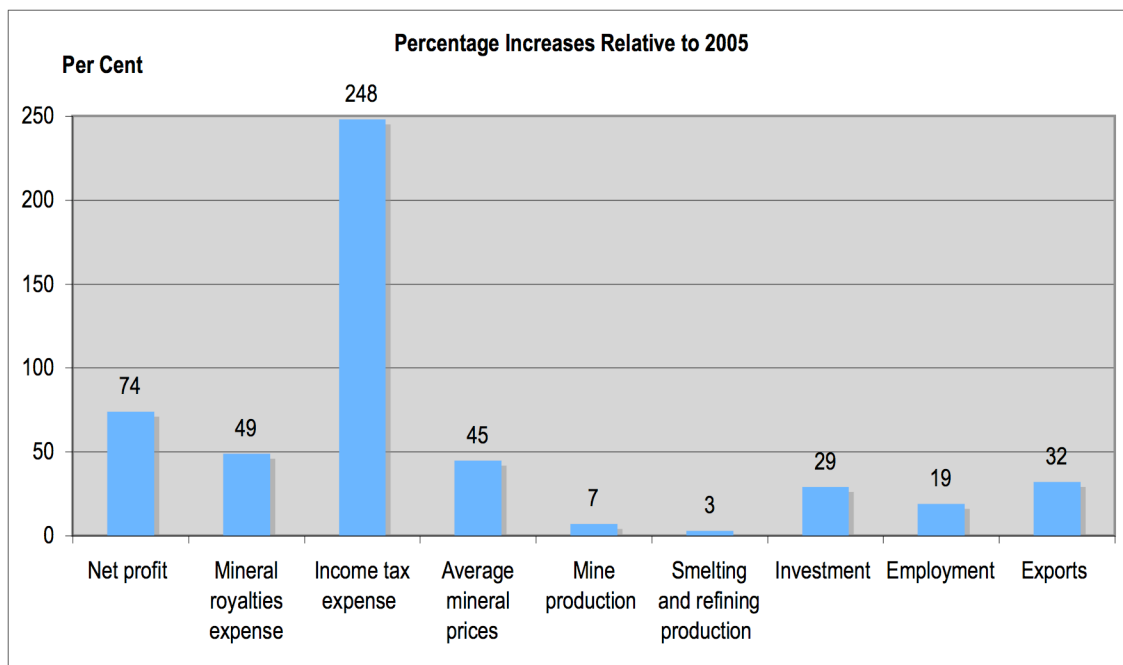


THE MINERALS COUNCIL OF AUSTRALIA AND PRICEWATERHOUSECOOPERS 2006 MINERALS INDUSTRY SURVEY (MIS) - OVERVIEW

The MIS Report collates financial and other data from companies within the Australian minerals industry. It is estimated that respondents to this year's **2006 MIS Report** (covering generally the period 12 months ending June 2006) accounted for approximately 90-95% of minerals production in Australia. Highlights of the 2006 data are below. Further, 2006 represents the 30th consecutive year the Minerals Council of Australia has compiled the MIS Report. Highlights of the industry's transformation over this period are also provided.

HIGHLIGHTS OF THE 2006 MIS DATA



Profitability

- All indicators demonstrate very strong profitability in 2005/06. Relative to 2004/05:
 - **Net profit** (in dollar terms) increased by 74 per cent to \$11,771 million – its highest level since records were kept from 1977/78.
 - **Net profit return on average shareholders' funds** increased from 15.3 to 24.1 per cent – its highest level since records were kept from 1977/78 and is 14.7 per cent above the (last) 10-year average.
 - **Net profit return on average assets employed** increased from 5.8 to 8.8 per cent – its highest level since records were kept from 1977/78 and is 5.1 per cent above the (last) 10-year average.

Tax Expenses

- Due to high commodity prices, higher production, and improved profitability, tax and royalty expenses increased considerably in 2005/06. Relative to 2004/05:
 - The sum of **mineral royalties and licence fees** etc paid to State and Territory Governments increased by 49 per cent to \$2,145 million.

- Total **income tax expense** payable to the Federal Government increased by 248 per cent to \$4,334 million.
- The total of **all taxes** payable to all Governments increased by 120 per cent to \$7,032 million.
- The effective tax burden¹ increased from 32 to 37 per cent.

Mineral Prices and Domestic Production

- Sustained demand from long standing export markets such as Japan and the Republic of Korea, coupled with a very strong increase in demand from industrialising countries such as China and India, lead to strong price increases and moderate production increases in 2005/06. Relative to 2004/05:
 - **Average mineral prices** (in \$A nominal terms) increased by 45 per cent.
 - **Mine production** (i.e coking and thermal coal, iron ore and gold), as measured by the MCA Mine Production Index, increased by 7 per cent in volume terms.
 - **Smelting and refining production** (i.e alumina, aluminium and base metals), as measured by the MCA Smelting and Refining Production Index, increased by 3 per cent.

Employment

- **Total employment** (i.e exploration, mining and contractor personnel considered a substitute for full-time employees) increased by 19 per cent to 82,588 persons relative to 2004/05.

Investment

- **Net cash used in investing activities** increased by 29 per cent to \$10,122 million relative to 2004/05.

Exports

- According to ABARE², the value of **exports** of mineral resources increased by 32 per cent in 2005/06 to \$91,800 million.

Forecast Commodity Prices and Domestic Production

- Due to expectations of continued strong global demand, coupled with strong capital expenditure in previous years, forecasters predict that prices and domestic production will continue to increase in 2006/07, with:
 - Australian **production** of bulk commodities (i.e all types of coal and iron ore) forecast to increase approximately 9 per cent on average, base metal production (copper, nickel etc) forecast to increase by approximately 10 per cent on average, and aluminium and alumina production forecast to increase by approximately 0.1 and 12.4 per cent respectively (ABARE forecasts³).
 - **Prices** for bulk commodities (i.e all types of coal and iron ore) forecast to increase on the whole with the exception of metallurgical coal. Base metal prices (copper, nickel etc) forecast to increase by approximately 50 per cent on average, and aluminium and alumina prices forecast to increase (ABARE forecasts⁴).

¹ Calculated as income tax plus royalties paid divided by operating profit.

² Source: ABARE, Australian Commodities, September Quarter 2006.

³ Source: ABARE, Australian Commodities, September Quarter 2006.

⁴ Source: ABARE, Australian Commodities, September Quarter 2006.

HIGHLIGHTS OF THE AUSTRALIAN MINERALS INDUSTRY'S TRANSFORMATION OVER THE LAST 30 YEARS

- Over the past 30 years there has been unprecedented change in the industry's operating environment. For example:
 - **Globalisation** has created intense competition in human and capital markets.
 - Low commodity prices due to excess supply, increased competition from substitute materials, and **increasing competition** and consolidation amongst companies.
 - **Macroeconomic conditions** via reduced protection/industry assistance, financial market reform, the floating of the Australian dollar, deregulation of the financial sector, continued deregulation of the financial and labour markets, competition policy, and major taxation reform.
 - **Changing social expectations** of industry reflected in tighter environmental controls and the emergence of a social licence to operate that requires industry to move beyond its regulatory obligations.

- The financial performance of the Australian minerals industry is reflected in the past 30 years of MIS data. Despite today's 'good times', the data denotes an industry that has been under considerable financial strain, with:
 - **Average profit margins.** The industry's average profit margin over this time is approximately 8 per cent - peaking at 19.9 per cent in 2005/06, and reaching a low of 2.3 per cent in 1982/83.
 - **Sound investment attractiveness.** The industry's investment returns over this time indicate that shareholder returns, measured as net profit return on average shareholders funds, averaged 11 per cent per annum. In comparison, the 10-year yield on Commonwealth Treasury Bonds averaged 9.7 per cent per annum over this same period⁵.
 - **Increasing operating costs.** Production and operating costs in absolute terms and as a percentage of overall costs have been increasing strongly. At a low of approximately 40 per cent in 1977/78, these costs now represent approximately 70 per cent of all costs today.

- Average financial performance, coupled with enormous reform and change in the operating environment, has compelled the industry to transform itself to stay internationally competitive and maintain its social licence to operate. Elements of this transformation include:
 - Recognition that its future is inseparable from the global pursuit of **sustainable development**.
 - Having one of the **best industrial safety records** from one of the worst, though short of its goal of zero harm.
 - Shifted the emphasis from litigating native title to building **sustainable Indigenous communities**.
 - Has consolidated and rationalised for economies of scale, international competitiveness and **strategic positioning** to supply/manage inventory in converging global markets.
 - Has actively **embraced technological advancements** – especially in exploration, mining and processing.

⁵ Reserve Bank of Australia statistics – Interest rate and Yields: Money Market and Commonwealth Government Securities. www.rba.gov.au