordable injuries

The industry is working in a voluntary and proactive way to improve safety and health performance by reporting broader outcomes measures and in particular Total Recordable Injuries. The last quarter for which this figure is available is the April – June 2003 quarter at which time the TRIFR indicated a rate of 35. It is too early at this stage to draw any conclusions from the TRIFR data collected.

Minerals Council of Australia activities

For seven years, the Minerals Council has placed safety and health as its highest priority. Its leadership strategy is driven by CEOs and aims, through strategic principles, to implement improvement through on-the-ground practice.

In 2003, the key areas of activity supporting improved safety and health performance were the following.

Safety and Health Leadership

The major focus of the Minerals Council's safety improvement strategy is the leadership of industry CEOs. With rockfall in metalliferous mines and roof and rib fall in coal mines continuing to take its toll on industry life, CEOs met in April last year to develop a strategy for the elimination of this major cause of fatalities. A direct outcome of that meeting has been the development and publication of *Management of Rockfall Risks in Underground Metalliferous Mines*. It was developed by the Australian Centre for Geomechanics with strong support from industry and launched by the WA Minister for State Development at the Minesafe International conference in October 2003. It is planned to develop a similar guideline for the coal sector for publication in 2004.

This year's CEO safety and health session focussed on the nationally-coordinated strategy on working arrangements providing timely and valuable information for industry leaders on this important issue.

Minerals Council Executive Committee members continue the practice of sharing information with one another on safety and health developments and at each meeting one CEO outlines his personal efforts to improve safety and health performance within his organisation.

Safety and Health Recognition

Recognising the importance of rewarding and reinforcing positive behaviour and showcasing best practice, the Minerals Council continues to promote excellence and innovation through two national awards.

- *MINEX Awards* – Alcoa World Alumina Australia – WA Mining was the 2003 recipient of the MINEX Award, which was presented at the Minesafe International conference in Perth on 13 October 2003. BHP Billiton Iron Ore's Mt Whaleback operation was awarded a High Commendation and Hatch Associates/Pacific Coal received a Commendation for the Hail Creek Coal Project. In addition, two sites were awarded an Acknowledgment: Xstrata Copper Australia's Ernest Henry Mining and Port Waratah Coal Services.
 - MINEX celebrates its 10th anniversary in 2004 and the Minerals Council is hoping for a record number of applicant sites and evaluator nominations to underscore the industry's commitment to its vision.
- *National Safety and Health Innovation Awards* – The fifth National Safety and Health Innovation Awards presentation was held at the same Recognition Dinner in Perth as MINEX. This year's national award was presented to Camberwell Coal for the Hydraulic Bleed Manifold which tests for and releases stored pressure in hydraulic equipment thereby eliminating such serious injuries as oil injection, eye injuries and burns. A High Commendation was given to Springvale Coal's "post-grouted spinbolt leading to an integrated/proactive ground support/mining system". The integration of a complete mining system allows installation at the development face of new pre-tensioned secondary roof support system in conjunction with primary roof support and simultaneous installation of rib support. Recognition was also given to a third innovation, the Burty-Weise Bar that allows and improves roof bolting in the vicinity of the protective mesh curtain.

A case study on Alcoa – WA Mining is being prepared and will be published by year-end. Safety and health innovations of national significance have been published in the 2003 Innovation Profiles booklet available both in hard copy and electronically from the Minerals Council's web site.

Health issues

The Minerals Council commissioned a project with the aim of identifying and analysing the important sources of health data for workers in the minerals industry including pre-employment and health surveillance schemes. The project comprises three stages: identification and establishment of links with key stakeholders; data gathering and identification of issues; and a final report which will identify and analyse the different data sets and approaches to occupational health assessments and surveillance used in the mining and minerals processing industry. From this report, a future strategy and direction will be developed.

OHS management

In seeking to identify and promote good OHS management practice, the Minerals Council's Safety and Health Committee has sought to identify the key safety and health expectations that might be incorporated in a broad operational sustainable development framework.

Working arrangements

As part of a nationally-coordinated strategic approach, the Minerals Council commissioned a number of research projects to improve its understanding of the business case for current working time arrangements in the minerals industry. In addition, an understanding not only of the existing arrangements at the mine site level but also the relationship with safety and health, fatigue and operational productivity was sought.

Conclusion

The Minerals Council will continue to vigorously pursue its Safety and Health Vision by promoting the Beliefs and reaffirming the Awareness throughout the industry.

SAFETY AND HEALTH VISION

An Australian minerals industry **free** of fatalities, injuries or diseases.

SAFETY AND HEALTH BELIEFS

- All fatalities, injuries and diseases are preventable.
- No task is so important that it cannot be done safely.
- All hazards can be identified and their risks managed.
- Everyone has a personal responsibility for the safety and health of themselves and others.
- Safety and health performance can always improve.

SAFETY AWARENESS

The state of mind where we are constantly aware of the possibility of injury and act accordingly at all times.

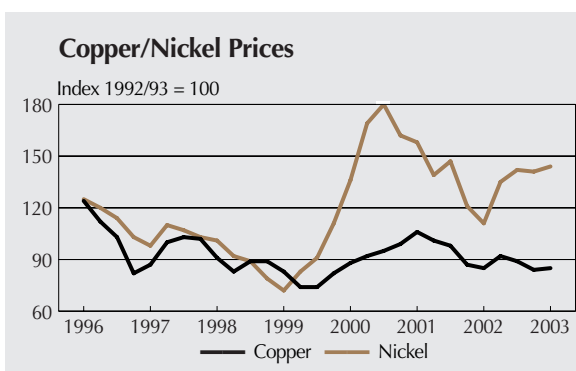
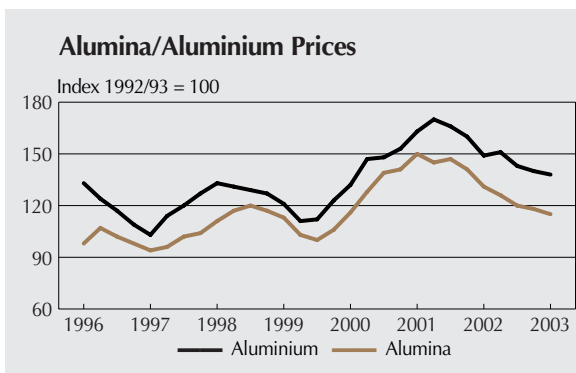
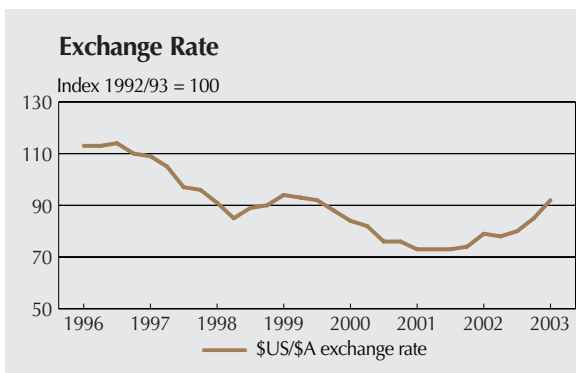
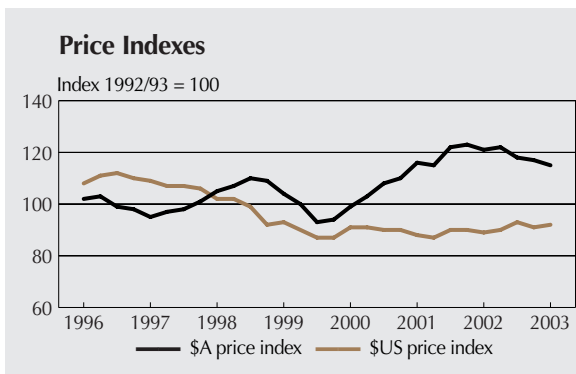
Price Movements

In 2002/03, average US dollar world mineral prices rose by 4 per cent, following a 2 per cent rise in the previous year. However, with the Australian dollar rising around 12 per cent between 2001/02 and

The overall price index rises 4 per cent in \$US terms.

However, the strong rise in the value of the \$A during the year means mineral prices fell by 9 per cent in \$A terms.

Official expectations are for \$US prices for mineral commodities to be mixed in 2003/04. This is expected to be a result of different outlooks for the supply of individual commodities.



2002/03, this translated into a 9 per cent fall in the Australian dollar commodity price index between 2001/02 and 2002/03.

The rise in the US dollar price index reflected rises in average US dollar prices for a number of mineral commodities, particularly nickel, gold, iron ore and coking coal. These increases were partly driven by an increase in commodity demand due to economic activity in Asia and the impact on supply of further industry consolidation.

Official expectations (from ABARE) are for average \$US prices for mineral commodities to be mixed in 2003/04. This is expected to be a result of significantly different outlooks for the supply of individual commodities. ABARE notes the higher expected Australian dollar may see the \$A prices for most mineral exports remain flat or even decrease during this period.

US dollar copper and nickel prices rose by 5 per cent and 30 per cent respectively in 2002/03, while US dollar lead prices fell by 1 per cent. Australian dollar copper prices fell by 6 per cent while nickel prices rose by around 16 per cent in Australian dollar terms. Lead prices fell by 11 per cent in Australian dollar terms through the year.

US zinc prices fell 3 per cent through the year, and by 13 per cent in Australian dollar terms.

Steaming coal prices fell around 14 per cent in US dollar terms 2002/03 as strong supply growth outstripped growth in demand. This followed a 17 per cent rise in the previous year. Compared to steaming coal, the coking coal demand/supply balance resulted in US dollar prices rising by 5 per cent during the year.

World demand for steaming coal is expected to increase in 2003/04, in line with rising global economic growth and higher demand for energy. However, steaming coal production levels are again likely to impact on price outcomes. Coking coal demand is expected to improve slightly in 2003/04 in response to some increase in demand by Asian, particularly Chinese, steel makers.

Iron ore prices rose by 12 per cent in 2002/03 in US dollar terms. Demand for iron ore is expected to continue to improve strongly in 2003/04 as a result of stronger Asian demand, particularly in China and, to a lesser extent, Japan and the Republic of Korea.

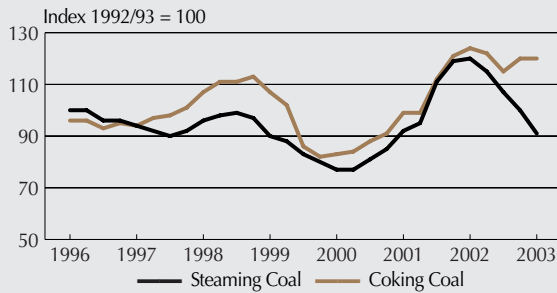
In 2002/03, aluminium prices rose by 1 per cent in US dollar terms, while alumina prices were 1 per cent lower in US dollar terms.

US dollar gold prices rose by 16 per cent in 2002/03, following a 7 per cent rise in the previous year. In Australian dollar terms, gold prices rose by around 4 per cent in 2002/03, after a 10 per cent

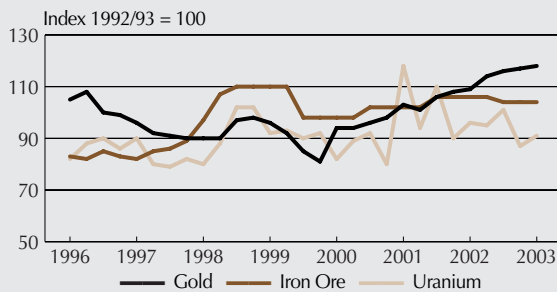
rise in the previous year. Australian gold producers, in general, retain a degree of management of short-term price fluctuations via the hedging programs that major companies have in place (however, general conditions for hedging have been less favourable in recent years, with many producers significantly reducing their hedge book positions).

Australian dollar prices for ilmenite and rutile fell by 1 per cent and 3 per cent respectively in 2002/03, while zircon prices rose by 1 per cent. Since the early 1990s, prices have risen substantially as a result of constrained supply in other exporting countries, and continuing strong demand in the developed economies. Price increases are expected for ilmenite, rutile and zircon in 2003/04, reflecting expected growth in key export markets.

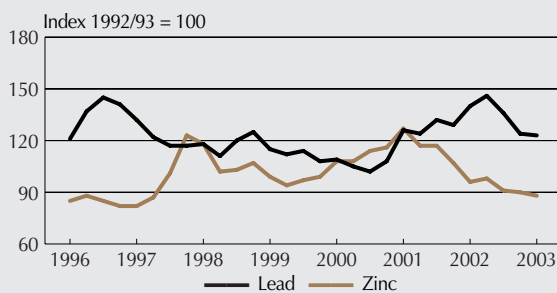
Steaming Coal/Coking Coal Prices



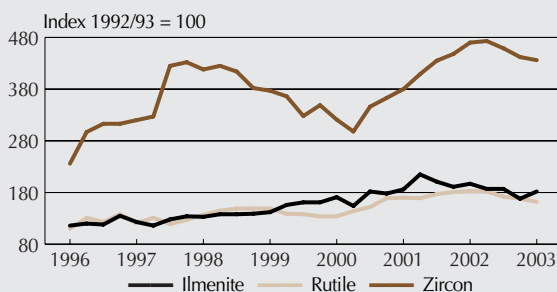
Gold/Iron Ore/Uranium Prices



Lead/Zinc Prices



Mineral Sands Prices



Note: The charts describe movements in Australian dollar prices for major minerals. Prices are presented in the form of *quarterly* indexes with the base year, 1992/93, equal to 100. The prices shown on the graphs for lead, copper, nickel and zinc are London Metal Exchange (LME) spot prices expressed in Australian dollars at average quarterly exchange rates. Alumina, aluminium, coking coal, steaming coal, iron ore, uranium and mineral sands prices are unit export values (export values divided by export tonnages). Gold prices are from the London bullion market. The Index of Mineral Commodity Prices is a weighted average of prices, using each mineral product's contribution to the total value of mineral exports over the period 1991/92 to 1993/94 to apportion weights. Raw price data are from Australian Bureau of Agricultural and Resources Economics, *Australian Mineral Statistics*, various issues.

Production

Australia retains its position as one of the world's leading minerals producing nations.

The Minerals Council of Australia Mine Production Index has increased by 36 per cent over the ten years to 2002/03.

Mine production rose by 5 per cent and smelting and refining production rose by 2 per cent.

The value of exports of minerals rose by 2 per cent in 2002/03 as a result of improved world prices and increased export volumes.

Mine Production

Australia continued its position as one of the world's leading minerals producing nations in 2002/03. This position should be maintained well into the future, as official estimates by Geoscience Australia note that Australia has the world's largest economic demonstrated resources (mineral resources for which profitable extraction or production is possible) of lead, mineral sands, nickel, tantalum, uranium and zinc. In addition, its level of economic demonstrated resources is in the top six worldwide for bauxite,

black coal, brown coal, cobalt, copper, gold, iron ore, lithium, manganese ore, rare earth oxides and gem/near gem diamond (see Geoscience Australia, *Australia's Identified Mineral Resources*, or www.ga.gov.au, for further details).

However, the Government and industry has recognised the seriousness of the 36 per cent decline in minerals exploration expenditure since the mid-1990s. If this decline continues, then the gap between existing projects and new developments will significantly impact the minerals industry and the Australian economy.

Without Government and industry taking the initiative to address market failures deterring exploration investment, the nation faces the prospect that in 20 to 25 years, based on our current understanding of an "economic demonstrated resources", Australia will have only one remaining major base metals mine – the Olympic Dam mine in South Australia.

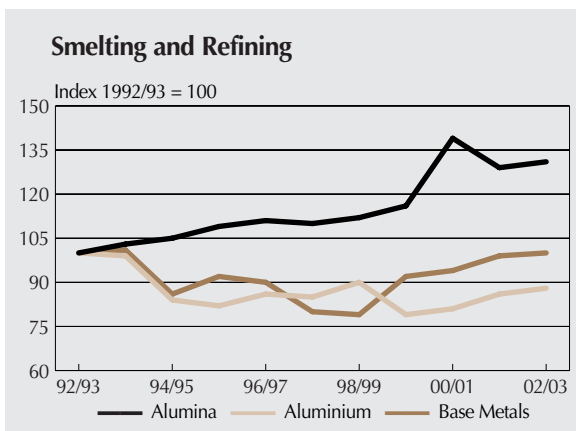
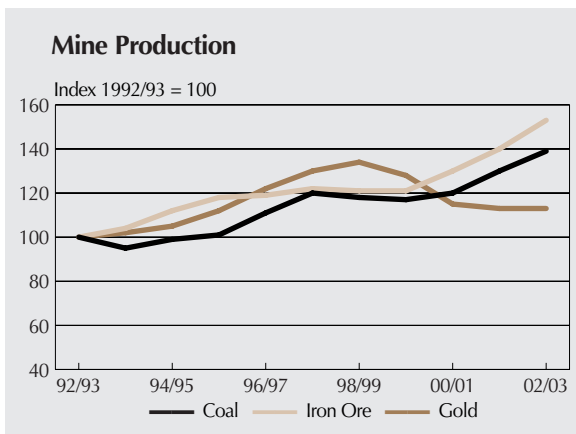
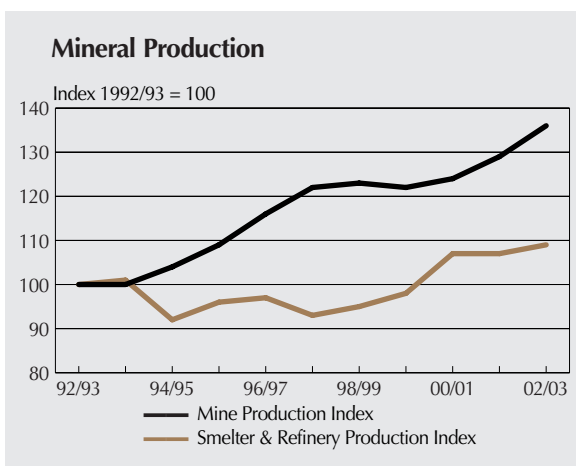
Government and industry initiatives to address these concerns regarding exploration are discussed in the 'Overseas Exploration Expenditure' section.

Mine production by respondents to the survey, as measured by the Minerals Council of Australia Mine Production Index, rose by 5 per cent in 2002/03, following a rise of 7 per cent in the previous year. Overall, the Mine Production Index has risen by 36 per cent over the last ten years.

Bauxite production by respondents rose by 2 per cent in 2002/03 following a 13 per cent fall in 2001/02 (the 2001/02 figure was affected by a slightly lower level of coverage of bauxite in that year's survey). Government figures show that bauxite production rose by just over 1 per cent between 2001/02 and 2002/03.

Iron ore production by respondents rose by 10 per cent in 2002/03. The volume of iron ore exports rose by 16 per cent in 2002/03. Iron ore export volumes are expected to increase further in 2003/04, as a result of stronger Asian, particularly Chinese, demand.

Black coal production by respondents rose by 7 per cent in 2002/03, following a 9 per cent rise in the previous year. The Australian coal industry is continuing to undergo restructuring. A number of new mines in Queensland and New South Wales are commencing or expected to commence shortly.



Production of Major Mineral Commodities by Survey Respondents^(a)

| | 2002/03 '000 | 2001/02 '000 | 2000/01 '000 |
|--|-----------------|-----------------|-----------------|
| Mine Production | | | |
| Bauxite | 51,367 | 50,230 | 57,973 |
| Black Coal (saleable) ^(b) | 209,619 | 196,365 | 180,664 |
| Copper ^(c) | 717 | 664 | 659 |
| Diamonds ('000 carats) | 33,519 | 26,097 | 26,500 |
| Gold ^(c) ('000 troy ounces) | 6,982 | 6,934 | 7,073 |
| Iron Ore | 186,950 | 170,627 | 158,211 |
| Lead ^(c) | 688 | 731 | 664 |
| Mineral Sands – Ilmenite ^(c) | 1,644 | 1,799 | 1,968 |
| – Rutile ^(c) | 192 | 172 | 191 |
| – Zircon ^(c) | 362 | 350 | 316 |
| Manganese Ore ^(c) | 2,381 | 1,955 | 1,612 |
| Nickel ^(c) | 322 | 292 | 271 |
| Silver ^(c) ('000 troy ounces) | 48,110 | 61,523 | 56,359 |
| Tin ^(c) | 8 | 7 | 9 |
| Uranium (tonnes) | 7,360 | 8,581 | 9,151 |
| Zinc ^(c) | 1,546 | 1,660 | 1,523 |
| Smelting and Refining Production | | | |
| Alumina | 16,044 | 15,735 | 16,930 |
| Aluminium | 993 | 965 | 909 |
| Refined Copper | 401 | 440 | 435 |
| Lead Bullion | 180 | 200 | 153 |
| Refined Lead | 267 | 275 | 215 |
| Refined Zinc | 374 | 375 | 344 |
| Refined Nickel | 96 | 89 | 90 |
| Iron Ore Pellets | 2,200 | 2,024 | 2,066 |
| Refined Silver ('000 troy ounces) | 14,891 | 13,919 | 11,715 |
| Synthetic rutile | 537 | 480 | 510 |

Notes: (a) Thousand tonnes unless otherwise specified.

(b) Raw coal production less rejects removed at coal washeries plus unexplained stock adjustments at the mine.

(c) Metallic content of mine production.

In addition, growth in world coal trade is expected to further strengthen in 2003/04, following an increase in 2002/03, as coal fired electricity generation and blast furnace steel production grows.

Mine production of copper rose by 8 per cent in 2002/03, lead production fell 6 per cent and zinc production fell 7 per cent.

Nickel production rose by 10 per cent in 2002/03. Further increases in nickel production are expected in the next few years. A number of operations are expanding or have plans to expand in future years. This includes MPI Mines' Black Swan Operation, Mincor Resources' Miitel operation and Jubilee Mines' Cosmos operation (all of which are in Western Australia).

Respondents' gold production rose by 1 per cent in 2002/03. Production is expected to be boosted by new production in 2003/04, with Giant Reefs Mining's Chariot operation in the Northern Territory and the Frog's Leg operation in Western Australia expected to commence production during the coming year.

Uranium production fell in 2002/03, following a decrease in 2001/02. This was a result of operational issues at WMC Resources' Olympic Dam operation in South Australia.

Ilmenite production fell by 9 per cent in 2002/03, while rutile production rose by 12 per cent. Zircon production was 3 per cent higher.

Smelting and Refining Production

The Smelting and Refining Production Index rose by 2 per cent in 2002/03, with respondents' production results varying across the range of metals produced.

Production of alumina, as reported by respondents, rose by 2 per cent in 2002/03, while production of aluminium rose by 3 per cent. However, the figures for aluminium have been affected by the survey's relatively low level of coverage of aluminium compared to other commodities. This relatively low level of coverage makes ABARE estimates a more reliable guide. According to ABARE figures, aluminium production rose by 2 per cent in 2002/03. A further small increase is expected in 2003/04.

Refined base metals production in 2002/03 rose by less than 1 per cent following a 6 per cent rise in 2001/02. Respondents' production of refined copper fell by 5 per cent. Refined zinc production remained relatively unchanged. Production of refined nickel rose by 8 per cent, while production of lead bullion fell by 10 per cent and production of refined lead by 6 per cent. Production of refined nickel is expected to increase in the coming year, reflecting increases in capacity utilisation at existing refineries.

Alumina production is expected to increase in 2003/04. In addition, construction of the Comalco Alumina Refinery 10 kilometres northwest of Gladstone, Queensland will see expenditure of \$US 750 million (on the first stage) to produce 1.4 million tonnes per annum of alumina from 2005/06. The refinery has the capability of being

incrementally expanded to produce over 4 million tonnes per annum of alumina. This is the first new alumina refinery to be constructed anywhere in the world since 1985.

Production of refined silver rose by 7 per cent in 2002/03.

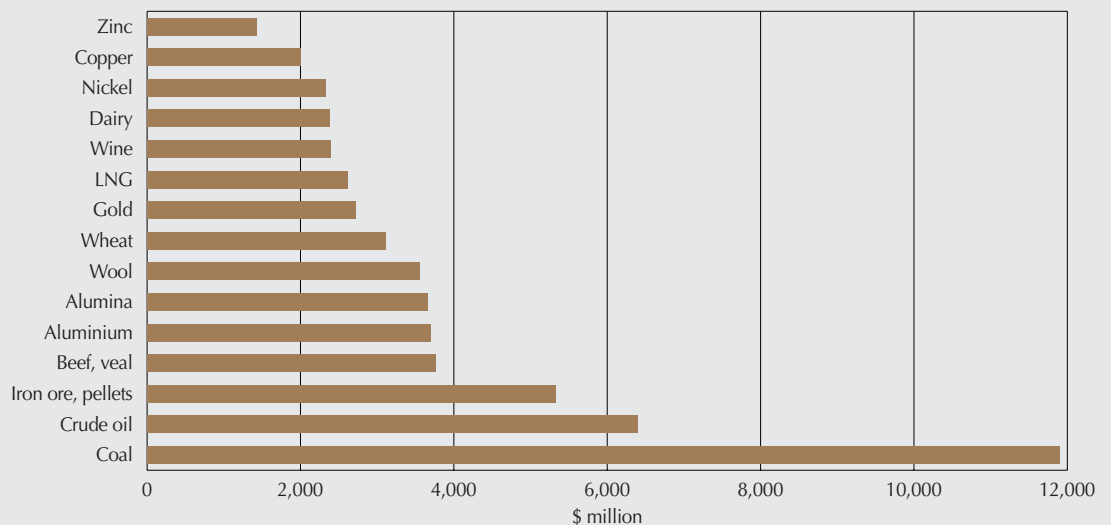
Exports

Around 90 per cent of Australian mineral production (by value) is exported directly or indirectly. According to ABARE statistics, the value of exports of minerals rose by 2 per cent in 2002/03 to \$42.0 billion, as a result of improved world prices and increased export volumes. Increases in export revenue were reported for iron ore and nickel.

In 2003/04, exports are expected to increase further, particularly for iron ore, gold, alumina and nickel.

Note: The Minerals Council of Australia Mine Production Index and Smelting and Refining Index are based on production of survey respondents. The indexes are weighted averages with individual commodity weights based on each commodity's contribution to export earnings in the three years 1991/92 to 1993/94. The production figures reported in this survey generally differ from Government estimates for the entire industry. As company coverage varies from year to year, the figures in the table may, in some cases (particularly where coverage is relatively lower), give a misleading impression of the movement in production volumes. In these cases, the commentary will point this out.

Australia's major commodity exports, 2002/03



Aggregate Statement of Financial Position

Reflecting the level of recent expansions at existing operations and industry consolidation through acquisitions, the total value of assets employed increased by 18 per cent in 2002/03.

The overall industry statement of financial position remains sound. Changes during the year reflect the impact of consolidation in the industry, ongoing financing of operational expansions and one-off transactions.

At the end of 2002/03, the total value of assets employed in the minerals industry by survey respondents was \$99,899 million, an increase of 18 per cent on the previous year.

The value of fixed and deferred assets rose by 12 per cent to \$46,550 million. This followed a 6 per cent increase in the previous year.

Shareholders' funds rose by 13 per cent. Borrowings fell by 25 per cent in 2002/03 to be \$12,133 million. As a result of the rise in the level of shareholders' funds and the fall in borrowings, the debt to debt plus equity ratio fell, from 0.35 in 2001/02 to 0.26 in 2002/03, and is below the average for the past ten years of 0.29.

The ratio of current assets to current liabilities rose, from 0.89 in 2001/02 to 0.95 in 2002/03. Significant movements reported by a small number of large survey respondents impacted this result. The ratio of revenue to fixed and deferred assets fell, from 0.94 to 0.80. The funds turnover ratio also fell, from 0.85 to 0.84.

The overall industry statement of financial position remains sound. Changes during the year reflect the impact of consolidation in the industry, ongoing financing of operational expansions and one-off transactions. The increased investment in the industry will provide a good base for the industry to capitalise on any future upturn in world commodity prices.

| | 2002/03 | 2001/02 | 2000/01 | 2002/03 | 2001/02 | 2000/01 |
|--------------------------------|---------------|-----------------------|---------------|----------------------------|--------------|--------------|
| | \$ million | | | Percentage of total assets | | |
| Shareholders' Funds | 33,906 | 30,615 | 28,909 | 33.9 | 36.1 | 33.9 |
| Borrowings | 12,133 | 16,181 | 15,925 | 12.1 | 19.1 | 18.7 |
| Total Funds Employed | 46,039 | 46,796 | 44,834 | 46.0 | 55.2 | 52.6 |
| Income Tax Provision | 3,605 | 4,508 | 3,889 | 3.6 | 5.3 | 4.6 |
| Other Provisions | 5,293 | 5,560 | 5,522 | 5.3 | 6.6 | 6.5 |
| Trade Creditors and Accruals | 16,082 | 5,507 | 5,277 | 16.1 | 6.5 | 6.2 |
| Other Liabilities | 28,879 | 22,428 | 25,713 | 28.9 | 26.4 | 30.2 |
| Equity and Liabilities | 99,899 | 84,799 | 85,234 | 100.0 | 100.0 | 100.0 |
| Fixed and Deferred Assets | 46,550 | 41,470 | 39,113 | 46.6 | 48.9 | 45.9 |
| Operating Current Assets | 36,693 | 25,897 | 13,889 | 36.7 | 30.5 | 16.3 |
| Other Assets | 16,657 | 17,432 | 32,233 | 16.7 | 20.6 | 37.8 |
| Total Assets | 99,899 | 84,799 | 85,234 | 100.0 | 100.0 | 100.0 |
| | | Average ratios | | | | |
| Revenue to Fixed Assets | 0.80 | 0.94 | 0.92 | | | |
| Funds Turnover Ratio | 0.84 | 0.85 | 0.82 | | | |
| Debt to Debt plus Equity Ratio | 0.26 | 0.35 | 0.36 | | | |
| Current Ratio | 0.95 | 0.89 | 1.17 | | | |

Aggregate Statement of Financial Performance

Industry profitability falls in 2002/03, but remains similar to the average for the ten years to 2002/03.

Australian dollar price decreases mean that total revenue records a 4 per cent decrease.

Total expenses decrease marginally, with labour costs contributing most to this fall.

Industry profits decreased in 2002/03, due to the combination of a decrease in revenue and a marginal decrease in costs. Profit levels have come off their recent high levels and are similar to the average achieved over the past ten years.

Total revenue fell 4 per cent to \$37,419 million. Within this total, smelting and refining sales revenue fell by 9 per cent, while mining revenue rose by 1 per cent. These results reflected the combination of world price movements, production volumes and the higher \$A/\$US exchange rate. They are also impacted by the difficulty of splitting revenue between mining and smelting and refining faced by some integrated producers in the industry. Other revenue fell by 13 per cent, reflecting a reversal of the experience of recent years, which has seen a number of one-off transactions in the industry, particularly asset sales, impacting on this figure.

Total expenses fell marginally, following an 11 per cent rise in 2001/02. Decreased labour costs contributed most to this fall. Interest expenses rose by 10 per cent. This rise was the result of the impact of the lower level of interest capitalisation on major projects and changes in the level of inter-company borrowings of some major respondents.

Resource based taxes rose by 2 per cent. This reflected the impacts of the changes in some production levels on royalty payments.

Depreciation and amortisation expenses rose by 5 per cent during the year. Labour costs fell by 4 per cent in 2002/03, reflecting the fall in direct employment during the year.

Operating profit was \$4,414 million, following a period of high profit returns in 2000/01 and 2001/02. The industry experienced a significant turnaround in net exchange losses, from a loss of \$28 million in 2001/02 to a gain of \$598 million in 2002/03. It is important to note the survey does not identify the mix of realised and unrealised net exchange losses.

Net profit in 2002/03 was \$2,477 million. This outcome, which is 35 per cent lower than 2001/02, was significantly impacted by losses incurred by a small number of major respondents.

In summary, profitability has fallen, impacted in particular by adverse exchange rate movements, and is at a level similar to the ten-year average for the industry. The industry has responded to difficult exchange rate and other circumstances by instituting major changes to the way it operates and, as a result, is better placed to meet the challenges in the years ahead.

| | 2002/03 \$ million | 2001/02 \$ million | 2000/01 \$ million |
|---|-----------------------|-----------------------|-----------------------|
| Mining Sales | 23,052 | 22,945 | 21,184 |
| Smelting and Refining Sales | 11,888 | 13,041 | 12,628 |
| Other Revenue | 2,480 | 2,847 | 2,268 |
| Total Revenue | 37,419 | 38,833 | 36,080 |
| Labour Costs | 4,766 | 4,980 | 3,995 |
| Government Rail and Port Charges | 1,303 | 1,253 | 1,059 |
| Cost of Production and Operating Costs ^(a) | 18,486 | 18,422 | 16,085 |
| Depreciation and Amortisation | 4,101 | 3,909 | 3,855 |
| Interest | 3,123 | 2,834 | 2,613 |
| Resource Based Taxes | 1,200 | 1,182 | 1,097 |
| Net Exchange Losses | (598) | 28 | 673 |
| Indirect Taxes | 623 | 428 | 460 |
| Total Expense | 33,006 | 33,036 | 29,837 |
| Operating profit before abnormals | 4,414 | 5,797 | 6,243 |
| Abnormal Gain (Loss) ^(b) | 0 | 0 | (548) |
| Operating Profit | 4,414 | 5,797 | 5,695 |
| Income Tax Expense | 1,442 | 1,904 | 1,685 |
| Net Profit Before Extraordinaries | 2,972 | 3,893 | 4,010 |
| Net Extraordinary Gain (Loss) | (495) | (59) | 0 |
| Net Profit | 2,477 | 3,834 | 4,010 |

Notes: (a) Includes costs of production, contractor costs and marketing costs that are not separately identified in the Table.

(b) Following changes to the relevant Australian Accounting Standard in 2001, abnormal gains (losses) are no longer separately recorded but are rather included in 'Cost of Production and Operating Costs'. This change only applies to the 2001/02 data onwards.

Profitability

Mining sector profitability remains steady.

However, smelting and refining sector profitability falls, mainly due to the \$A reduction in sales revenue.

Following a period of strong profitability in 2000/01 and 2001/02, which itself followed a period of weak profitability in the late 1990s, indicators of profitability for the industry fell during 2002/03.

In part, the low level of profitability in the late 1990s reflected the number of new projects in the industry that were yet to fully meet profit expectations and major asset write-downs.

The net profit return on average shareholders' funds was 7.3 per cent in 2002/03, compared with 12.9 per cent in the previous year. This is similar to the ten-year average of this measure of profitability of 7.4 per cent.

The net profit return on average assets employed fell, from 4.5 per cent in 2001/02 to 2.7 per cent in 2002/03. This was also slightly below the ten-year average of this measure of 3.5 per cent. A broader measure of rates of return, operating profit before interest and income tax expense on average funds employed, was 16.4 per cent in 2002/03. This is down on the 19.5 per cent return recorded in 2001/02 and the 18.7 per cent return in 2000/01.

As in most years, there was large variation in profits / losses across commodities and across respondents.

Note: The ratios quoted in the table below are a better measure of performance than absolute dollar earnings. The latter is not a reliable guide to the industry's performance unless it is related to the level of funds invested or the asset base. Figures in the funding and profitability table should be interpreted with care. Asset values have generally not been adjusted to reflect the effects of inflation. Consequently, in current dollar terms, the returns on shareholders' funds and the other profit measures tend to be overstated and the aggregate value of assets understated. For definitions, see Appendix 1.

| | 2002/03 \$ million | 2001/02 \$ million | 2000/01 \$ million |
|--|-----------------------|-----------------------|-----------------------|
| Average Shareholders' Funds | 33,906 | 29,762 | 28,829 |
| Average Funds Employed | 46,039 | 44,315 | 44,332 |
| Average Assets | 92,349 | 84,865 | 71,322 |
| Operating Profit Before Abnormal Items ^(a) | 4,414 | 5,797 | 6,243 |
| Operating Profit Before Interest and Income Tax | 7,537 | 8,631 | 8,308 |
| Operating Profit Before Income Tax | 4,414 | 5,797 | 5,695 |
| Operating Profit After Income Tax | 2,972 | 3,893 | 4,010 |
| Net Extraordinary Gain (Loss) | (495) | (59) | 0 |
| Net Profit | 2,477 | 3,834 | 4,010 |
| Rates of Return | per cent | per cent | per cent |
| Operating Profit Before Abnormals Return on Average Shareholders' Funds ^(a) | 13.0 | 19.5 | 21.7 |
| Operating Profit Before Interest and Income Tax Expense on Average Funds Employed | 16.4 | 19.5 | 18.7 |
| Net Profit Return on Average Shareholders' Funds | 7.3 | 12.9 | 13.9 |
| Net Profit Return on Average Assets Employed | 2.7 | 4.5 | 5.6 |
| Net Profit Return on Total Revenue | 6.6 | 9.9 | 11.1 |

Notes: (a) Following changes to the relevant Australian Accounting Standard in 2001, abnormal gains (losses) are no longer separately recorded but are rather included in 'Cost of Production and Operating Costs'. This change only applies to the 2001/02 data onwards.

The mining sector of the industry recorded a profit of \$1,997 million, representing a net profit return on average assets employed of 2.2 per cent. This was unchanged from the result recorded in 2001/02.

In the smelting and refining sector of the industry, net profit return on average assets employed in this sector of the industry was 0.5 per cent. This compares with a return of 2.3 per cent in the previous year.

Note: Some care should be taken in interpreting the figures reported in the table below. The aluminium / alumina sector largely reports on a calendar year basis. Thus, the survey does not reflect price changes in the latter half of 2002/03. Secondly, the split between mining and smelting and refining is somewhat artificial. For example, primary gold smelting to produce doré is included in the mining sector.

| | 2002/03 \$ million | 2001/02 \$ million | 2000/01 \$ million |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| Mining | | | |
| Sales Revenue | 23,052 | 22,945 | 21,184 |
| Net Profit | 1,997 | 1,901 | 2,456 |
| | per cent | per cent | per cent |
| Net Profit on Average Assets Employed | 2.2 | 2.2 | 4.1 |
| Smelting and Refining | \$ million | \$ million | \$ million |
| Sales Revenue | 11,888 | 13,041 | 12,628 |
| Net Profit | 481 | 1,933 | 1,554 |
| | per cent | per cent | per cent |
| Net Profit on Average Assets Employed | 0.5 | 2.3 | 2.6 |

Statement of Cash Flows

A high proportion of cash from operating activities reinvested in assets.

In 2002/03, the minerals industry received \$34,925 million from customers. Net cash from operating activities totalled \$4,758 million, which was largely applied to investment activities, particularly the purchase of property, plant and equipment. Overall, however, net cash used in investment activities was lower than net cash provided by operating activities.

Proceeds from the issue of shares in 2002/03 were \$2,401 million, 126 per cent higher than in 2001/02, reflecting the impact of a small number of large issues by some survey respondents. The statement of cashflows shows new borrowings and refinancing of existing debt down from 2001/02.

Dividend payments were recorded as \$1,143 million. This result reflects the final dividend payment for 2001/02 and an interim payment for 2002/03. In addition, this amount does not necessarily equate to shareholder payments, as it can reflect payments by subsidiaries to parent companies.

| | 2002/03 \$ million | 2001/02 \$ million |
|---|-----------------------|-----------------------|
| Operating Activities | | |
| Receipts from customers | 34,925 | 35,545 |
| Payments to suppliers and employees | (26,179) | (25,559) |
| Dividends received | 17 | 514 |
| Interest received | 990 | 838 |
| Interest and other costs of finance paid | (3,336) | (2,643) |
| Income taxes paid | (2,232) | (1,407) |
| Other | (574) | (155) |
| Net cash provided by operating activities | 4,758 | 7,133 |
| Investing | | |
| Payment for purchase of controlled entities | (1,905) | (1,256) |
| Proceeds from sale of controlled entities | 918 | 626 |
| Payments for property, plant and equipment | (5,620) | (5,364) |
| Proceeds from sale of property, plant and equipment | 251 | 982 |
| Other payments | (1,226) | (740) |
| Other proceeds | 1,193 | 1,097 |
| Net cash used in investing activities | (6,389) | (4,655) |
| Financing | | |
| Proceeds from issues of shares | 2,401 | 1,064 |
| Proceeds from borrowings | 7,313 | 9,389 |
| Repayments of borrowings | (9,490) | (9,452) |
| Dividends paid | (1,143) | (2,491) |
| Other | 1,721 | 1,025 |
| Net cash provided by financing activities | 801 | (465) |
| Cash at the beginning of the year ^(a) | 3,576 | 1,939 |
| Net increase / (decrease) in cash held | (829) | 2,013 |
| Movements attributable to exchange rate fluctuations on foreign currencies held | (81) | (116) |
| Cash at the end of the year | 2,666 | 3,836 |
| Note: (a) The change in the mix of respondents means cash at the beginning of 2002/03 differs from the 2001/02 end of year figure. | | |

Borrowings

Borrowings were \$12,133 million at the end of 2002/03, 25 per cent lower than at the end of the previous year.

The shift towards shorter-term debt evident in 2001/02 continued.

Around 61 per cent of total debt is denominated in a foreign currency, predominantly in \$US.

At the end of 2002/03, borrowings were \$12,133 million, 25 per cent lower than at the end of the previous year.

As a result of the fall in borrowings and rise in the level of shareholders' funds, the gross debt to debt plus equity ratio fell, from 0.35 in 2001/02 to 0.26 in 2002/03, slightly below the average for the past ten years of 0.29 (see Appendix 3).

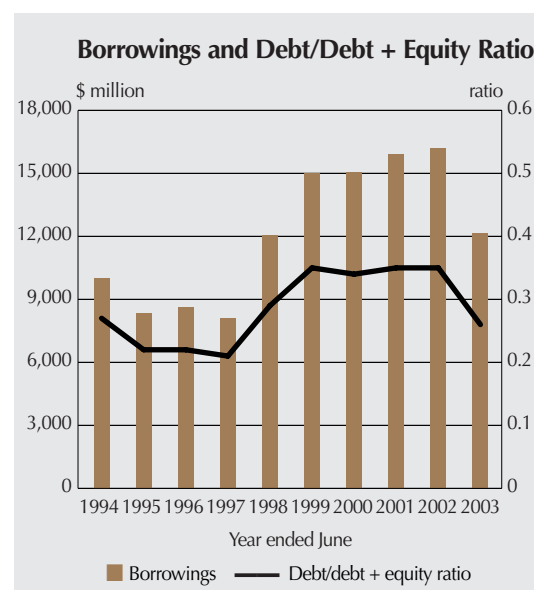
The proportion of borrowings repayable between two and three years rose from 14 per cent to 20 per cent, while the proportion of debt repayable between four and five years rose from 12 per cent to 14 per cent. The share of debt repayable after more than five years fell from 35 per cent to 18 per cent. The share of debt repayable within one year rose from 39 per cent to 48 per cent. These two latter movements reflected the impact of the borrowing activities of a small number of major respondents.

In 1999/2000, there was a pronounced increase in foreign, especially \$US, denominated debt. This increase continued in 2000/01 and 2001/02, with debt denominated in a foreign currency peaking at around 72 per cent of total borrowings in that year. In 2002/03, the level of debt denominated in a foreign currency fell, to be around 61 per cent of total borrowings in that year.

Debt denominated in a foreign currency, particularly that which is \$US denominated, provides the advantage of a natural hedge arising from the fact that most of the industry's revenue is denominated in foreign currency. In the Australian minerals industry,

foreign currency debt is predominantly \$US denominated. In 2002/03, around 89 per cent of debt denominated in a foreign currency was \$US denominated.

While the optimal mix of debt will vary with industry circumstances, incentives to shift in or out of foreign denominated debt can also be explained by the relative rates of interest that are available in overseas financial markets, compared with domestic interest rates.



| Amounts Owing at Balance Date Repayable Within: | June 2003 | June 2002 | June 2001 | June 2003 | June 2002 | June 2001 |
|---|---------------|---------------|---------------|---------------------|---------------------|---------------------|
| | \$ million | \$ million | \$ million | Percentage of total | Percentage of total | Percentage of total |
| 1 Year | 5,765 | 6,230 | 2,790 | 47.5 | 38.5 | 17.5 |
| 2 – 3 Years | 2,469 | 2,296 | 3,818 | 20.4 | 14.2 | 24.0 |
| 4 – 5 Years | 1,752 | 1,965 | 1,287 | 14.4 | 12.2 | 8.1 |
| After 5 Years | 2,147 | 5,690 | 8,030 | 17.7 | 35.1 | 50.4 |
| Total Borrowings^(a) | 12,133 | 16,181 | 15,925 | 100.0 | 100.0 | 100.0 |
| In foreign currency | 7,424 | 11,695 | 11,110 | 61.2 | 72.3 | 69.8 |
| In Australian currency | 4,709 | 4,486 | 4,815 | 38.8 | 27.7 | 30.2 |

Note: (a) For a small number of respondents, the figures for borrowings do not include inter-company debt.

Distribution of Assets by Activity

Both exploration and mining sector and smelting and refining sector assets rose strongly year-on-year.

Overall, there was a 18 per cent increase in assets employed in the industry.

At the end of 2002/03, assets employed in the minerals industry totalled \$99,899 million, an increase of 15 per cent on the previous year. The total value of fixed and deferred assets was \$46,550 million, an increase of 12 per cent. The value of other assets rose by 23 per cent.

Total assets employed in the exploration and mining sector of the industry rose by 13 per cent. There was a 7 per cent increase in the value of fixed and deferred assets, while other assets rose by 19 per cent.

In the smelting and refining sector, total assets employed rose by 26 per cent, with an increase of 21 per cent in the value of fixed and deferred assets and a 30 per cent rise in other assets.

The share of smelting and refining in total assets employed rose slightly from 39 per cent in 2001/02 to 41 per cent in 2002/03. This ratio had been stable at 25 : 75 in the late 1990s and represents a significant increase in smelting and refining investment.

| | June 2003 \$ million | June 2002 \$ million | June 2001 \$ million |
|--|-------------------------|-------------------------|-------------------------|
| Exploration and Mining | | | |
| Fixed and deferred assets | 27,808 | 26,028 | 23,991 |
| Other ^(a) | 31,870 | 26,803 | 28,289 |
| Total | 56,678 | 52,870 | 52,280 |
| Smelting and Refining | | | |
| Fixed and deferred assets | 18,741 | 15,442 | 15,122 |
| Other ^(a) | 21,479 | 16,576 | 17,832 |
| Total | 40,230 | 31,968 | 32,954 |
| Total Assets | | | |
| Fixed and deferred assets | 46,550 | 41,470 | 39,113 |
| Other ^(a) | 53,349 | 43,329 | 46,121 |
| Total | 99,899 | 84,799 | 85,234 |
| Note: (a) 'Other' assets include inventories, receivables, future income tax benefit assets, inter-company balances and assets held for resale. | | | |

Government and Taxation

Total taxes expensed by minerals companies fell by 7 per cent reflecting the lower profitability levels.

Royalties and charges for rail and port services rose slightly.

It is important to continue to develop an efficient and internationally competitive tax system that contains no 'black hole' business expenditures.

The total amount of direct and indirect tax liabilities incurred by respondents in 2002/03 was \$3,265 million, 7 per cent lower than in the previous year. In 2002/03, total tax expensed by companies represented 50 per cent of net profit before all taxes, compared with 48 and 45 per cent in 2001/02 and 2000/01 respectively.

Income tax expense fell by 24 per cent, reflecting the lower profitability levels.

In 2002/03, income tax accounted for 39 per cent of pre-income tax net profit, up from 36 per cent in the previous year. In any given year this figure may differ from the company tax rate (which is currently 30 per cent) due to differences in the definition between accounting profit and taxable income.

Royalty payments to government in 2002/03 were \$1,200 million, 2 per cent higher than in the previous year. Government services charges rose by 4 per cent to \$1,303 million. The ongoing implementation of competition policy, particularly in the coal rail sector where the 'above rail' system has been subject to open tender and one that the industry encourages relevant governments to continue to pursue.

The total of indirect taxes paid by the industry rose by 46 per cent in 2002/03 to \$623 million. This increase was due to a sharp rise in fuel excise payments and other taxes, which were up 113 per cent, following a 39 per cent fall in 2001/02, and reflecting the impact of a small number of large one-off transactions, and payroll tax, which was up 44 per cent.

In 2002/03, income tax accounted for 44 per cent of total taxes expensed by companies, resource based taxes accounted for 37 per cent and indirect taxes accounted for 19 per cent.

In relation to business taxation reform, the Minerals Council has long supported simplification of Australia's business income tax system to make it more equitable, efficient and transparent. As part of this, the Minerals Council has long argued that it is the combination of all business tax rates and measures, and not just the corporate rate (or any other single tax measure), that is important in assessing project viability. In this context, the Minerals Council welcomes the pragmatic approach the Government has taken in many aspects of its ongoing reform of the Australian business taxation system.

The Government announced in the 2002/03 Budget that it would introduce statutory caps on the effective lives for taxation purposes of aeroplanes, helicopters, gas transmission and distribution assets, oil and gas production assets and assets used to

manufacture condensate, crude oil, domestic gas, liquid natural gas or liquid petroleum gas.

This decision is commendable in so far as it represents a step in the right direction – it also provides the basis for developing a consistent policy approach regarding the effective life of all long-lived assets across all sectors. It would not be in the national interest if special consideration were given to any one sector in the absence of a consistent public policy position on *all* long-lived assets. The Minerals Council has long advocated a cap (say of 20 years) on the effective lives of long-lived assets for depreciation purposes. This would provide a consistent policy approach.

The industry has now worked with the new **Uniform Capital Allowance (UCA) regime** since 1 July 2001. It was always recognised there may be a need to amend further the legislation once industry and the Treasury/ATO had had some experience in its practical operation. A number of important amendments to the mining provisions in the regime were passed by the Parliament in June 2003. The changes to the UCA regime included an amendment to correct an error in the current legislation regarding the treatment of extensions, renewals and conversions of mining rights and the omission of legislation to cover cash bidding. Whilst these amendments were welcomed, a number of issues remain outstanding and the Council recommends further amendments be developed to ensure the Parliament's intent in enacting the UCA regime is fully met.

The Government also introduced the new **tax consolidation regime**, which for some groups took effect from 1 July 2002. As with the UCA regime, there will be a need to amend further the legislation once industry and the Treasury/ATO has had some experience in its practical operation. The introduction of tax consolidation raises not only a range of significant new tax technical issues, but more importantly the new regime has far reaching commercial implications. It represents the largest change to the tax system since the introduction of the GST and surpasses it in many circumstances.

The major legislative elements of the regime are in place. It is the case, however, for companies operating in the minerals industry, that there remain a number of key issues for which significant uncertainty exists. These, and other tax consolidation issues that are of concern to all taxpayers, and not only the minerals industry, require urgent resolution and the Minerals Council will continue to work with the Government and Treasury/ATO officials to achieve a resolution to these issues.

Taken together, however, these two regimes generally reflect government and opposition parties' willingness to listen and consult with industry to achieve a pragmatic outcome. This approach augurs well for the future as further reforms are considered and developed. The Government is also to be commended for issuing exposure draft legislation in many areas for comment prior to introduction into Parliament.

The outcomes of the Review of International Tax Arrangements, which were included in the 2003/04 Budget night announcements in May 2003, are important to the competitive position of Australian industry, particularly an industry as profoundly externally integrated as the Australian minerals industry. The Council supports the introduction of a program of international tax reforms. The Council notes the majority of the Government's reforms, which are generally about simplifying the law and reducing the unnecessary level of complexity that currently exists, will not commence until 1 July 2004 or later. The Council recommends the earliest possible implementation of these reforms, which will potentially assist

cross-border trade and investment flows. The Council also recommends that the Government give further consideration to three major areas of the reform considered during the review and supported by the Council – dividend imputation treatment of foreign source income, dividend streaming of foreign source income and changes to company residence rules – which have not yet been agreed by the Government.

The Minerals Council encourages a continued emphasis on consultation, as it will assist (in the words of the Ralph Review) the adoption and implementation of "a more certain, equitable and durable taxation system to deliver lasting benefits for all Australians".

Note: The income tax figures in this table differ from income tax actually paid during the year because of differences in the timing of the recognition of income tax expense in the accounts of respondents and the actual payment of income tax to the Government. Actual tax payments made in 2002/03 are also partly reflected in profits of the 2001/02 financial year.

| | 2002/03 | 2001/02 | 2000/01 | 2002/03 | 2001/02 | 2000/01 |
|--|--------------|--------------|--------------|---------------------------------|--------------|--------------|
| | | \$ million | | per cent of total company taxes | | |
| Taxes Levied On Companies | | | | | | |
| Mineral Royalties, Licence Fees, etc | 1,200 | 1,182 | 1,097 | 36.7 | 33.6 | 33.8 |
| Income Tax Expense | 1,442 | 1,904 | 1,685 | 44.2 | 54.2 | 52.0 |
| Total Direct Taxes | 2,642 | 3,086 | 2,782 | 80.9 | 87.8 | 85.8 |
| Land Taxes and Rates | 45 | 51 | 51 | 1.4 | 1.4 | 1.6 |
| Payroll Tax | 296 | 205 | 174 | 9.1 | 5.9 | 5.4 |
| Fringe Benefits Tax | 62 | 69 | 67 | 1.9 | 2.0 | 2.1 |
| Fuel Excise & Other Taxes | 220 | 103 | 168 | 6.7 | 2.9 | 5.2 |
| Total Indirect Taxes | 623 | 428 | 460 | 19.1 | 12.2 | 14.2 |
| Total Tax Expense by Companies | 3,265 | 3,514 | 3,242 | 100.0 | 100.0 | 100.0 |
| Taxes Levied On Others | | | | | | |
| Income Tax Paid by Employees | 905 | 931 | 864 | | | |
| Withholding Tax Paid by Lenders and Shareholders | 8 | 5 | 14 | | | |
| Total Taxes | 4,178 | 4,450 | 4,120 | | | |
| Government Rail and Port Charges | 1,303 | 1,253 | 1,059 | | | |
| Total Government Revenue | 5,481 | 5,703 | 5,179 | | | |

Rehabilitation Expenditure

As at November 2003, 38 companies were signatories to the *2000 Australian Minerals Industry Code for Environmental Management*. These represent over 92 per cent of annual production in the Australian minerals industry, and apply the Code at numerous sites, both domestically and overseas.

The annual expense for rehabilitation in 2002/03 was \$344 million.

The figures presented in this survey cover only part of the industry's total environmental expenditure.

In 2002/03, the industry provided \$344 million for expenditure on rehabilitation. The accumulated balance of the provision for rehabilitation expenditure rose to \$2,155 million at the end of 2002/03. The strong rise in the balance over the past few years is consistent with a continued focus on environmental rehabilitation by the minerals industry. The balance is provided for the purpose of rehabilitation and can be expected to be drawn down in future years.

Expenditure on rehabilitation is projected to decrease next year, although some respondents are conservative in their forecasts in this area. In addition, a decrease would reflect, to some extent, the increasingly targeted, cost effective and efficient rehabilitation methods developed by respondents, as well as the 'maturing' of some provisions to reflect the full anticipated future costs of rehabilitation.

It should also be noted that the figures presented in this survey cover only part of the industry's total environmental expenditure (see note at the end of this section).

The future of the minerals industry is inseparable from the global pursuit of sustainable development. The idea of meeting the needs of this generation without compromising the ability of future generations to meet their own needs has become a key concept in the drive to maintain and enhance industry's 'social licence to operate'.

The Australian minerals industry is well progressed in responsible environmental management. The role of the *Australian Minerals Industry Code for Environmental Management* in providing a framework for continual improvement is becoming better understood and accepted by industry and its stakeholders. A common criticism of the Code, however, has been that it does not go far enough in addressing broader social issues such as the rights of local and Indigenous communities.

The Australian and global Mining, Minerals and Sustainable Development (MMSD) reports contained a strong reference to the role and value of a collective industry commitment to a sustainable development code or protocol. In response to this the International Council on Mining and Metals (ICMM) has developed a Principles-based Sustainable Development Framework. Modelled on the Australian Environmental Code, and developed with significant input from the Minerals Council, the ICMM Framework forms the basis of the industry's international commitment to meeting our social, environmental and economic stewardship responsibilities, and to maximising the industry's contribution to sustainable development.

In response to these international developments, the Australian minerals industry has commenced the development of an Operational Framework for Sustainable Development Implementation. The initiative is designed to assist implementation of the ICMM Sustainable Development Framework at the site level while also providing a framework for sustainable development implementation for those companies who are not currently engaged with the ICMM process. In doing so the SD Code directly aligns with the Principles of the ICMM Framework, thereby ensuring that the Code enhances rather than duplicates the ICMM Sustainable Development Framework and its value to industry.

The Operational Framework for Sustainable Development Implementation will be developed using a two-tiered process of stakeholder engagement throughout 2004.

The idea of being granted a 'social licence to operate' by taking into consideration the community response to resource development is an increasingly important determinant of successful project development. In response to this many leading mining companies are going beyond their traditional roles and investing in community development to demonstrate their long-term commitment to capacity building in local communities, and to genuine processes of engagement and negotiation regarding issues such as access to lands.

In light of this, the Minerals Council's sustainable development activities during 2003 focussed heavily on building industry capacity across the social and environmental dimensions of sustainable development.

Key areas of focus included the development of a comprehensive resource for member companies to assist in Agreement making with Indigenous communities; an identification of key challenges to the attraction and retention of a skilled and diverse workforce; and the continuation of a range of initiatives to strengthen the industry's leading role in public reporting and continually improve its stakeholder engagement.

The Minerals Council also showcased the industry's performance across the key social and environmental areas at the 2003 Sustainable Development Conference, *Value Through Sustainable Development* (incorporating the 28th Annual Environmental Workshop). Attracting approximately 400 delegates from across Australia as well as key mineral producing regions internationally, the Conference successfully facilitated the transfer of industry knowledge in three key areas, namely management systems, eco-efficiency and community relations.

The Australian minerals industry undertakes considerable research and development and professional training in areas related specifically to improving environmental performance. Research and training is undertaken directly by companies and through sponsorship and support of research and training institutions such as the Australian Centre for Mining Environmental Research and AMIRA International.

Note: The figures presented in this survey cover only part of the industry's total environmental expenditure. In addition to minesite rehabilitation, substantial environmental expenditures are incurred in research, pollution monitoring and control, clean up and in capital expenditures designed to minimise the environmental impact of mining and minerals processing plant and equipment. In providing figures, respondents may also distinguish between the amount spent and the amount charged to the statement of financial performance. Under the 'full liability method' of accounting for rehabilitation, a provision is made for the total present value of the future cost of repairing past damage and other related shut down costs as soon as the commitment is incurred, and the amount capitalised under this method is amortised over the life of the mine.

| Rehabilitation Expenditure | 2003/04 Forecast \$ million | 2002/03 \$ million | 2001/02 \$ million | 2000/01 \$ million |
|---|-----------------------------------|-----------------------|-----------------------|-----------------------|
| Annual Provision ^(a) | 154 | 344 | 229 | 185 |
| Accumulated Balance of Provision ^(b) | | 2,155 | 1,838 | 1,619 |

Note: (a) Annual provision for rehabilitation represents the amount charged to the statement of financial performance during the period, which increases the total rehabilitation provision. Actual payments made will be made directly from the total rehabilitation provision, and will not necessary equal the amount charged to the statement of financial performance.

(b) The change in the mix of respondents means the accumulated balance of provision figure at the beginning of 2002/03 differs from the 2001/02 end of year figure.

Native Title and Indigenous Development Expenditure

In 2002/03, the industry spent at least \$42 million on Native Title and Indigenous development.

Native title expenditure excludes any costs arising from the significant delays that have been experienced by the minerals industry in gaining access to land for exploration.

The minerals industry in Australia fully supports the common law and legislative recognition and protection of the rights and interests of Indigenous Australians to land and waters in Australia. However, the industry, along with Indigenous representatives, is concerned with the increasing level of expenditure that is required to work within the existing native title legislative framework.

Respondents have supplied information (where available) on internal expenditure relating to land access and Indigenous development and external expenditure relating to the same categories.

It is important to note that overall response rates to this part of the survey is lower than for other parts of the survey and confidence in the accuracy of the data presented is therefore lower. In addition, the ABS is currently investigating (in association with the Minerals Council) the feasibility of a broader 'cost of land access' survey of the industry, which may result in this part of the survey being discontinued in 2004.

Internal expenditure on land access relates to the statutory requirements of the *Native Title Act 1993*. In particular, the requirements and procedures arising from its 'future act' provisions.

For 2002/03, internal expenditure for respondents to this part of the survey was \$13 million.

External expenditure on land access and Indigenous development for 2002/03 was \$29 million. This expenditure relates to payments made to Indigenous people and third parties acting for Indigenous interests. The level of expenditure is concerned with the external costs of complying with procedures arising from the 'future act provisions' of the *Native Title Act 1993* and reflects expenditure rising from native title agreements with native titleholders on land access.

Native title expenditure in 2002/03 excludes any costs arising from the significant delays that have been experienced by the minerals industry in gaining access to land for exploration. The costs arising from these delays are not recorded as native title expenditure, but are a contributing factor to the switching of exploration expenditure from off-lease exploration in Australia to either on-lease exploration or overseas exploration. They may also have resulted in a diversion of exploration expenditure to other areas.

| Native Title and Indigenous Development Expenditure | 2002/03 \$ million | 2001/02 \$ million |
|---|-----------------------|-----------------------|
| Internal | | |
| Expenditure relating to land access ^(a) | 4 | 16 |
| Expenditure relating to Indigenous Development ^(b) | 9 | 19 |
| Total internal expenditure | 13 | 35 |
| External | | |
| Expenditure relating to land access ^(a) | 22 | 10 |
| Expenditure relating to Indigenous Development ^(b) | 7 | 7 |
| Total external expenditure | 29 | 17 |
| Total Native Title and Indigenous Development Expenditure | 42 | 52 |

Note: (a) Land access expenditure includes items such as compliance with the *Native Title Act 1993* and Indigenous heritage legislation, legal, representational, negotiation and anthropological studies and compensation (cash or in kind) paid to Indigenous peoples.

(b) Indigenous development expenditure includes items such as special education, training, employment, small business, community development programmes for Indigenous peoples and Indigenous communities.

Employment and Labour Costs

Total direct employment in the industry falls by 9 per cent.

Around 28 per cent (or more than 1 in 4) of full-time equivalent positions in the industry are contracted out.

In line with the fall in direct employment, total labour costs also fell.

The number of people directly employed in respondent companies fell by 9 per cent in 2002/03, following a 6 per cent fall in the previous year. This fall is due to the ongoing effects of company restructures, productivity improvements, cost reduction programs and industry consolidation.

A further trend evident in recent years is a move towards 'shared service facilities', whereby a number of company functions (such as accounting, taxation services and human resources) are performed in a centralised business unit.

The industry trend since 1989/90 has been towards lower direct employment. The effect of increased activity and new production on employment levels has been more than offset by a continuing trend towards increased use of contractors and improved labour productivity through changes in work practices, training and improved technology.

Employment in mining operations fell by 14 per cent during the year (a fall of 4,600 persons). Following a 5 per cent rise in employment in smelting and refining in 2001/02, employment in smelting and refining rose by 1 per cent (or around 100 persons) in 2002/03. Employment in the exploration sector rose by 37 per cent, following a 30 per cent fall in 2001/02.

In line with the fall in direct employment, total labour costs also fell. Gross wages and salaries per employee fell by 11 per cent during 2002/03.

In 2002/03, gross wages and salaries accounted for 82 per cent of total labour costs while non-wage costs accounted for 18 per cent.

Important non-wage costs include fringe benefits tax (FBT) and payroll tax. In 2002/03, FBT payments per employee were \$1,150, 17 per cent lower than in the previous year. Payroll tax per employee was \$5,493, 34 per cent higher than in the previous year. In the minerals industry, payroll tax can potentially constitute a significant tax on employment and as such can discourage employment growth.

Contracted employees

Over the past few years, there has been a strong trend towards contracting rather than direct employment of labour.

In 2002/03, there were 16,697 full-time equivalent contractors engaged by respondents. This represents an increase of 5 per cent on the 15,951 full-time equivalent contractors engaged by respondents in 2001/02. There was a decrease in mining contractors, with other (non-mining) contractors rising sharply. These data do not include part-time contractors (undertaking short-term maintenance work or drilling operations, for example).

Thus, approximately 28 per cent of full-time employment provided by respondents in 2002/03 was contracted-out. This compares with 25 per cent in 2001/02 and 24 per cent in 2000/01.

Taking contractors into account, total employment by respondents to the survey fell by 5 per cent, from 63,955 to 60,619.

Note: The figures for wages and salaries include production bonuses, overtime, penalty rates, long-service leave, sick pay and leave loading. People employed by contractors are not included in the table. The employment numbers presented in the table relate to end of period employment. Labour costs per employee are calculated on average employment for the year rather than end of year employment. A number of estimates are made to provide separate exploration and mining figures, which are only meant to be indicative.

| | 2002/03 number | 2001/02 number | 2000/01 number | 2002/03 percentage change |
|---|-------------------|-------------------|-------------------|---------------------------------|
| Direct Employment | | | | |
| Exploration | 1,384 | 1,012 | 1,447 | 36.6 |
| Mining | 27,472 | 32,106 | 35,362 | -14.4 |
| Exploration and Mining | 28,856 | 33,118 | 36,809 | -12.9 |
| Smelting and Refining | 15,066 | 14,886 | 14,135 | 1.2 |
| Total Direct Employment | 43,922 | 48,004 | 50,944 | -8.5 |
| Contractor Personnel Considered a Substitute for Full-time Employees | | | | |
| Contract Mining | 11,307 | 12,022 | 11,595 | -6.0 |
| Other Contracting | 5,390 | 3,929 | 4,474 | 37.2 |
| Total Contract Employment | 16,697 | 15,951 | 16,069 | 4.7 |
| Total Employment | | | | |
| Total Employment | 60,619 | 63,955 | 67,013 | -5.2 |

| | 2002/03 \$ million | 2001/02 \$ million | 2000/01 \$ million | 2002/03 per cent of total |
|------------------------------------|-----------------------|-----------------------|-----------------------|---------------------------------|
| Aggregate Labour Costs | | | | |
| Gross Wages and Salaries | 3,945 | 4,239 | 3,388 | 82.3 |
| Payroll Tax | 296 | 205 | 174 | 6.2 |
| Workers' Compensation | 85 | 122 | 92 | 1.8 |
| Fringe Benefits Tax | 62 | 69 | 67 | 1.3 |
| Superannuation, training and other | 378 | 345 | 274 | 7.9 |
| Total Labour Costs | 4,766 | 4,980 | 3,995 | 100.0 |
| Recipients of Labour Costs: | | | | |
| Employees Net Wages and Benefits | 3,503 | 3,775 | 2,890 | 73.5 |
| Government Tax Revenue | 1,253 | 1,205 | 1,105 | 26.5 |

| | 2002/03 dollars | 2001/02 dollars | 2000/01 dollars | 2002/03 percentage change |
|--|--------------------|--------------------|--------------------|---------------------------------|
| Labour Costs per Employee^(a) | | | | |
| Gross Wages and Salaries | 73,147 | 84,734 | 65,792 | -13.7 |
| Other Benefits | 6,054 | 6,039 | 4,501 | 0.2 |
| Payroll Tax | 5,493 | 4,101 | 3,379 | 33.9 |
| Fringe Benefits Tax | 1,150 | 1,379 | 1,293 | -16.6 |
| Total Expenditure per Employee | 85,844 | 96,254 | 74,965 | -10.8 |
| Note: (a) Based on average employment during the year and other than workers' compensation. | | | | |

Overseas Exploration Expenditure

Overseas exploration expenditure accounted for 28 per cent of total exploration expenditure by all respondents.

The share of gold in total overseas exploration expenditure fell, from 34 per cent in 2001/02 to 16 per cent in 2002/03.

North America, South America and Africa were the principal regions for overseas exploration, with the share of expenditure directed towards Asia falling.

The survey collects information on exploration expenditure in Australia and overseas. The latter information is sought by commodity and by overseas region. To enable a comparison and to establish trends over a longer period of time, those respondents that have provided overseas exploration expenditure figures over the past decade are separately reported as a 'constant group' below.

Analysis of all respondents

In 2002/03 respondents spent \$609 million on exploration, 5 per cent higher than the \$582 million spent in 2001/02. Respondents spent \$171 million on overseas exploration activities, or 28 per cent of total exploration expenditure, and \$438 million in Australia, or 72 per cent of total exploration expenditure. Official data from the ABS, which has a wider coverage of the industry than this survey, show that Australian minerals industry exploration expenditure rose by 14 per cent between 2001/02 and 2002/03, but still remains 36 per cent below the most recent peak, in 1996/97.

Notwithstanding the small increase in 2002/03, there has been a significant worldwide decline in exploration expenditure since 1996/97. In 2002/03, Australia's share of worldwide exploration expenditure fell to 15.5 per cent (down from 17.4 per cent in 2001/02). Australia now ranks behind Latin America, Canada and Africa as a destination for exploration expenditure.

The share of gold in total overseas exploration expenditure fell, from 34 per cent in 2001/02 to 16 per cent in 2002/03. The longer-term decline in gold prices has contributed to the fall in expenditure on gold exploration and a shift towards base metals exploration in recent years (the share of exploration expenditure directed towards gold was 53 per cent in 1997/98). Base metals exploration rose from 39 per cent to 43 per cent.

The major areas for overseas exploration in 2002/03 were:

- North America, 38.0 per cent (up from 32.7 per cent in 2001/02).
- South America, 30.3 per cent (up from 24.4 per cent in 2001/02).
- Asia, 13.8 per cent (down from 18.8 per cent in 2001/02).
- Africa, 13.4 per cent (up from 10.7 per cent in 2001/02).

Exploration in Papua New Guinea and the Pacific fell, from 3.5 per cent to 1.1 per cent. Exploration in Eastern Europe and Western Europe also fell, and now accounts for 0.9 per cent of total expenditure.

Overseas Mineral Exploration expenditure – all respondents

| By Commodity | 2002/03 \$ million | 2001/02 \$ million |
|---|-----------------------|-----------------------|
| Gold and platinum | 28.0 | 45.3 |
| Base metals | 78.5 | 51.5 |
| Mineral sands | 1.0 | 2.4 |
| Diamonds | 59.7 | 31.1 |
| Coal | 0.0 | 0.0 |
| Other | 4.2 | 3.0 |
| Total overseas | 171.3 | 133.3 |
| Australia | 438.0 | 450.0 |
| Total | \$609.3 | \$582.4 |
| Gold (%) | 16.3 | 34.2 |
| Non-gold (%) | 83.7 | 65.8 |
| By Overseas Region | 2002/03 Per cent | 2001/02 Per cent |
| Papua New Guinea/ Pacific | 1.0 | 3.5 |
| Asia | 13.8 | 18.8 |
| South America | 30.3 | 24.4 |
| North America | 38.0 | 32.7 |
| Eastern Europe (inc. Russian Federation) | 0.0 | 1.1 |
| Western Europe | 0.8 | 4.4 |
| Africa | 13.4 | 10.7 |
| Other and general | 2.6 | 4.4 |

Note: The ABS also conducts surveys of exploration expenditure by the minerals industry. Its quarterly surveys provide a wider coverage of Australian exploration expenditure than shown here.

While respondents to the Minerals Council's 2003 survey accounted for around 80 per cent of total minerals exploration expenditure in Australia in 2002/03 (as reported to ABS in *Actual and Expected Private Mineral Exploration, Australia*, Cat. No. 8412.0), they represented the bulk of the exploration spending by Australian companies overseas. The Minerals Council's survey is recognised as a more accurate time series of overseas expenditure than the ABS overseas survey, which has now ceased to be collected.

Decisions to explore in Australia or overseas are based on a comparison of a range of factors. These include prospectivity, the fiscal (especially taxation) and regulatory regimes, sovereign risk, access to geoscientific information, access to finance and the cost of access to land.

There has been a reduction in off-lease exploration in Australia, with greater concentration on on-lease exploration and development.

There were a number of key developments in 2003 that sought to examine ways to address the low level of exploration expenditure:

- the report of the Mineral Exploration Action Agenda Strategic Leaders Group to the Government in July 2003 (this report can be found at www.industry.gov.au/minexpagenda and at the Minerals Council's web site at www.minerals.org.au/downloads/pdf/meaa_report_web.pdf). The Action Agenda process The Action Agenda comprises a suite of twelve recommendations that are designed in a comprehensive and complementary way to address the impediments facing the industry. The recommendations are designed to improve the processes governing access to land, improve the fiscal environment to remove impediments to the flow of investment into the sector, provide and improve access to high quality pre-competitive geoscience data, better focus research and development on deep ore discovery and revitalise the higher education system towards the importance of earth sciences; and
- the release of the report of the House of Representatives Standing Committee on Industry and Resources *Inquiry into resources exploration impediments* in September 2003. The report, *Exploring: Australia's Future – impediments to increasing investment in minerals and petroleum exploration in Australia* (which can be found at www.aph.gov.au/house/committee/isr/resexp/contents.htm), identified fundamental issues besetting the Australian resources industry that require responses and, in some cases, quick responses. The report contains twenty eight recommendations aimed at building industry recovery through a collaborative approach between Commonwealth/state/territories and the industry.

There is strong complementarity between these two initiatives, but much remains to be done if Australia is to reverse the downward trend in exploration and lay foundation for revitalisation of the nation's mineral industry.

Constant Group Responses

Constant group respondents' exploration expenditure in Australia fell, from \$326 million in 2001/02 to \$259 million in 2002/03. However, overseas exploration expenditure by the constant group rose from \$123 million to \$154 million, and now accounts for 37 per cent of constant group exploration expenditure, up from 27 per cent in 2001/02.

When the Minerals Council established the survey of overseas exploration over ten years ago, relatively few companies (about twenty) were exploring overseas. These tended to be the larger minerals companies. Over the intervening period, more Australian based operations have embarked on overseas exploration programs.

Analysis of the broad allocation of exploration expenditure shows that the increase in overseas exploration expenditures has been particularly marked in the first half of the 1990s, with the proportion of total expenditure by the larger companies devoted to overseas exploration rising significantly, before peaking in 1998/99. The proportion of overseas exploration expenditure in total exploration expenditure fell between 1999/2000 and 2001/02 before rising again in 2002/03.

In 2002/03, for the constant group:

- Asia accounted for 13.8 per cent of overseas spending, South America 32.1 per cent and North America 41.4 per cent.
- Gold and platinum exploration accounted for 11.4 per cent of the total overseas spending by respondents. This is a decrease on 2001/02, and is well below the peak 79 per cent share recorded in 1988/89. This is also below the share of gold in total group overseas exploration expenditure. The constant group spends a smaller share of overseas exploration expenditure on gold and platinum and a larger share on base metals and diamonds than does the total group.

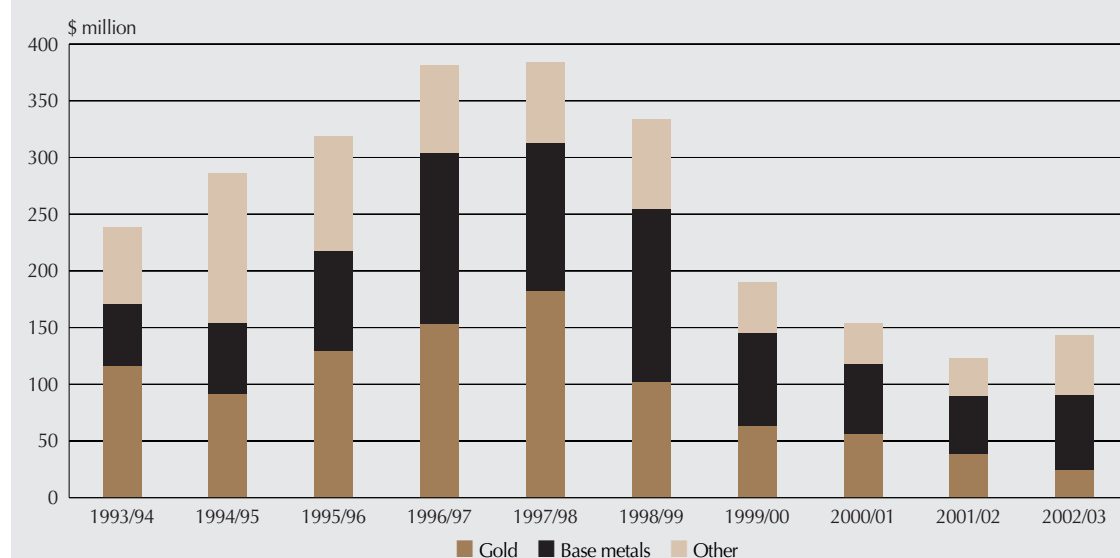
Broad Allocation of Mineral Exploration Expenditure – Constant Group

| Year | 2002/03 | 2001/02 | 2000/01 | 1999/2000 | 1998/99 | 1997/98 | 10 Year Average Annual Growth (%) |
|---------------------|---------|---------|------------|-----------|---------|---------|-----------------------------------|
| | | | \$ million | | | | |
| Australia | 259.0 | 326.0 | 326.8 | 344.4 | 396.7 | 468.4 | -3.6 |
| Overseas | 154.1 | 123.2 | 154.2 | 190.3 | 333.1 | 384.1 | -3.5 |
| Total exploration | 413.1 | 449.2 | 481.0 | 534.7 | 729.8 | 852.5 | -3.6 |
| Overseas percentage | 37.3 | 27.4 | 32.1 | 35.6 | 45.6 | 45.1 | |

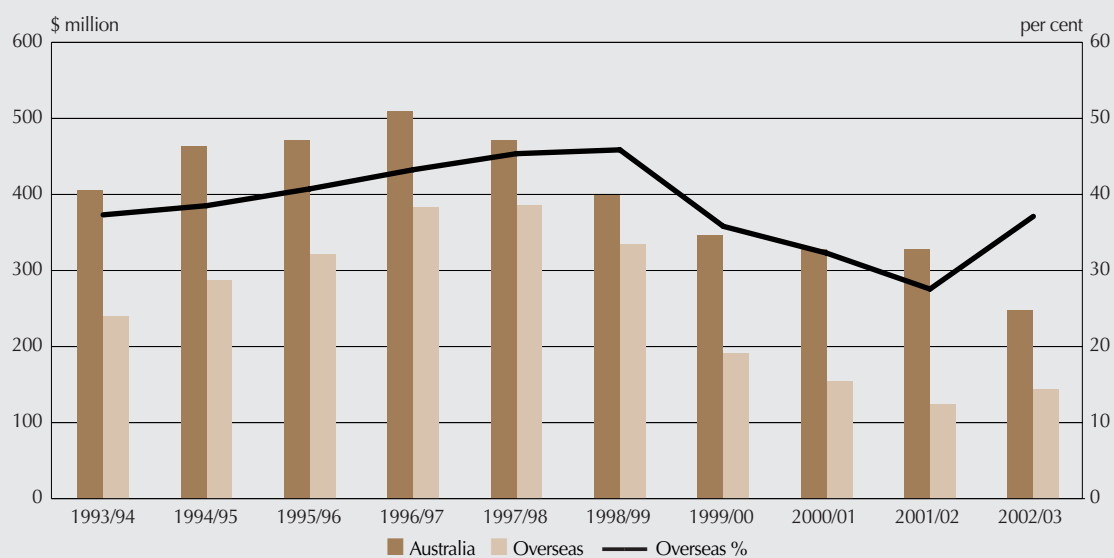
Overseas Exploration Expenditure by Commodity Sought – Constant Group

| Year | 2002/03 | 2001/02 | 2000/01 | 1999/2000 | 1998/99 | 1997/98 | 1996/97 | 1995/96 |
|-----------------|---------|---------|------------|-----------|---------|---------|---------|---------|
| | | | | | | | | |
| | | | Percentage | | | | | |
| Gold & platinum | 11.4 | 31.4 | 36.6 | 33.1 | 30.6 | 47.3 | 40.0 | 40.5 |
| Base metals | 49.4 | 41.3 | 39.5 | 43.0 | 45.8 | 34.1 | 39.7 | 27.6 |
| Mineral sands | 0.4 | 2.0 | 1.6 | 0.4 | 0.0 | 2.7 | 1.0 | 2.0 |
| Diamonds | 38.7 | 25.3 | 21.5 | 13.8 | 10.1 | 6.9 | 5.2 | 15.6 |
| Coal | 0.0 | 0.0 | 0.0 | 5.9 | 0.0 | 1.5 | 3.1 | 1.7 |
| Other & general | 0.1 | 0.0 | 0.8 | 3.8 | 13.5 | 7.5 | 11.0 | 12.6 |
| Total (\$m) | 154.1 | 123.2 | 154.2 | 190.3 | 333.1 | 384.1 | 381.5 | 319.1 |

Overseas Exploration Expenditure by Major Commodity – Constant Group



Broad Allocation of Exploration Expenditure – Constant Group



Minerals Exploration Expenditure by Overseas Region – Constant Group

| | 2002/03 | 2001/02 | 2000/01 | 1999/00 | 1998/99 | 1997/98 | 1996/97 | 1995/96 | 1994/95 |
|--|------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | percentage | | | | | | | | |
| Papua New Guinea | 0.0 | 0.0 | 0.7 | 0.4 | 0.3 | 0.2 | 2.4 | 3.7 | 2.8 |
| Asia | 13.8 | 17.8 | 12.2 | 13.2 | 28.0 | 15.3 | 21.8 | 23.4 | 21.9 |
| Pacific | 1.2 | 2.2 | 0.9 | 0.3 | 0.2 | 0.1 | 9.4 | 1.7 | 0.3 |
| North America | 41.4 | 34.7 | 28.3 | 19.7 | 27.2 | 35.1 | 21.2 | 29.4 | 33.8 |
| South America | 32.1 | 25.5 | 42.0 | 35.7 | 24.5 | 25.7 | 27.6 | 22.3 | 16.8 |
| Eastern Europe (inc. Russian Federation) | 0.0 | 1.2 | 0.3 | 1.0 | 0.6 | 7.2 | 3.7 | 3.6 | 5.0 |
| Western Europe | 0.9 | 4.7 | 0.0 | 1.4 | 0.0 | 2.6 | 0.2 | 2.8 | 1.8 |
| Africa | 8.5 | 11.1 | 13.4 | 15.5 | 11.5 | 9.1 | 6.2 | 7.5 | 15.3 |
| Other and general | 2.1 | 2.9 | 2.2 | 12.9 | 7.7 | 4.7 | 7.5 | 5.6 | 2.3 |
| Total (\$m) | 154.1 | 123.2 | 154.2 | 190.3 | 333.1 | 384.1 | 381.5 | 319.1 | 285.8 |

Note: Until 1993/94 the data was obtained from the exploration arms of member companies. For 1994/95 onwards, the data was obtained from company head offices as part of the Minerals Council's Minerals Industry Survey.

Outlook

Australia's economic future looks likely to emulate the past, with Asia's major 'industrialising economies', China and India, fueling demand for mining and downstream processing of our resources.

A number of projects were commissioned in 2002/03 and further are expected to be commissioned in 2003/04.

Maintaining a positive investment climate remains critical to further investment in the minerals industry.

Australia's ability to export its minerals wealth has long benefited from the fact that the most dynamic part of the world economy is on our northern doorstep. Our exports to the region have increased over many years as Asian nations have steadily industrialised. In turn, much of the related Australian economic growth and wealth creation has been due to the growth of Australia's minerals industry

Australia's economic future looks likely to emulate our recent past, with the emergence of China and India as 'industrialising economies' fuelling Australian economic growth for decades to come, centred on mining and downstream processing of our resources. If Australian policymakers are able to provide the appropriate environment, the future for Australia's minerals exporters looks bright.

Reflecting the growth in Asian, particularly Chinese, demand, BHP Billiton's Mining Area C iron ore development in Western Australia was officially opened on 30 October 2003 and there was a bringing forward by two years of the ramp up to full capacity of the West Angelas iron ore mine, a planned expansion of Rio Tinto's Weipa bauxite mine, the major capital expenditure in 2003/04 forecast for the Comalco Alumina Refinery project near Gladstone in Queensland, and expansions of the major iron ore ports.

A number of new projects were commissioned in 2002 and 2003. These included BHP Billiton's Mount Arthur North coal mine in New South Wales, WMC Resources' ('Optimisation 3') expansion at Olympic Dam in South Australia, increasing copper output by 35,000 tonnes a year and Kagara Zinc's Mount Garnet zinc project in Queensland, Australia's first new greenfield zinc mine in four years. The mine has a production capacity of 50,000 tonnes of zinc-in-concentrates a year. Other projects commissioned included Xstrata Coal's Beltana Longwall coal operation in the Hunter Valley in New South Wales, Jubilee Mine's Cosmos Deeps underground nickel project near Leinster in Western Australia and Mount Gibson Iron's Talling Peak iron ore mine in Western Australia, BHP Billiton's Dendrobium coal mine in New South Wales (officially opened on 4 November 2003) and Rio Tinto's Hail Creek coal mine in Queensland (officially opened on 5 November 2003).

Other projects expected to be commissioned in 2003/04 include Giant Reefs Mining's Chariot gold operation in the Northern Territory and the Frog's Leg gold operation in Western Australia. There is, however, a lack of large-scale base metal operations (that contributed so significantly to the rapid rise in resource sector development in the mid to late 1990s) under development at present.

Reflecting the bringing forward of investment to meet stronger than expected demand, some concerns about higher interest rates, the potential strength of the global recovery and movements in exchange rates, investment in 2003/04 is expected to moderate from its 2002/03 level.

Direct employment by respondents is also forecast to fall, by 3 per cent to 42,782 persons.

The outlook for 2003/04 for the important areas of exploration and research and development is poor:

- Respondents forecast their exploration expenditure in Australia will decrease by 19 per cent in 2003/04.
- The forecast level of research and development expenditure, of \$141 million, is 34 per cent lower than the 2002/03 outcome. Such forecasts tend to be conservative, however. For example, the R&D outcome for 2002/03, at \$213 million, is well above that forecast in last year's survey report (that is, of \$139 million).

The global economic environment remains of significant importance to Australia's minerals industry and to Australia's overall economic performance. Some of the strengths that sustained Australia in recent years (such as housing construction and above trend retail spending growth) may soon fade. For that reason any renewed global slowdown would present a particular risk to Australia. The mix of low interest rates set by central banks and spending and tax cuts by governments means the policy-driven boost to the global economy since early 2001 has been substantial. As a result, leading indicators of global output growth have improved slightly, aided by developments in the US and Japan. There are still major risks to the world economic outlook and these risks may mean the global recovery in 2004 will be modest by past standards. These circumstances require careful judgement regarding macroeconomic policy during 2003/04.

| | 2003/04 forecast \$ million | 2002/03 actual \$ million | Forecast percentage Change |
|---|-----------------------------------|---------------------------------|----------------------------------|
| Net Capital Expenditure (Investment) on: | | | |
| Mining Assets | 3,198 | 5,890 | -45.7 |
| Smelting and Refining Assets | 1,764 | 1,960 | -9.0 |
| Total Fixed Assets | 4,962 | 7,851 | -36.8 |
| Exploration Expenditure in Australia | 345 | 425 | -18.8 |
| Research and Development | 141 | 213 | -33.8 |
| Number of Employees | 42,782 | 43,922 | -2.6 |

Appendix 1: Coverage and Definitions

Survey Responses

Respondents to the survey include companies engaged only in exploration as well as companies that engage in a wider range of minerals activities.

While statistically desirable to have all respondents reporting their financial data for the same period, this was not always possible. To minimise the work of respondents, data for a financial year-end within six months before 30 June 2003 (that is, 31 December 2002) were accepted. Those whose year-end fell outside those parameters were asked to provide June fiscal year information. Some respondents, engaged principally in exploration activities, supplied data relating to financial years ending between November and January. This was accepted when it was confirmed that it was representative of data which would have applied had it been prepared for a financial year ended 30 June.

Definitions

In broad terms the 'minerals industry' has been defined as 'exploration for and extraction and primary processing of minerals in Australia'.

Adoption of this definition results in the inclusion of refining and smelting but excludes any minerals activities carried out by respondents overseas.

It should also be noted that the conversion of iron ore and coal to iron and steel is not included in the survey, nor is the conversion of coal to coke.

Safety and Health Terms

The Lost Time Injury Frequency Rate (LTIFR) is defined as the number of lost time injuries per million hours worked. A Lost Time Injury (LTI) is defined as an injury that results in a minimum of one full shift's absence.

Financial Terms

Shareholders' Funds is the net total of values attributed to items of share capital, retained earnings, accumulated losses, interests of minorities in the capital and reserves of subsidiaries, reserves, goodwill or premium arising on consolidation and amounts set aside for dividends still unpaid at balance date. It also includes contributions by participants to a joint venture if the source of those funds cannot be accurately determined.

Borrowings is the amount of principal outstanding on loans, notes, debentures, mortgages, hire purchase and bank overdrafts.

Funds Employed is the sum of shareholders' funds and borrowings.

Fixed and Deferred Assets includes capitalised exploration and mine development expenditure in addition to assets such as plant, equipment, vehicles, buildings, normally classified as fixed assets.

Current/Non-Current Assets and Liabilities. The term 'current' signifies amounts normally expected to be received or paid within the ensuing period of twelve months.

Sales. Sales revenue derived by respondents from their minerals activities located within Australia, excluding sea freight and other costs of delivery outside Australia.

Accounting policies

The adoption of different accounting policies affected the homogeneous nature of the survey data. Respondents' information has generally not been modified to achieve uniform accounting data.

The two most common methods of accounting for exploration expenditure are to write-off expenditure as incurred, or to allocate costs to areas of interest.

Rounding

The monetary amounts in this survey have generally been rounded to the nearest million dollars.

Any discrepancies between totals and the sum of components are due to rounding.

Adjusted figures from the previous report

Some respondents when completing this year's questionnaire made adjustments to figures for prior years. These figures have been revised accordingly. Thus in some cases, figures for 2001/02 and 2000/01 appearing in this report differ from the figures in the previous report.

Ratios

| | | |
|---|---|--|
| Debt to debt plus equity ratio | = | $\frac{\text{borrowings}}{\text{borrowings plus shareholders' funds}}$ |
| Current ratio | = | $\frac{\text{current assets}}{\text{current liabilities}}$ |
| Pre-interest profit on average funds employed | = | $\frac{\text{operating profit before interest and tax}}{\text{average of total funds at the beginning and the end of the period}}$ |
| Net profit return on average assets employed | = | $\frac{\text{net profit}}{\text{average of total assets employed at beginning and end of the period}}$ |
| Net profit return on average shareholders' funds | = | $\frac{\text{net profit}}{\text{average of shareholders' funds at the beginning and the end of the period}}$ |
| Net profit return on total revenue | = | $\frac{\text{net profit}}{\text{total revenue}}$ |
| Operating profit before abnormals return on average shareholders funds' | = | $\frac{\text{operating profit before abnormals}}{\text{average of shareholders' funds at the beginning and the end of the period}}$ |
| Operating profit before interest and income tax expense on average funds employed | = | $\frac{\text{operating profit before interest and income tax expense}}{\text{average of total funds employed at the beginning and the end of the period}}$ |
| Funds turnover ratio | = | $\frac{\text{total revenue}}{\text{average funds employed}}$ |

Appendix 2: Constant Group Financial Data

The aim of the survey is to include the activities of all companies operating in Australia qualifying under the given definition of minerals. This has been possible up to a point and the coverage has consistently accounted for a large proportion of total Australian minerals production. While there is generally a similar number of respondents for each survey, the mix of respondents may change slightly from year to year.

Accordingly, the figures are not precisely comparable from one survey to the next. To facilitate more precise comparisons between years, the returns from the respondents that have participated in 2001/02 and 2002/03 are separately reported as a constant group.

Even so, the level of consolidation activity in the industry in recent years has impacted significantly (and adversely) on the precision of this estimate.

In 2002/03, the constant group consisted of companies with total asset values equal to around 90 per cent of the total group's assets.

Data on the major aggregates for the constant group in 2002/03 are compared with the data for the total group in the table below. To assess the impact of changes in the respondent group, percentage changes on the previous year are compared for the constant group and for the total group. For most items the constant group and total group figures are similar. The percentage change figures are, for most items, also similar.

| Selected items for comparison | Constant Group 2002/03 | Total Group 2002/03 | Constant Group 2001/02 | Total Group 2001/02 | Constant Group % change | Total Group % change |
|--|------------------------|---------------------|------------------------|---------------------|-------------------------|----------------------|
| | \$ million | \$ million | \$ million | \$ million | | |
| Shareholders' Funds | 33,267 | 33,906 | 30,243 | 30,615 | 10.0 | 10.7 |
| Total Assets | 85,866 | 99,899 | 81,183 | 84,799 | 5.8 | 17.8 |
| Borrowings | 10,027 | 12,133 | 14,112 | 16,181 | -28.9 | -25.0 |
| Net Expenditure on Mining, Smelting and Refining Fixed and Deferred Assets | 6,511 | 7,851 | 5,575 | 5,643 | -16.8 | 39.1 |
| Total Revenue | 32,775 | 37,419 | 36,519 | 38,833 | -10.3 | -7.4 |
| Total Expense | 28,949 | 33,006 | 30,215 | 33,036 | -4.2 | -0.1 |
| Labour Costs: | | | | | | |
| Gross Wages and Salaries | 3,317 | 3,945 | 3,983 | 4,239 | -16.7 | -6.9 |
| Other Labour Costs | 422 | 525 | 484 | 536 | -12.8 | -2.1 |
| Payroll Tax | 267 | 296 | 187 | 205 | 42.9 | 44.5 |
| Interest Expense | 3,024 | 3,123 | 2,717 | 2,834 | 11.3 | 10.2 |
| Direct Taxes | | | | | | |
| Income Tax | 1,400 | 1,442 | 1,841 | 1,904 | -24.0 | -24.3 |
| Mineral Royalties, etc | 1,010 | 1,200 | 1,111 | 1,182 | -9.1 | 1.5 |
| Operating Profit Before Income and Resource Based Taxes | 4,836 | 5,614 | 7,414 | 6,979 | -34.8 | -19.6 |
| Net Profit | 1,931 | 2,477 | 4,430 | 3,834 | -56.4 | -35.4 |

Appendix 3: 10 Year Historical Summary

| Items of Interest (\$m) | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/ 2000 | 2000/01 | 2001/02 | 2002/03 | 10 year average |
|--|--------------|--------------|--------------|------------|------------|--------------|---------------|--------------|--------------|--------------|--------------------|
| Total Revenue | 25,545 | 26,237 | 27,999 | 28,948 | 31,798 | 32,341 | 31,755 | 36,080 | 38,833 | 37,419 | 31,183 |
| Borrowing's at Year End | 10,482 | 8,342 | 8,610 | 8,106 | 12,056 | 15,006 | 15,081 | 15,925 | 16,181 | 12,133 | 12,117 |
| Net Capital Expenditure on Mining, Smelting and Refining Assets | 4,039 | 4,463 | 4,994 | 6,694 | 8,367 | 6,716 | 4,885 | 3,604 | 5,643 | 7,851 | 5,455 |
| Interest Expense | 811 | 859 | 921 | 1,054 | 1,528 | 1,249 | 1,644 | 2,613 | 2,834 | 3,123 | 1,596 |
| Total Labour Costs | 4,485 | 4,656 | 4,743 | 5,025 | 5,017 | 4,965 | 4,290 | 3,995 | 4,980 | 4,766 | 4,668 |
| Profit before income, resource and indirect taxes | 4,630 | 3,546 | 5,136 | 2,636 | 2,345 | 3,117 | 3,478 | 7,253 | 7,701 | 5,742 | 4,562 |
| Direct Taxes | 1,546 | 1,574 | 1,898 | 1,200 | 1,258 | 1,547 | 1,903 | 2,782 | 3,086 | 2,642 | 1,934 |
| Resource Based Taxes | 635 | 632 | 649 | 652 | 906 | 978 | 949 | 1,097 | 1,182 | 1,200 | 869 |
| Indirect Taxes | 490 | 499 | 542 | 583 | 520 | 513 | 450 | 460 | 428 | 623 | 507 |
| Net Profit before Abnormal Gain (Loss) | 2,377 | 2,372 | 2,828 | 2,018 | 1,868 | 3,097 | 2,937 | 4,558 | 3,834 | 2,477 | 2,791 |
| Abnormal Gain (Loss) | 205 | (891) | (114) | (1,137) | (1,301) | (2,040) | (1,816) | (548) | 0 | 0 | (697) |
| Net Profit | 2,582 | 1,481 | 2,714 | 881 | 567 | 1,057 | 1,121 | 4,010 | 3,834 | 2,477 | 2,094 |
| Total Direct Employment | 70,243 | 72,085 | 71,901 | 70,489 | 61,675 | 56,459 | 52,053 | 50,944 | 48,004 | 43,922 | 60,901 |
| Labour Costs per Employee | 63,004 | 63,853 | 64,303 | 69,091 | 74,044 | 82,541 | 77,648 | 74,965 | 96,254 | 85,844 | 73,713 |
| Rehabilitation Annual Expense | 158 | 183 | 195 | 179 | 245 | 275 | 242 | 185 | 229 | 344 | 215 |
| Rehabilitation Accumulated Balance of Provision | 439 | 660 | 782 | 929 | 975 | 1,208 | 1,396 | 1,619 | 1,838 | 2,155 | 1,125 |
| Overseas Exploration (constant group) | 238.3 | 285.8 | 319.1 | 381.5 | 384.1 | 333.1 | 190.3 | 154.2 | 123.2 | 154.1 | 216 |
| Australian Exploration (constant group) | 403.4 | 460.8 | 468.7 | 506.2 | 468.5 | 396.7 | 344.4 | 326.8 | 326.0 | 259.0 | 389 |
| Overseas Exploration (all respondents) | n/a | 319.2 | 352.9 | 415.3 | 450.2 | 417.9 | 250.0 | 180.7 | 132.4 | 171.3 | n/a |
| Australian Exploration (all respondents) | n/a | 603.8 | 641.9 | 718.5 | 699.2 | 682.1 | 582.2 | 521.5 | 450.0 | 438.0 | n/a |
| Net Profit Return on Average Assets Employed (%) | 5.5 | 3.0 | 5.4 | 1.7 | 1.0 | 1.9 | 2.0 | 5.6 | 4.5 | 2.7 | 3.5 |
| Net Profit Return on Average Shareholders' Funds (%) | 10.3 | 5.3 | 9.2 | 2.9 | 1.8 | 3.7 | 4.0 | 13.9 | 12.9 | 7.3 | 7.4 |
| Gross Debt to Debt plus Equity Ratio | 0.27 | 0.22 | 0.22 | 0.20 | 0.29 | 0.35 | 0.34 | 0.36 | 0.35 | 0.26 | 0.29 |

