

The Melbourne Mining Club

**Melbourne Town Hall
10 February 2005**

The Australian Mining Industry
Carpe Diem
Seize the Day!

Peter Johnston
Managing Director
Minara Resources Limited



Research by

IBISWorld

Metal Bulletin

METAL BULLETIN is published by the Metals, Minerals and Mining division of Metal Bulletin plc.

Zest for zinc

CVRD seeks huge
iron ore price rise

90%

Goldman Sachs JBWere

RESOURCES STOCKS - Priced for Peak; NOT for Perfection!

Stronger for Longer!

The Australian Mining Industry - Outline

- ❖ What can we learn from the past?
- ❖ Where are the opportunities in the future?
- ❖ What will impact success?

Resources & Australia small on the global scene

The World

Australia

Economic Contribution (2004) 2.1% of world GDP
(over 3% with primary processing)

Economic Contribution (2004) 4.2% of GDP
(5.1% with primary processing)

Revenue (2004) > US\$ 1,600 billion (E)

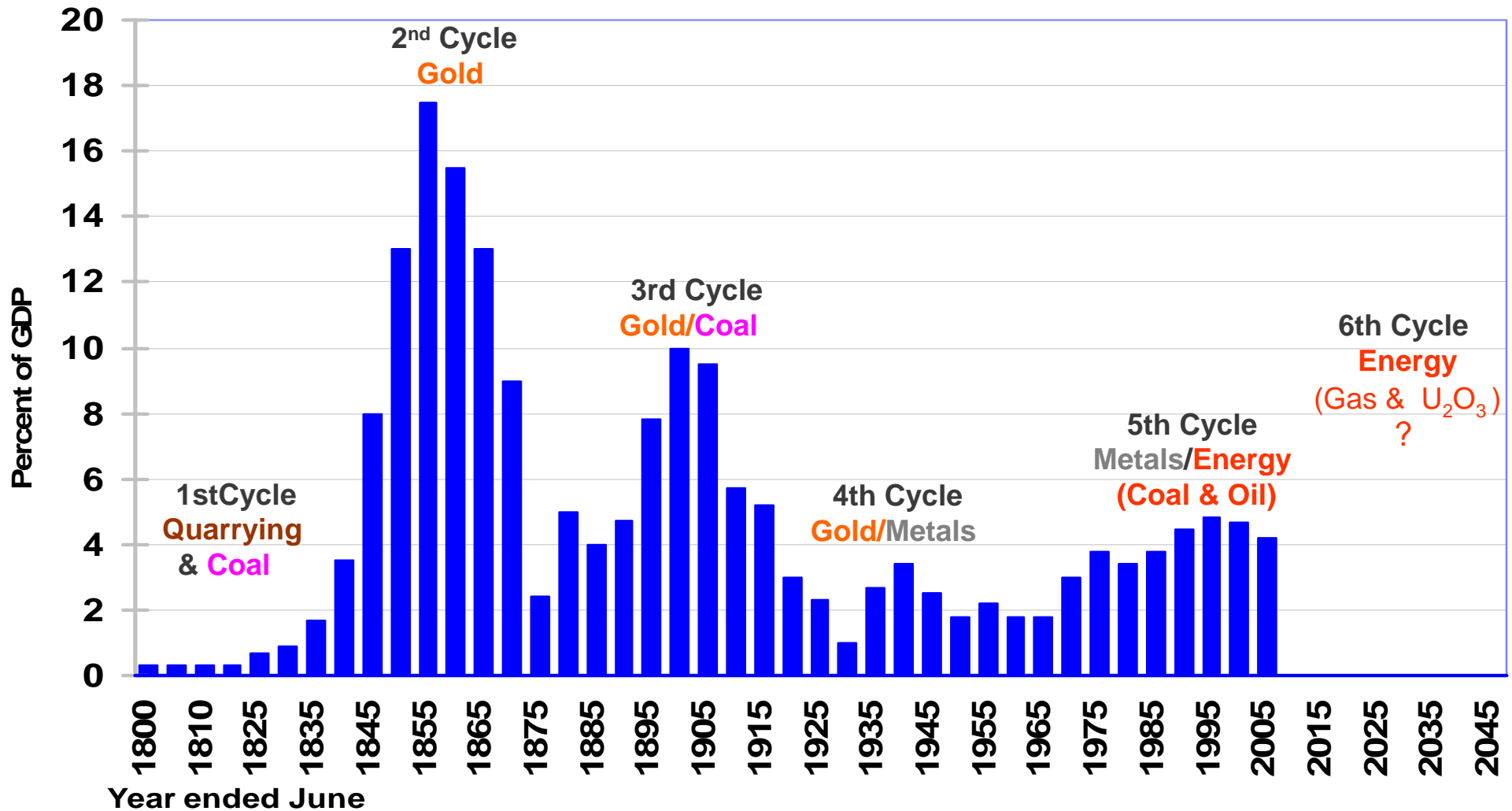
Revenue (F2005) (F) A\$ 65 billion +

Exports (2003) US\$ 206 billion
(>\$300b with primary processing)

Exports (2004) A\$ 35 billion

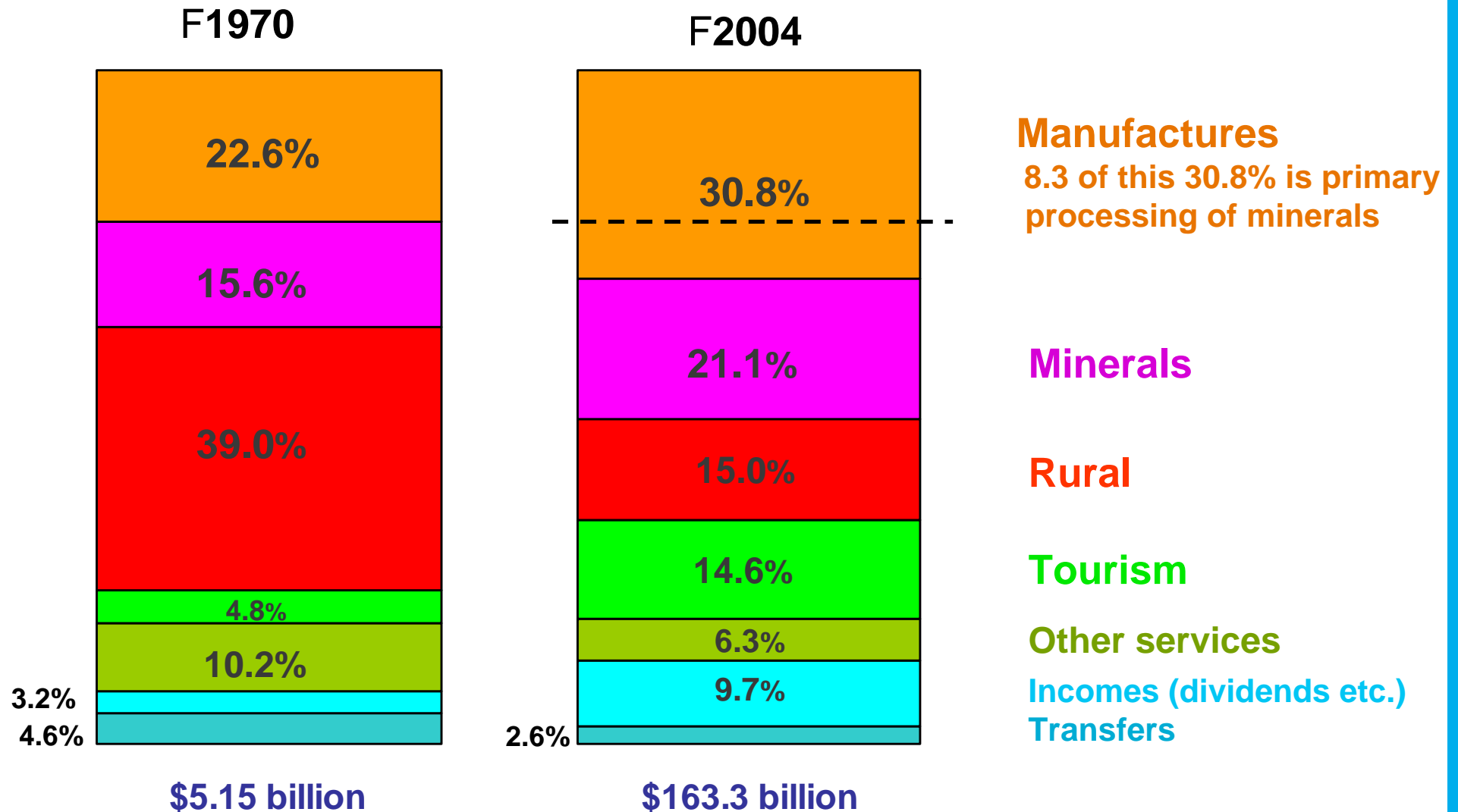
Australian Mining Industry Lifecycle

Value Added Share of GDP



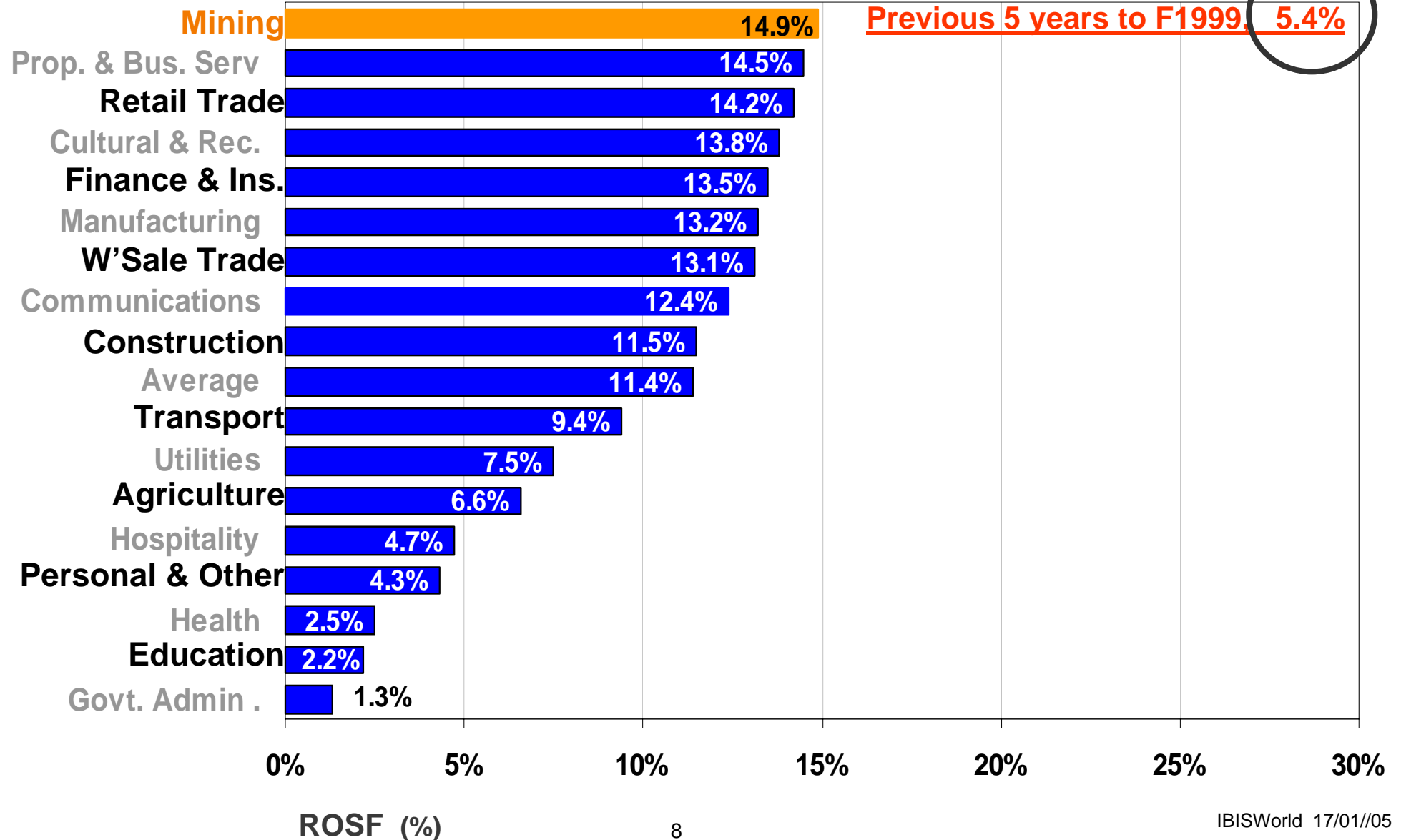
Importance Of Mineral Exports

Shares of Current Account Credits



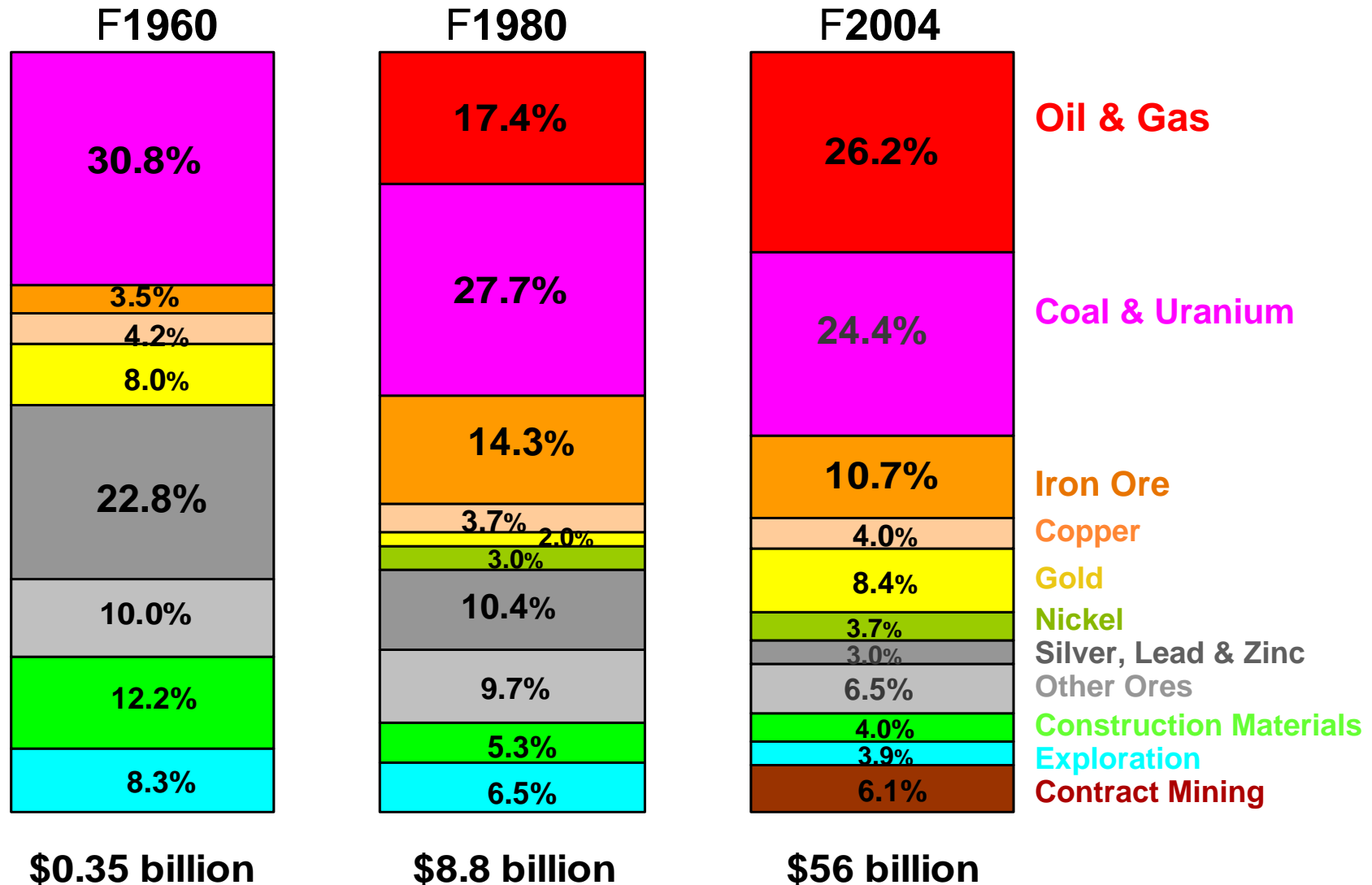
Profitability by Industry, Australia's Top 1000

5-year weighted average ROSF (after tax) to F2004



Australia's Changing Mining Industry Mix

Share of total revenue basis



What have we learnt?

- ❖ Cycles of the peaks and troughs will continue
- ❖ Resources & Australia are small on the global scene
- ❖ Overall resource returns in the past have been average
- ❖ Resources economic contribution growing - exports
- ❖ Industry profitability is growing
- ❖ New opportunities always have and will emerge

Where are the opportunities in the future?

- ❖ What can we learn from the past?
- ❖ **Where are the opportunities in the future?**
- ❖ What will impact success?

New opportunities

- ❖ World growth → demand for resources
- ❖ Industrialisation of nations – China
- ❖ Changing industry – scale, mix, technology
- ❖ Mergers & Acquisitions – divestments
- ❖ Supply side – need for investment

Global Top 10 Mining Enterprises

By Revenue 2003

	Company	Revenue (\$ US bill.)	
1.	BHP Billiton (2004)	26.0	Aust.
2.	Alcoa (2003)	21.5	U.S.
3.	Anglo American	18.6	S.A. (U.K.)
4.	Rio Tinto (2004)	14.1	U.K.
5.	Alcan	13.6	Canada
<hr/>			
6.	CVRD	5.3	Brazil
7.	Norilsk	5.2	Russia
8.	Noranda	4.7	Canada
9.	Phelps Dodge	4.1	U.S.
10.	Xstrata	3.5	Swiss

Australian Top 20 Mining Enterprises

By Revenue 1983

	Company	Revenue (A\$ bill.)		Company	Revenue (A\$ bill.)
1.	BHP	4.59	11.	WMC	0.37
2.	CRA	1.91	12.	Coal & Allied	0.35
3.	Utah Development	0.88	13.	EZ Industries	0.29
4.	Esso Exploration	0.85	14.	North BH	0.28
5.	MIM	0.80	15.	Bougainville	0.28
6.	Esso Australia	0.80	16.	Energy Resources	0.26
7.	Hamersley	0.59	17.	Oakbridge	0.16
8.	Peko-Wallsend	0.59	18.	Austen & Butta	0.14
9.	Robe River	0.69	19.	Renison Gold	0.14
10.	Santos	0.69	20.	Griffin Coal	0.07
				Total Revenue	13.5

Source:IBISWorld

Australian Top 20 Mining Enterprises

By Revenue 2004

	Company	Revenue (A\$ bill.)		Company	Revenue (A\$ bill.)
1.	BHP Billiton	34.1	11.	Newmont Australia	0.9
2.	Rio Tinto	15.7	12.	Iluka Resources	0.8
3.	Xstrata	5.7	13.	Newcrest Mining	0.7
4.	WMC Resources	3.1	14.	Apache Energy	0.7
5.	Woodside Petrol.	2.2	15.	Sons of Gwalia	0.6
6.	Mitsubishi Dev.	1.7	16.	Harmony Gold	0.6
7.	Santos	1.6	17.	Centennial Coal	0.5
8.	Placer Dome	1.2	18.	Barrick Gold	0.5
9.	Anglo Coal	1.2	19.	Oil Search	0.5
10.	Coal & Allied	0.9	20.	Alusuisse Aust	0.5
				Total	75.0
			21.	<i>Minara Resources</i>	<i>0.4</i>

Source:IBISWorld

Opportunities ahead

- ❖ Mergers & Acquisitions – will not stop
- ❖ 12 will go in the next 20 years
- ❖ Creates a vacuum
- ❖ Where are the \$5-10 billion new players?

Factors for success

- ❖ What can we learn from the past?
- ❖ Where are the opportunities in the future?
- ❖ **What will impact success?**

What will impact success

- 1. Resources**
- 2. Technology**
- 3. Energy**
- 4. Competitiveness**
- 5. Markets**
- 6. Labour**

1. Resources

- ❖ No shortages of resources in next 20 years (except oil?)
- ❖ Rate and quality of new discoveries are diminishing
- ❖ This will drive exploitation of large/lower grade ore bodies
- ❖ Global competition for where you explore
- ❖ Exploration in Australia – access

2. Technology

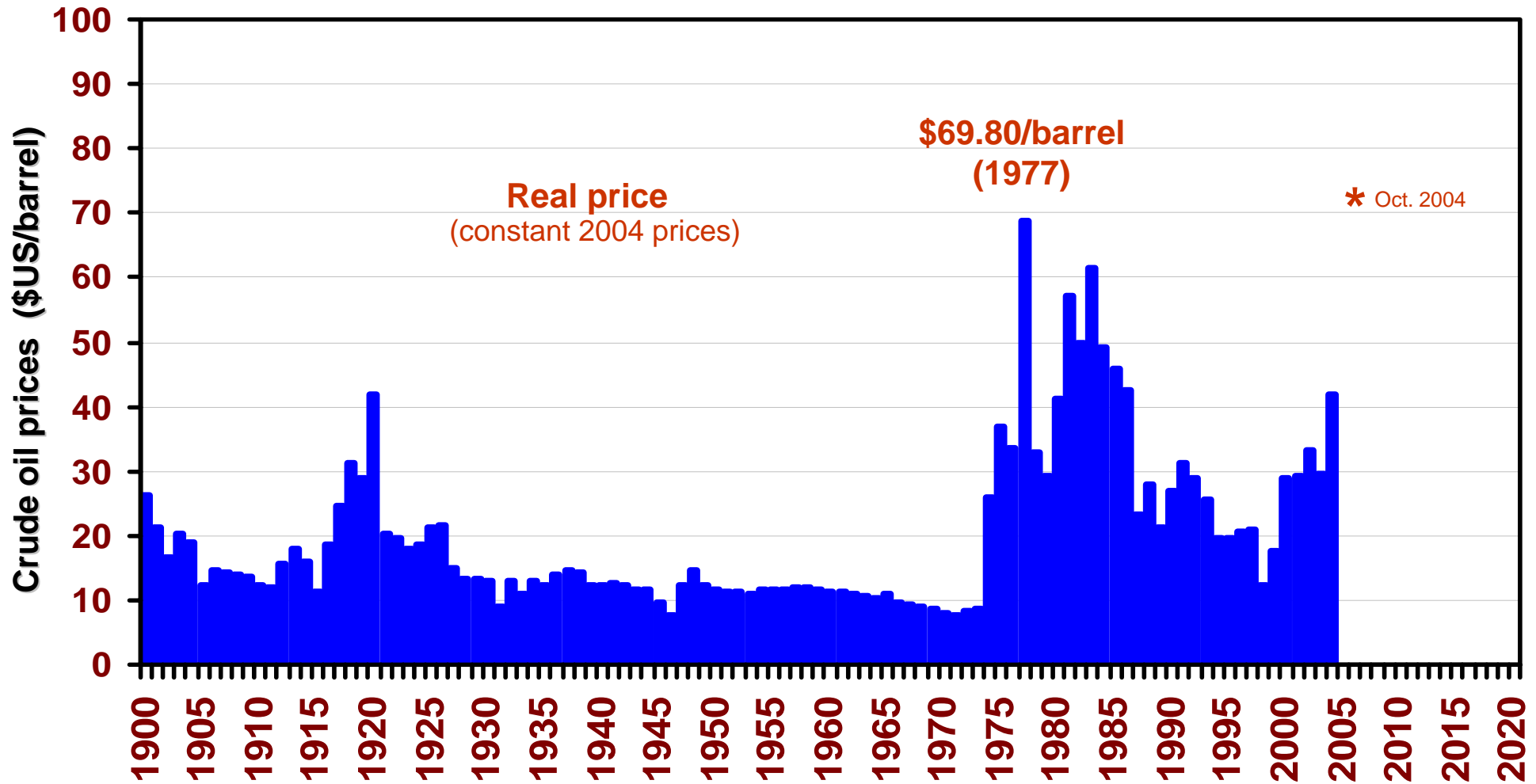
- ❖ Technology will be a key driver of success
- ❖ For example Nickel
 - ◆ >70% of the world's nickel is laterite
 - ◆ <30% world's production
 - ◆ Future belongs to hydrometallurgical technology
 - ◆ This technology will become more competitive
- ❖ Pyrometallurgical processing will be challenged

3. Energy

- ❖ High Prices (Today US\$50, 2 years ago US\$25)
- ❖ The one commodity that perhaps supply will decline
- ❖ Enormous impact throughout the global economy
- ❖ Large impost on energy intensive processes eg. smelting
- ❖ Project development - access, supply & costs
- ❖ Alternative energy supplies will be developed

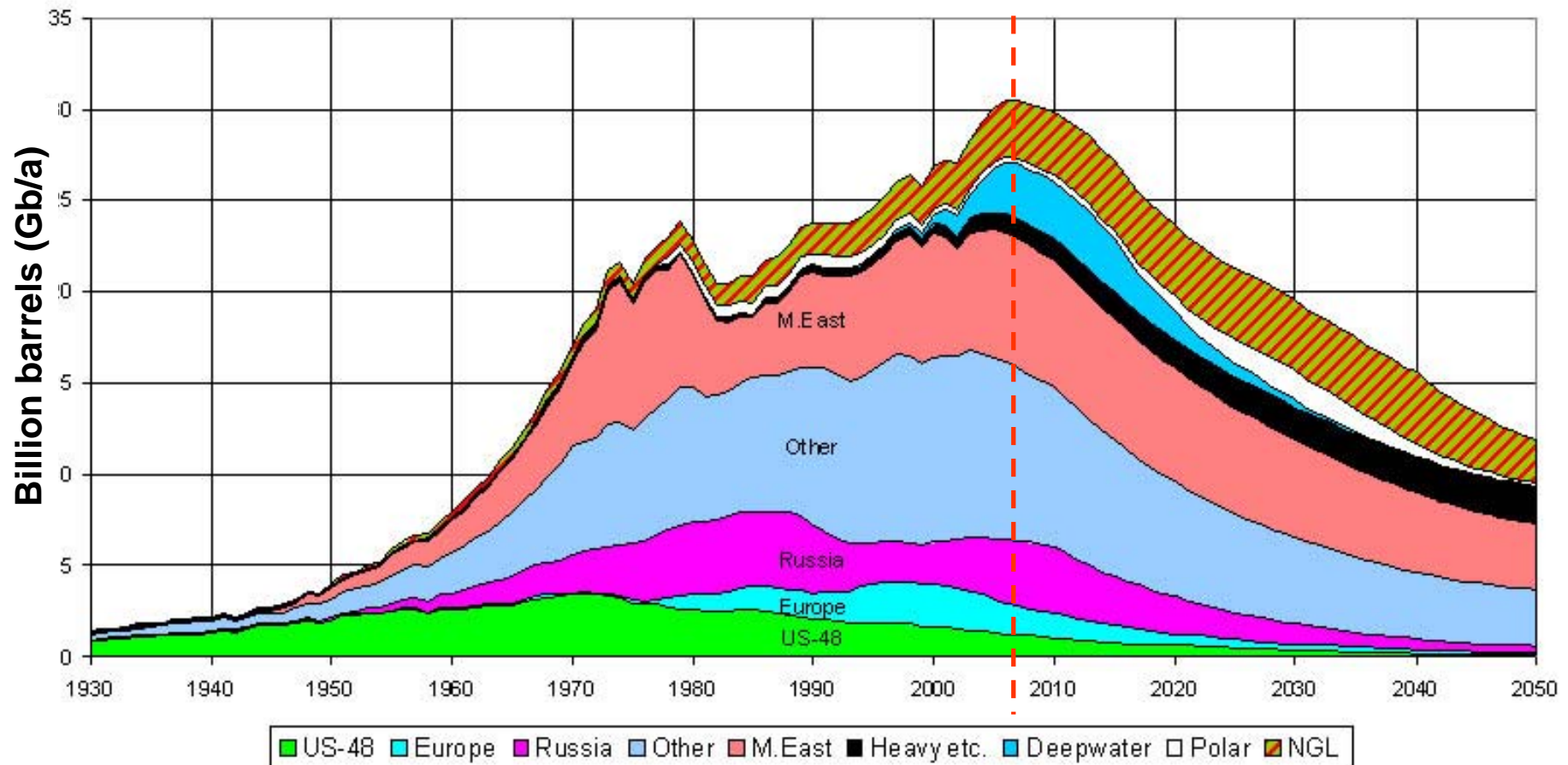
Real Crude Oil Prices 1900-2004

\$US/ barrel (constant 2004 prices)



Known oil reserves declining by 2007

OIL AND GAS LIQUIDS
2004 Scenario



3. Energy

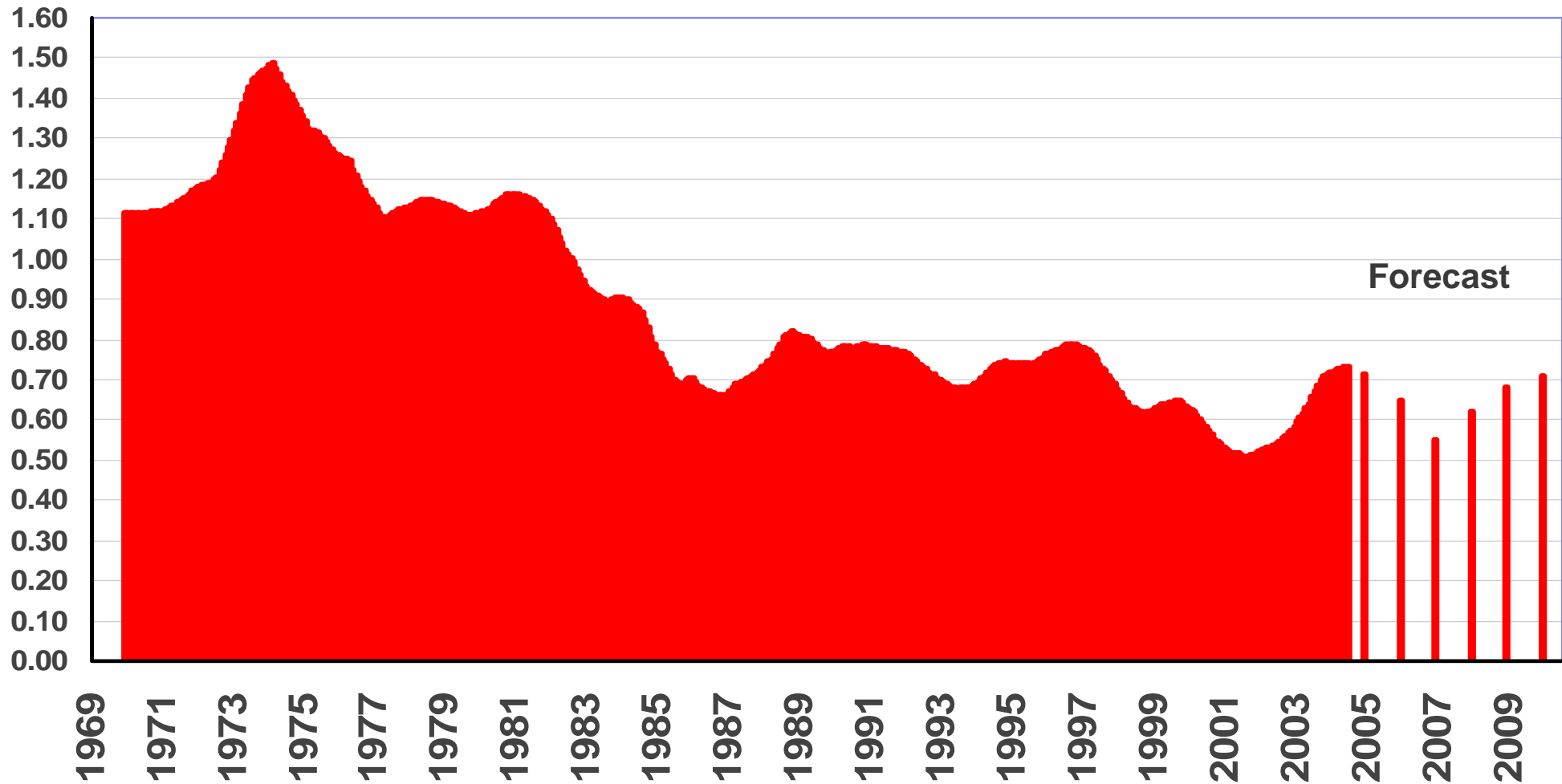
- ❖ High Prices (Today US\$50, 2 years ago US\$25)
- ❖ The one commodity that perhaps supply will decline
- ❖ Enormous impact throughout the global economy
- ❖ Large impost on energy intensive processes eg. smelting
- ❖ Project development - access, supply & costs
- ❖ Alternative energy supplies will be developed

4. Competitiveness

- ❖ Exchange rates – large impacts on profitability
- ❖ Hedging – currency / commodity
- ❖ Pricing – super cycle debate – supply/demand equation
- ❖ Customers – we do have them!
- ❖ Shareholders – balancing
 - dividends - capital management - cashflows
- ❖ Investment opportunities – growth vs margins

Exchange Rate - US\$ to A\$

12 month progressive average, to December 2004



4. Competitiveness

- ❖ Exchange rates – large impacts on profitability
- ❖ Hedging – currency / commodity
- ❖ Pricing – super cycle debate – supply/demand equation
- ❖ Customers – we do have them!
- ❖ Shareholders – balancing
 - dividends - capital management - cashflows
- ❖ Investment opportunities – growth vs margins

5. Markets

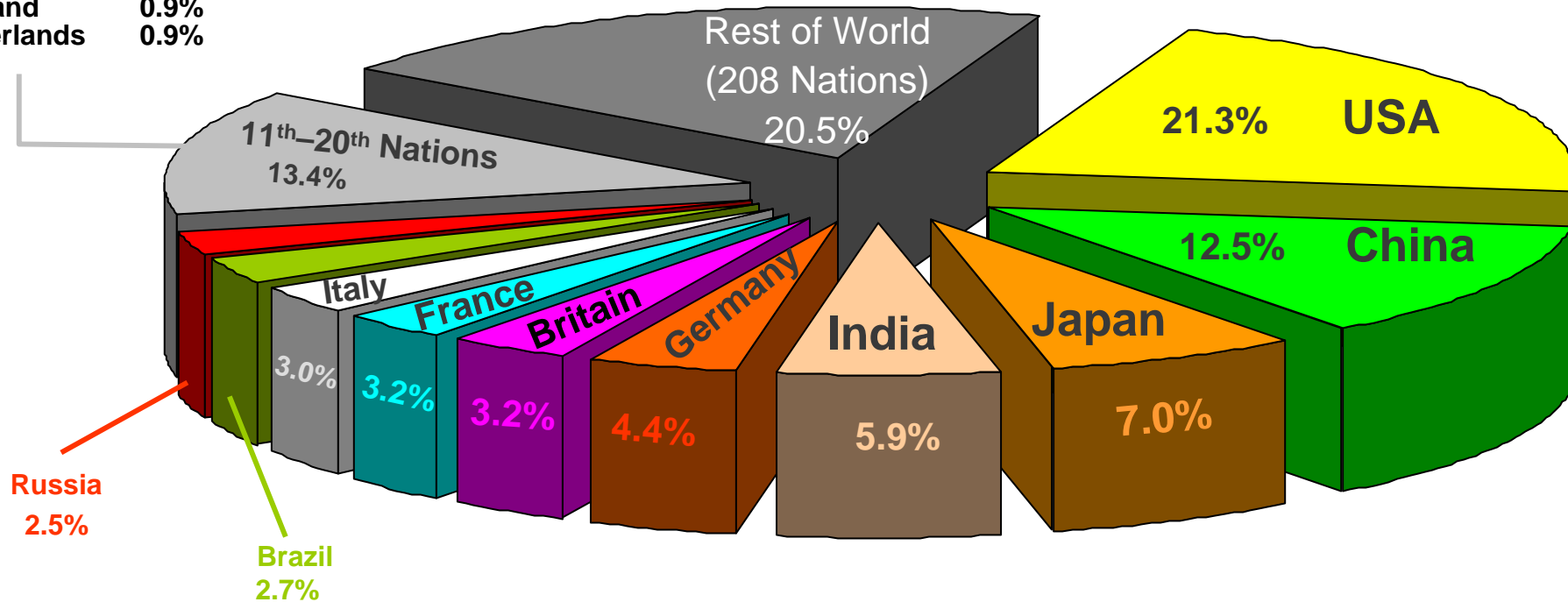
- ❖ Dominance of China – is India next?
- ❖ Have we forgotten Japan?
- ❖ Free trade agreements, e.g. Singapore, Thailand, U.S.A.
- ❖ Trading blocks – expanded EU, ASEAN
- ❖ Restrictions – regulations, tariffs, duties, taxes, royalties

World's 20 Largest Economies

2003 (E)

Canada	1.9%
Mexico	1.8%
Spain	1.7%
Brazil	1.4%
Korea S	1.7%
Indonesia	1.5%
Australia	1.0%
Taiwan	0.9%
Iran	0.9%
Thailand	0.9%
Netherlands	0.9%

Purchasing Power Parity (PPP) terms



World's 228 nations: US\$ 51.5 trillion

CIA World Fact Book 29/11/04

5. Markets

- ❖ Dominance of China – is India next?
- ❖ Have we forgotten Japan?
- ❖ Free trade agreements, e.g. Singapore, Thailand, U.S.A.
- ❖ Trading blocks – expanded EU, ASEAN
- ❖ Restrictions – regulations, tariffs, duties, taxes, royalties

6. Labour

Skills shortage threatens exports

No one wants to go bush any more

Source: Australian Financial Review

6. Labour

❖ Short Term - Pain

- ◆ Hotspots – technical areas
- ◆ Shortages of skilled labour
- ◆ Construction projects
 - ➔ Pressure on total salary costs

❖ Long Term

- ◆ Is the industry attractive for the next generation?
- ◆ Careers
- ◆ Training
 - ➔ Quality of management

Conclusions

- ❖ Global consolidation will continue : including Top 10
- ❖ Over half of today's Top 20 will go in next 20 years
- ❖ Energy, technical innovation & people
- ❖ Industry changes are creating opportunities
- ❖ Biggest opportunity is to fill the void in \$5-10b cap

The Australian Mining Industry

Carpe Diem

Seize the Day!