

Melbourne Mining Club
Being lucky is not enough

Don Argus, Chairman
22 October 2009

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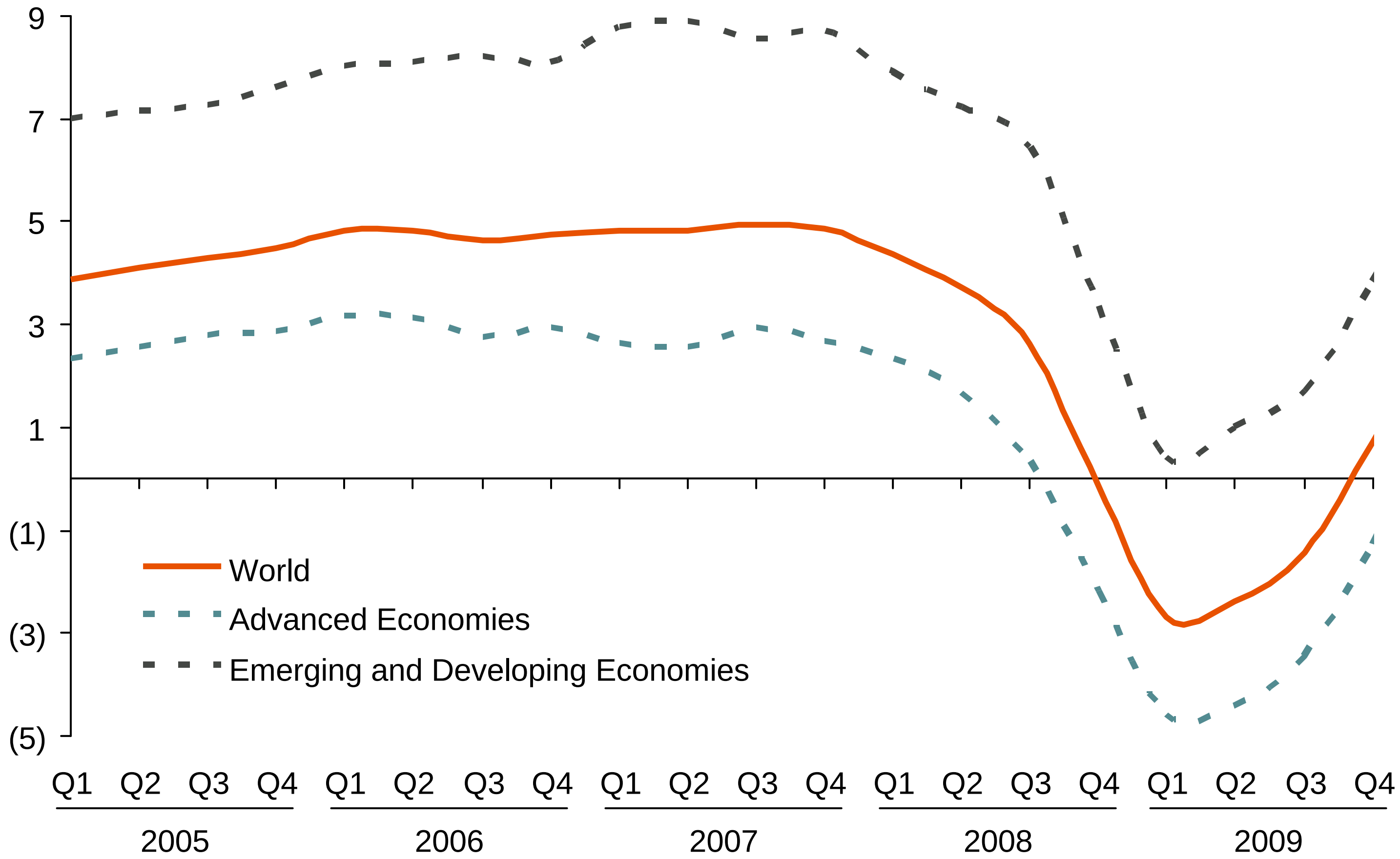
Economic Activity Contracted in All Countries

Global GDP Growth
(%, Quarter-Over-Quarter, Annualised)

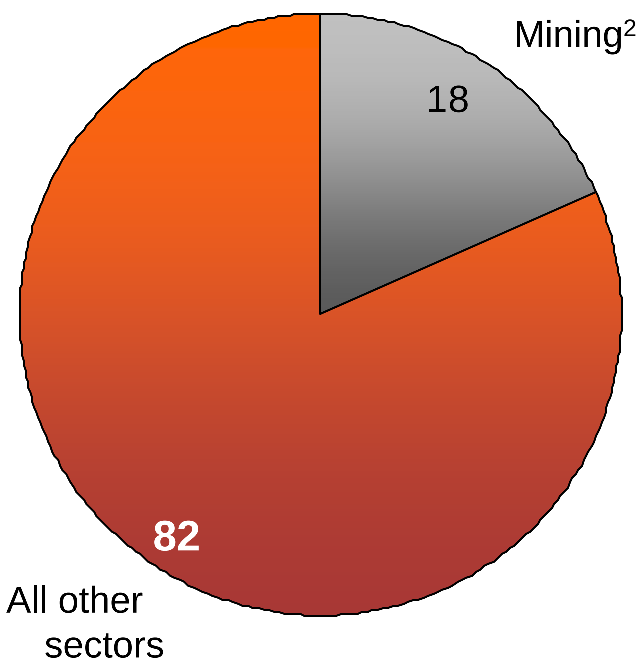


Source: IMF World Economic Outlook Update October 2009.

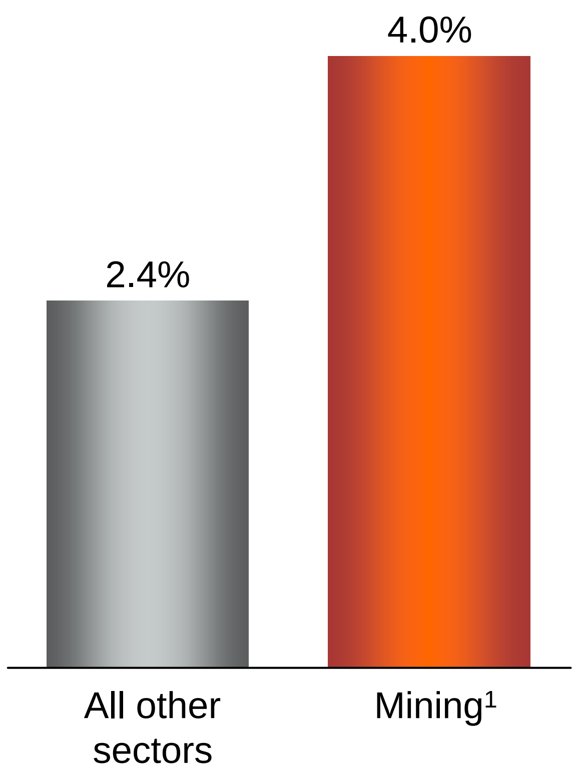
Natural resources have and will continue to be central to Australia’s growth

Australia’s GDP
Percent[1]

100% = 1,095 Billion



Australia’s GDP growth
2006-09; Percent[3]



1 Reference year for chain volume measures has been taken as 2007-08
2 Includes direct contribution of $85 billion and indirect contribution of $117 billion; includes oil and gas
3 Compounding annual growth rate

SOURCE: Australian Bureau of Statistics 5204.0—Australian System of National Accounts, 2007–08, Table Gross Value Added (GVA) by Industry Australian Bureau of Statistics 5209.0—Australian National Accounts Input-Output Tables 1998–99; team analysis

Australia is facing a number of important issues right now

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Source: Press and web search.

Size of economic stimuli varies greatly by country– OECD average: 3.6% of GDP

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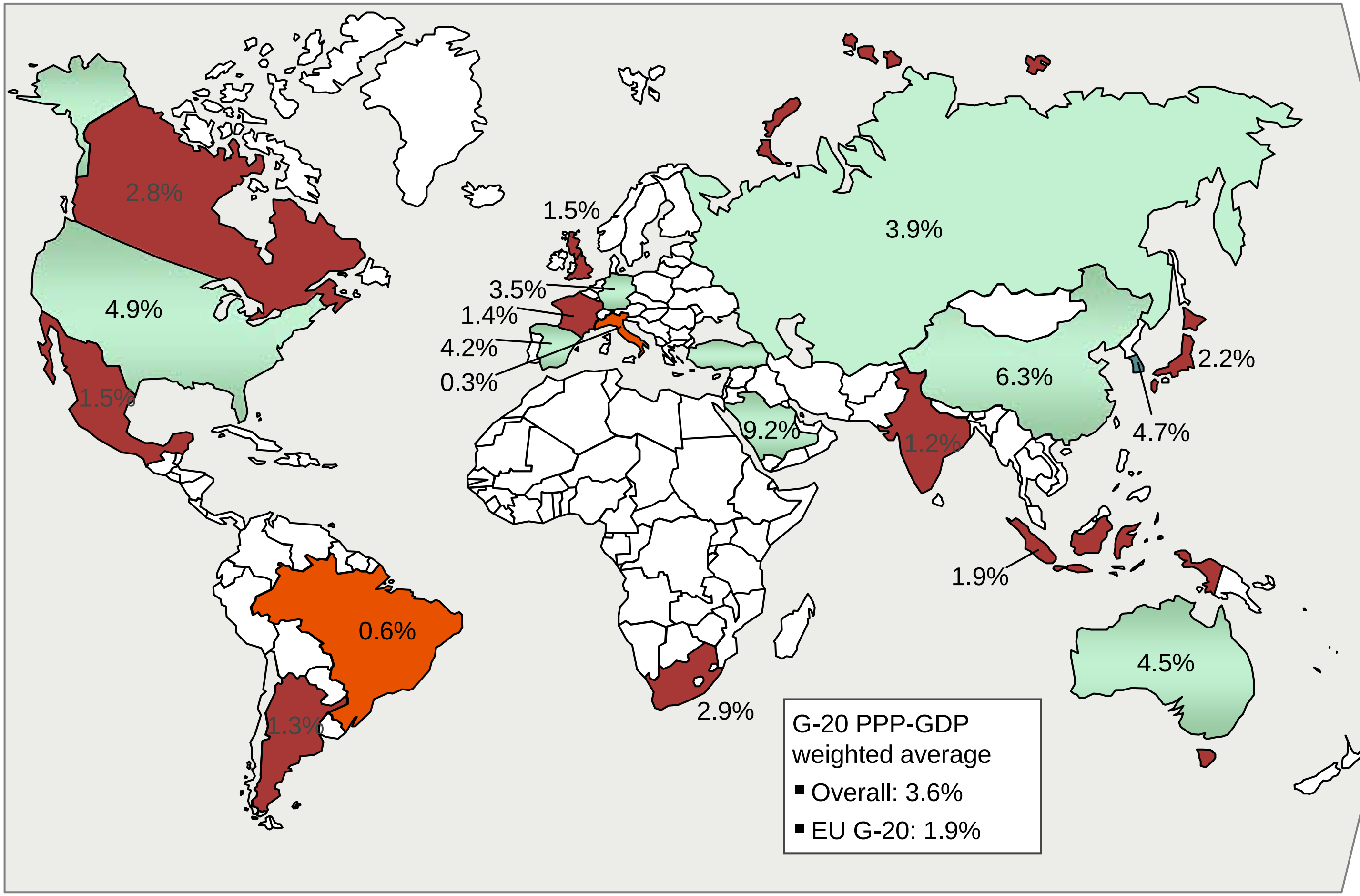
Total size of discretionary fiscal stimulus measures announced[(a)]
% of GDP, G-20 countries (~80% of global GDP)



G-20 PPP-GDP weighted average
- Overall: 3.6%
- EU G-20: 1.9%

IMF ESTIMATES (March '09)
- <1%
- 1% - 3%
- > 3%

- **Size of stimulus package depends on**
  - **Actual and anticipated severity of recession**
  - **Size of automatic stabilizers**
  - **Degree of dependence on internal versus external demand**
  - **Public debt level**
  - **Political will**

(a) Includes only new measures announced and not pre-budgeted expenditure.
Source: IMF (March 2009) -The State of Public Finances; IMF (March 2009) – Staff Note for Group of Twenty.

Government spending

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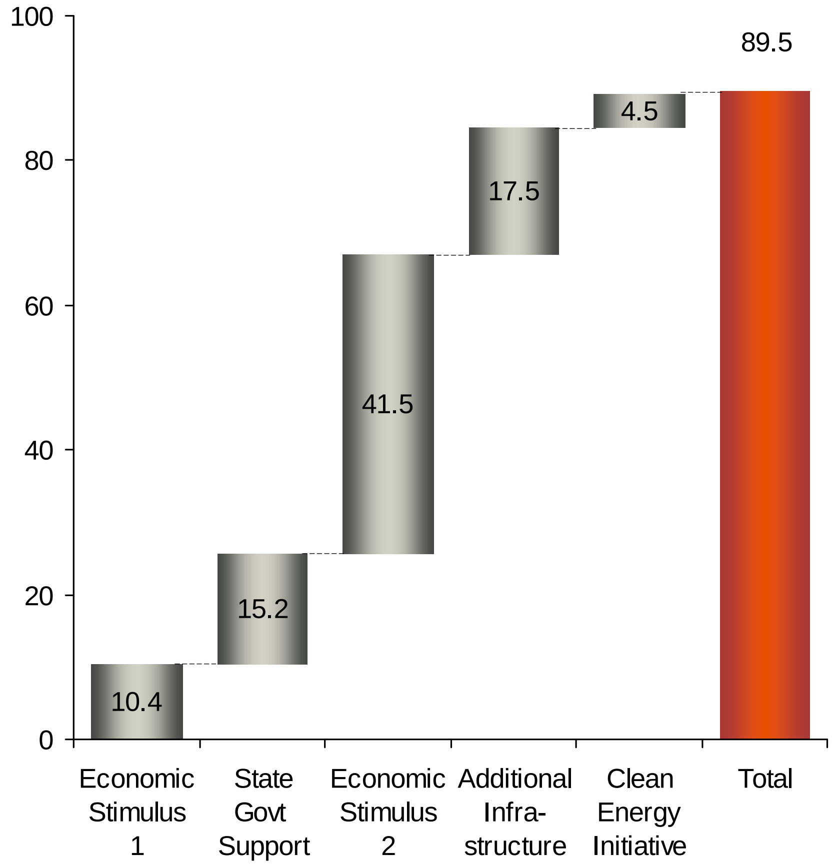
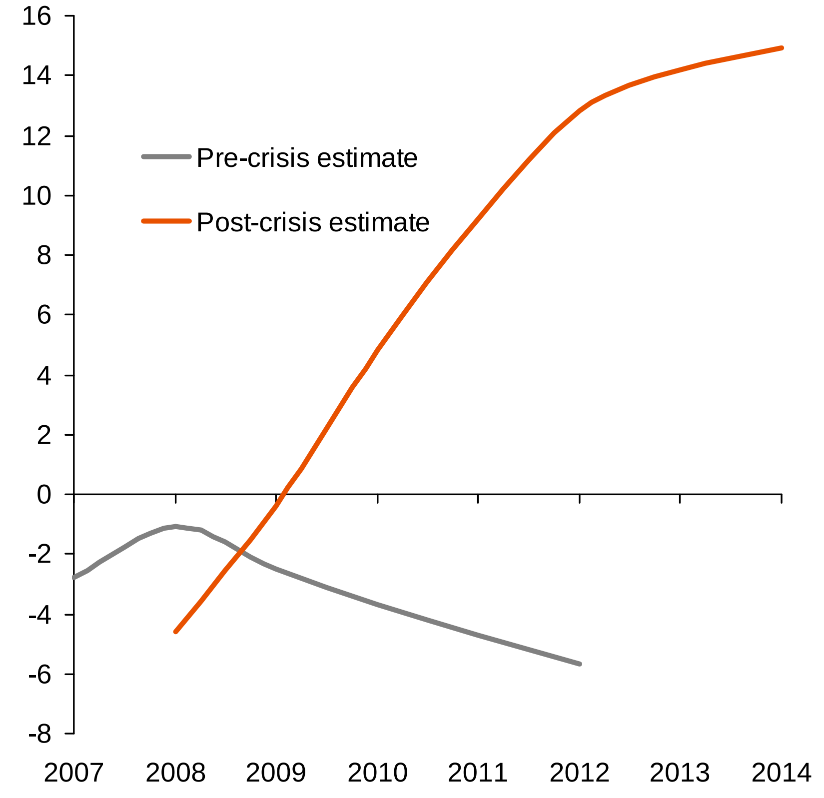
Federal Government GFC response
Announced in the last 12 months, A$ Billion



Australia's debt obligations will rise
Net debt as proportion of GDP, Percent



Source: Infrastructure Partnerships Australia, 'Financing Infrastructure in the Global Financial Crisis', March 2009; Australian Treasury, 'Australia's response to the global financial crisis', Dr Steven Kennedy; Federal Budget, 2009-10, Overview; IMF World Economic Outlook, October, 2007 and July 2009

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Australia has abundant natural resources

Australia's ranking of natural resource reserves by size		
	Bauxite	1
	Uranium	1
	Nickel	1
	Gold	2
	Iron Ore	3
	Coal	6
	Oil and gas	20

Source: OECD Economic Survey of Australia 2006, table 1.1; BP Statistical Review of World Energy 2009.

The natural resources sector is now our largest source of export revenues

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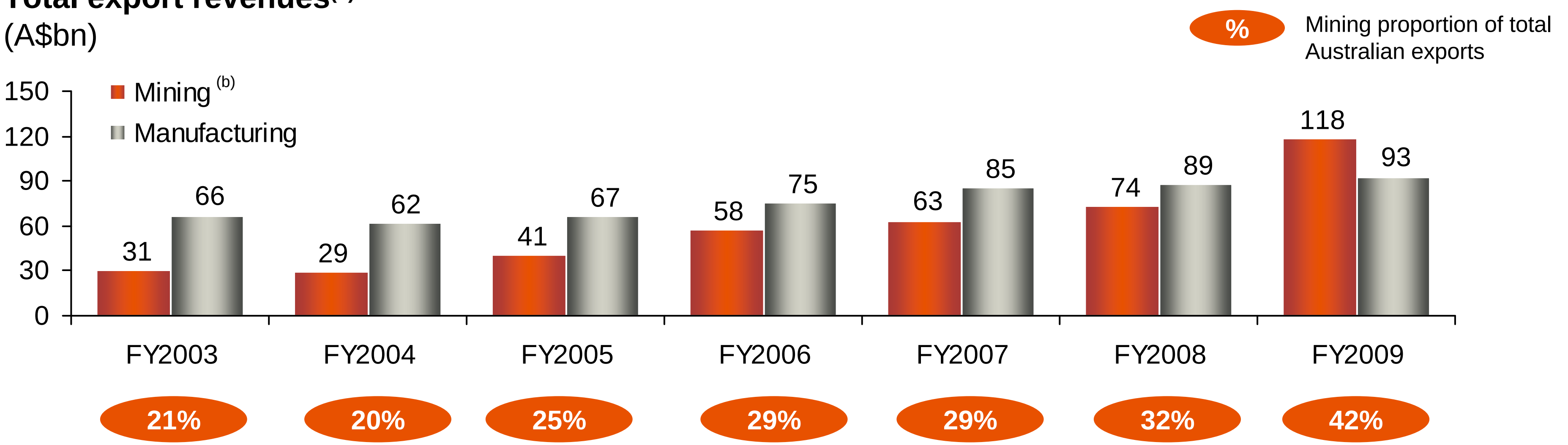
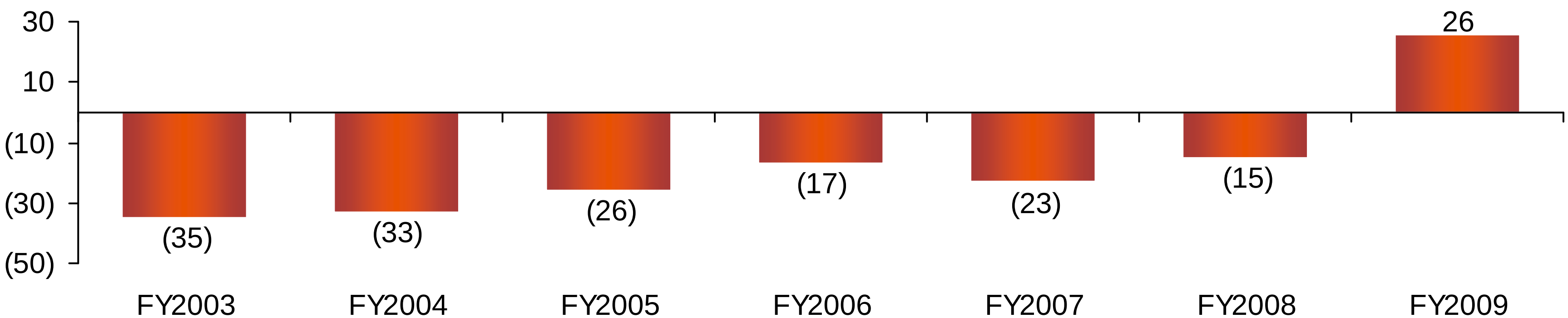
Total export revenues[(a)]
(A$bn)



Difference between mining[(b)] **and manufacturing export revenues**
(A$bn)



(a) Free on-board value.
(b) Includes oil and gas.
Source: Australian Bureau of Statistics; 8417.0 Mining Indicators (released Aug 2009); 8229.0 Manufacturing Indicators (released Aug 2009); 5368.0 International Trade in Goods and Services (released Aug 2009).

Future demand for our minerals is strong

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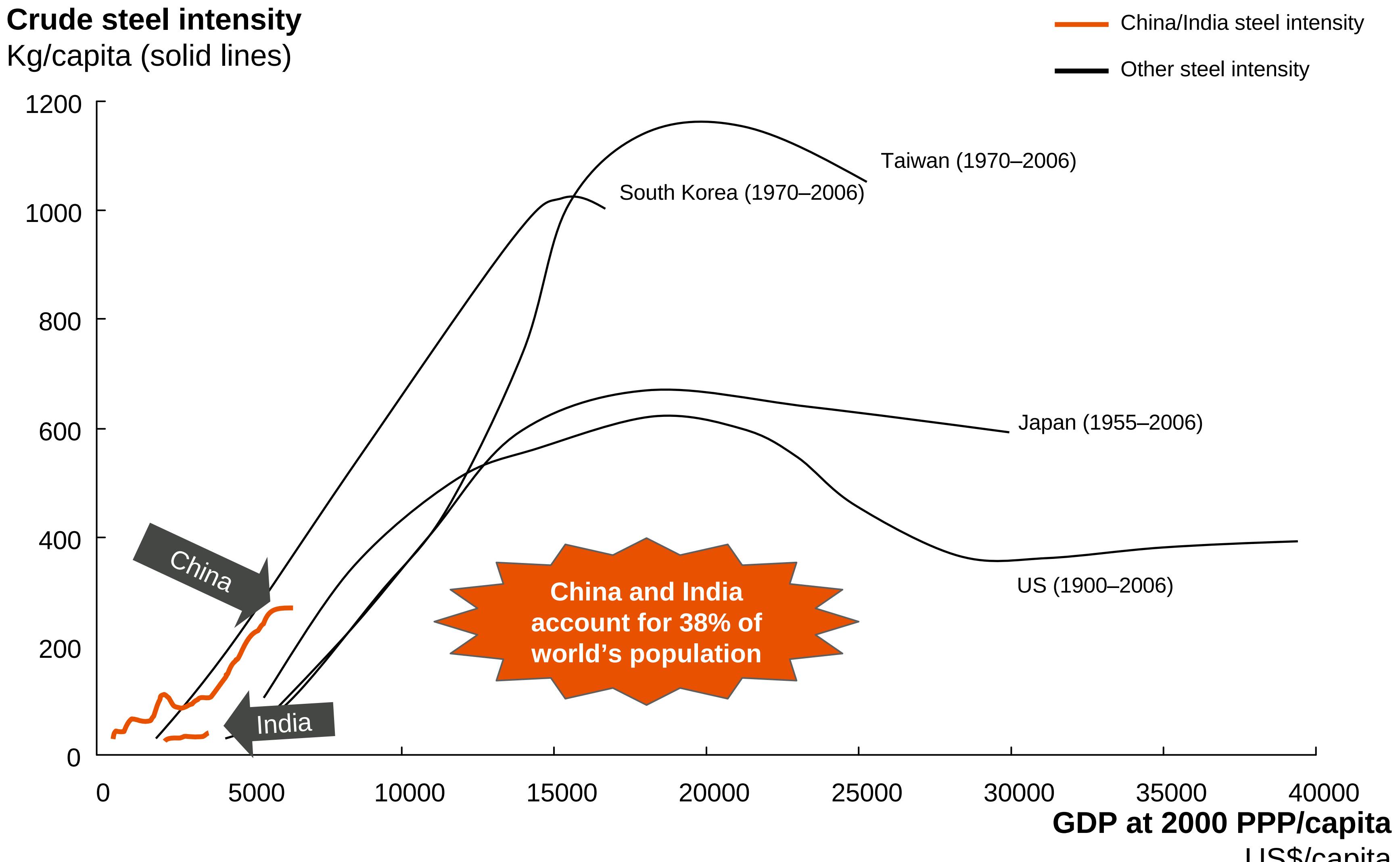

SOURCE: Global Insight; IMF; OECD; IISI; USGS; JFK

Ensuring international competitiveness

1. Funding for large scale growth opportunities
2. Flexible and responsive labour market
3. Supportive policy and regulatory environment
4. Tax system

Ensuring international competitiveness

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Australian corporate bond market is small compared with US and UK

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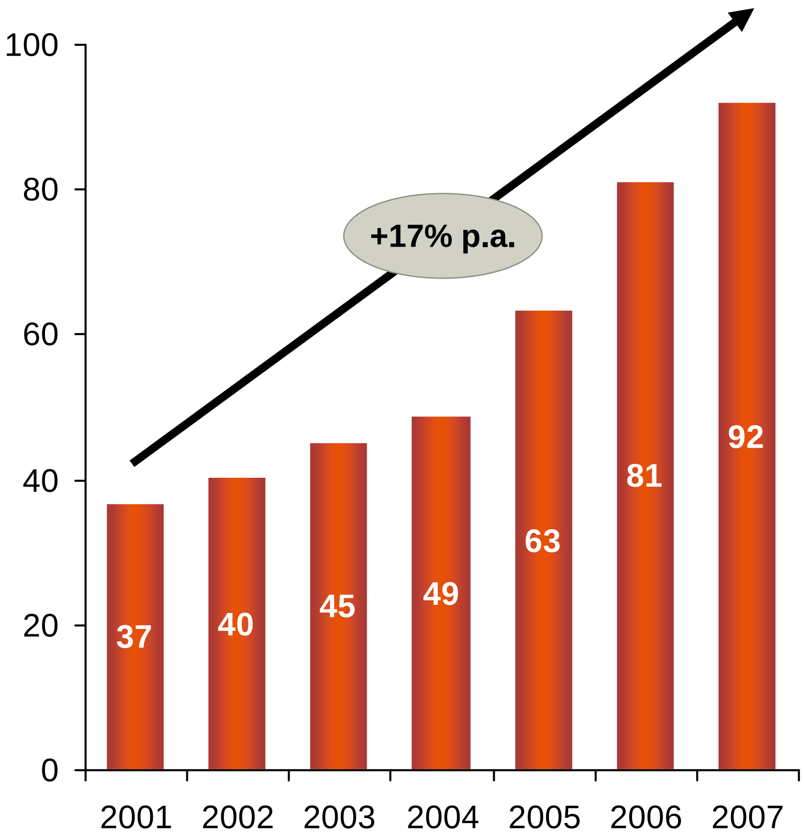
Debt Capital Market (DCM)[a] corporate deals as proportion of GDP
Percent of real GDP (2005 base year)

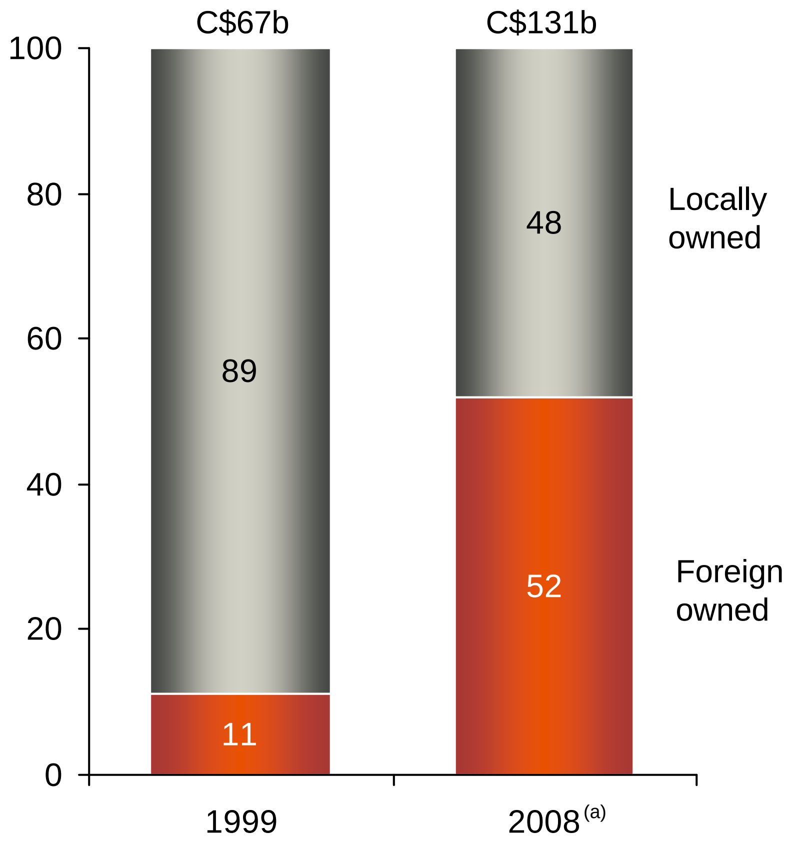
(a) Includes corporate bond and other notes, that is, excludes asset and mortgage backed securities; for non-bank, non-government deals
Source: Dealogic; Global Insight (World Market Monitor)

Foreign direct investment is a crucial growth enabler

FDI in Australian mining
(A$bn)



Canada case example
(Controlling ownership of mining assets, %)



(a) 2008 figure extrapolated from published 2006 data to include Alcan acquisition.
Source: ABS Catalogue 5352 Supplementary Statistics 2007 (released on Jan 30 2009), table 15a; Statistics Canada; Corporations Returns Act CANSIM 179-0004.



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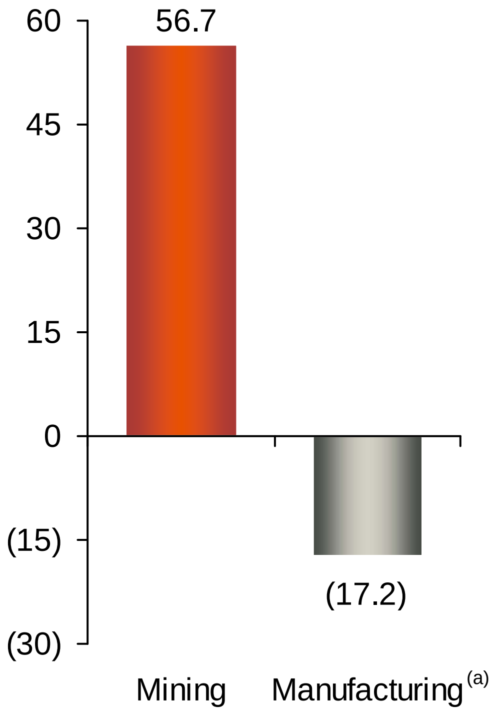
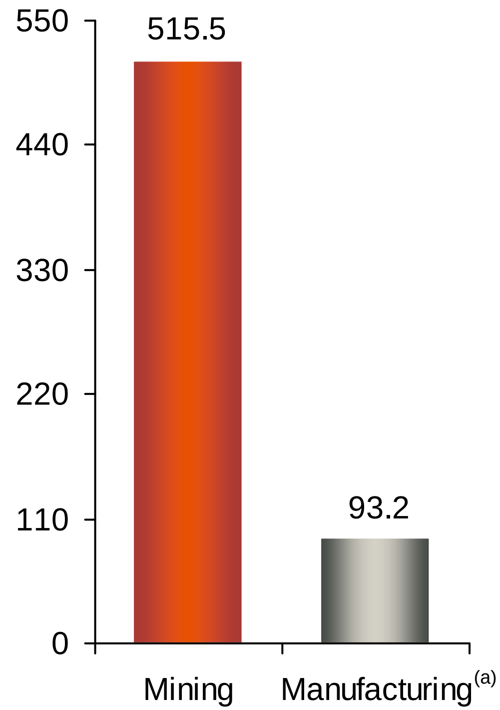
Mining jobs are of high value to the economy

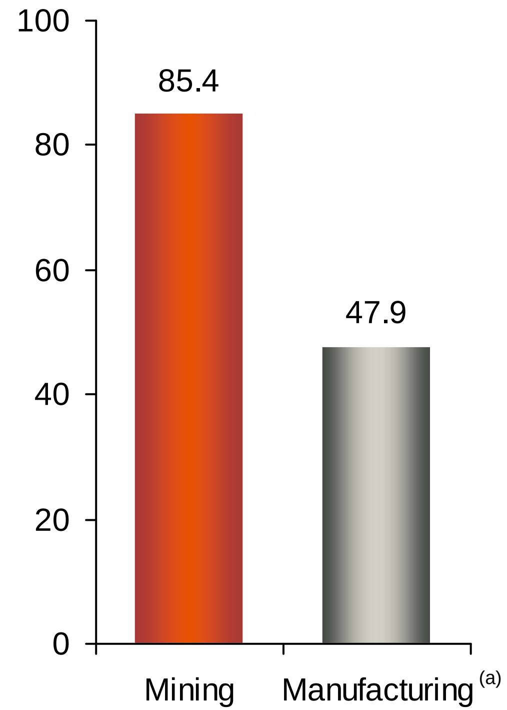
Jobs created, 2001–07
Thousands



Gross value added to the economy per employee
(A$ thousand, FY2007)



Average annual income per employee
(A$ Thousands, FY2006)



(a) Manufacturing subsectors per the Australian Bureau of Statistics include—food, beverage and tobacco; textile, clothing and footwear; wood and paper products; printing, publishing and recorded media; petroleum, coal, chemical, etc; non-metallic mineral products; metal products; machinery and equipment; and other manufacturing.

Source: Australian Bureau of Statistics; 5204.0—Australian System of National Accounts, 2006–07; 6291.0—Labour Force, Australia; Aug 2007, 8415.0 Mining Operations; Australia, 2005–06, 8221.0 Manufacturing Industry, Australia, 2005–06

Australia's labour market is less flexible than that of many other countries

Cooperation in labour-employer relations[a] (Survey rank)

10	Japan
24	Germany
25	UK
26	US
31	Canada
40	India
43	**Australia**
60	China
75	Mexico
87	Brazil
121	South Africa
131	Korea

Flexibility in wage determination[b] (Survey rank)

11	Japan
14	US
18	UK
29	Canada
38	Korea
44	India
53	China
88	Mexico
90	**Australia**
110	Brazil
123	South Africa
130	Germany

Non-wage labour costs[c] (Survey rank)

4	South Africa
26	US
35	UK
46	Canada
46	Japan
46	Korea
69	India
80	Germany
85	**Australia**
89	Mexico
123	Brazil
126	China

(a) Countries' labour-employer relations were scored on a scale of 1 to 7 (where 1 = relations are generally confrontational and 7 = relations are generally cooperative), then ranked in descending order of score
(b) Countries' flexibility of wage determination were scored on a scale of 1 to 7 (where 1 = wages are set by a centralised bargaining process and 7 = wages are up to each individual company), then ranked in descending order of score
(c) Countries' non-wage labour costs were estimated by adding the social security payments and payroll taxes associated with hiring an employee in fiscal year 2005 and expressing this sum as a percentage of the worker's salary, then ranked in ascending order of quotient. Note, this data from 2008-09 report.

Source: Source: World Economic Forum, The Global Competitiveness Report, 2008-09 and 2009-10.

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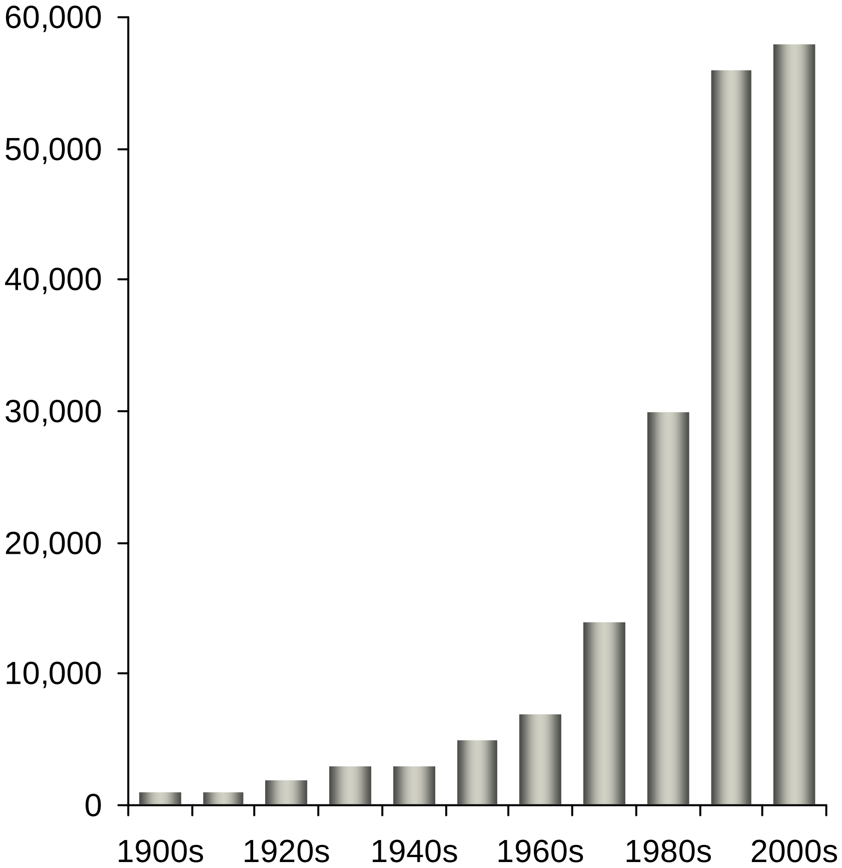
3. **Supportive policy and regulatory environment**
4. Tax system

Increasing legislation and regulation increases complexity of doing business in Australia

Total pages of legislation passed



- **60** Federal regulators and national standards bodies
- **40** Ministerial councils
- **1,300** Regulators across all 3 levels of government
- **35** Areas of state/state overlap in regulation
- **18** Areas of federal/state overlap in regulation
- **28** Taxes administered by more than 1 government
- **56** Business taxes administered in Australia

Source: Banks Regulation Taskforce 2006, citing BCA submission; BCA 'Towards a seamless economy', 2008

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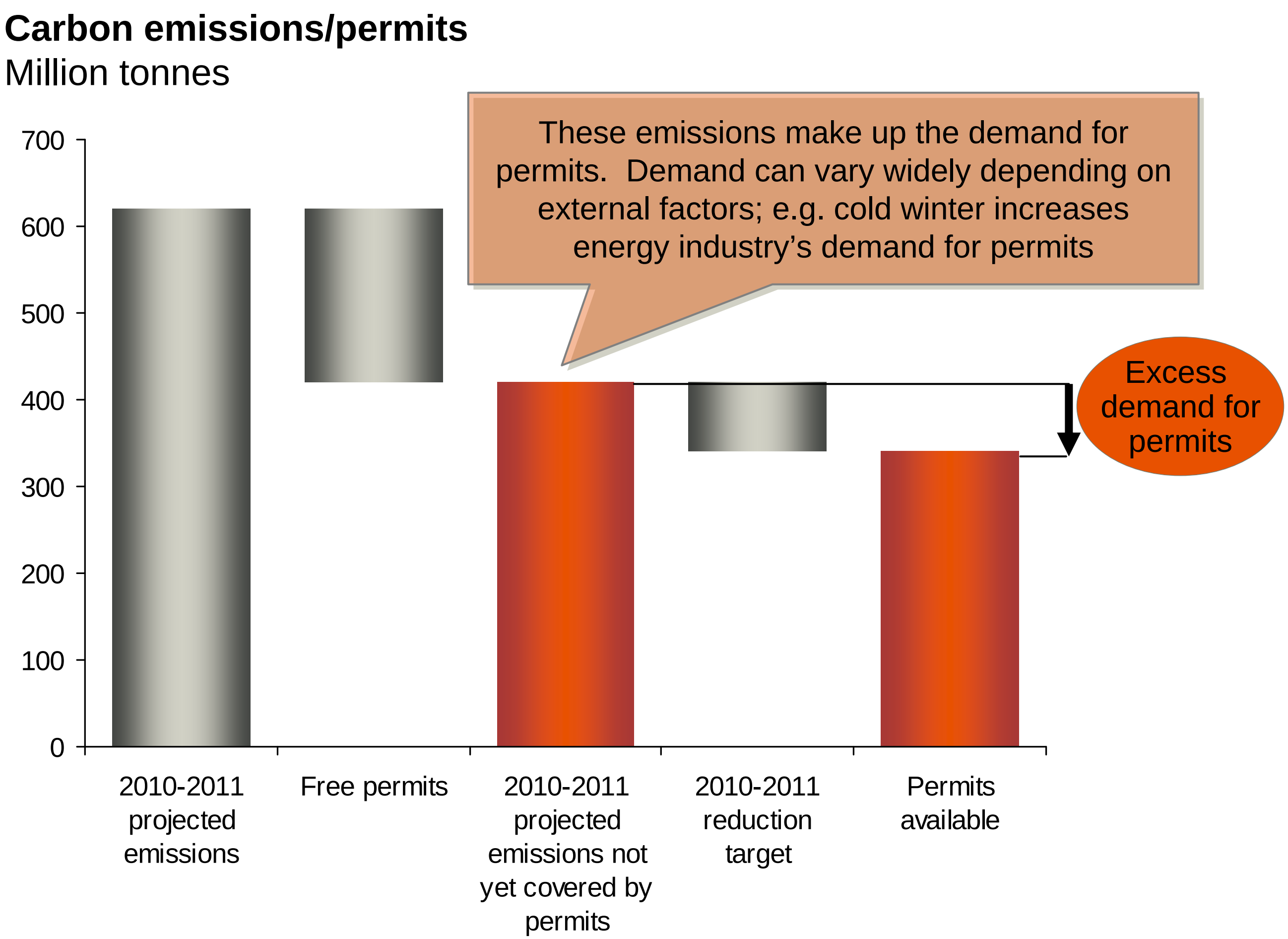
3. **Supportive policy and regulatory environment**
    a. **Environmental policy**
4. Tax system

Carbon prices could be volatile under the CPRS due to the variability of carbon demand

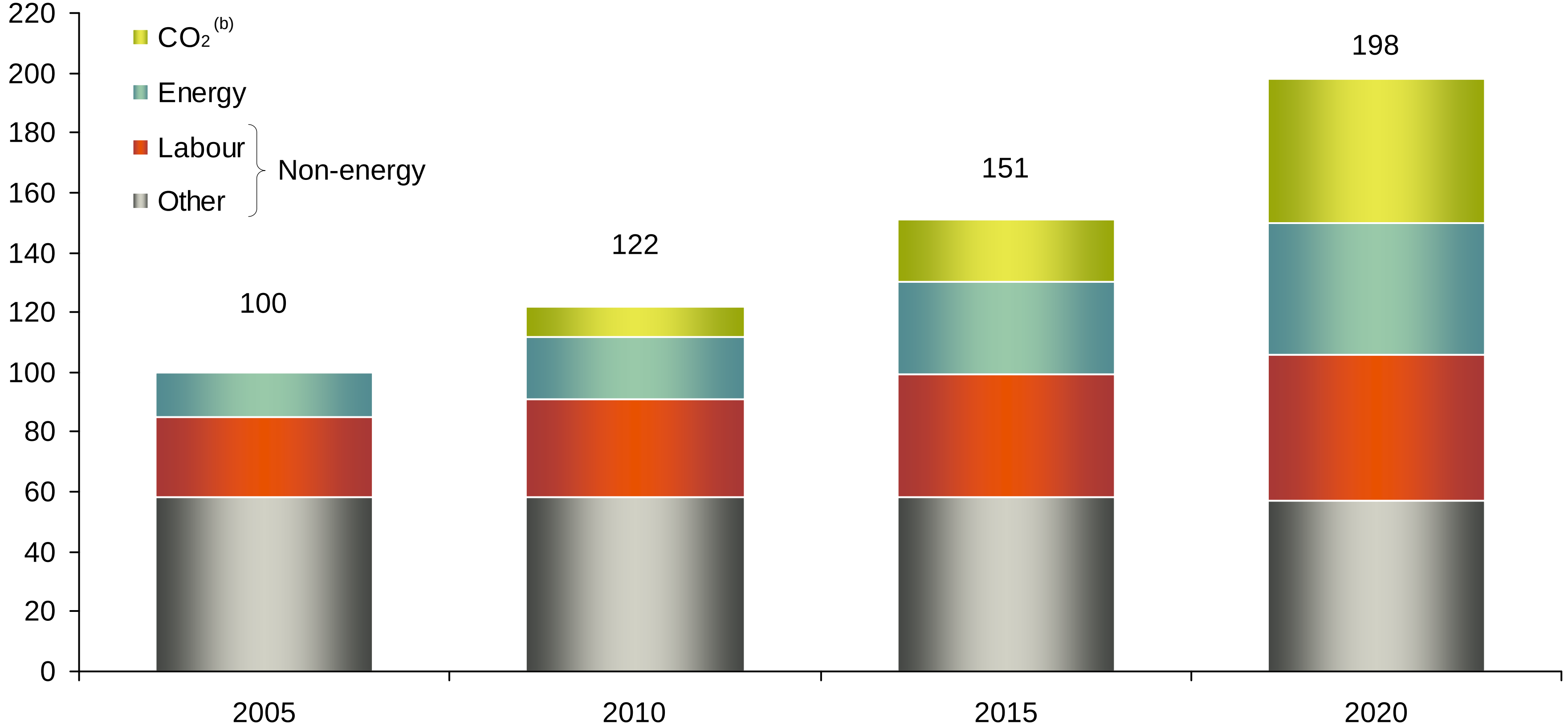


Unpredictable demand is likely to cause price volatility

Source: Carbon Pollution Reduction Scheme White Paper

Carbon, energy and labour costs will account for almost 75% of future cost base

Cost per tonne concentrate[a]
(Indexed, 2005 = 100%)



(a) Open cast mine.
(b) Assumes carbon cost of 20 Euro/tonne.
Source: Infomine; The Economist Intelligence Unit; International Energy Agency.

Ensuring international competitiveness

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2. Flexible and responsive labour market

3. **Supportive policy and regulatory environment**

   b. **Access regulation**

4. Tax system

Our regulatory environment deters investment in infrastructure

Access regulation reduces the attractiveness of investment

Market outlook | **Response from 3rd party**

- **Outlook at the start of access contract**
  - **Good** — Seek access – enjoy positive returns
  - **Bad** — Do not seek access
- **Outlook at the expiry of access contract**
  - **Good** — Seek continued access – keep profiting
  - **Bad** — Do not renew –avoid losses

As access contracts are shorter than asset life, the access seeker has an option not to renew access, and so is insured at the expense of the investor

Source: BHP Billiton analysis; Jerry Hausman analysis; Economic literature.

Asian players are completing projects at dramatically lower cost and shorter timeframes

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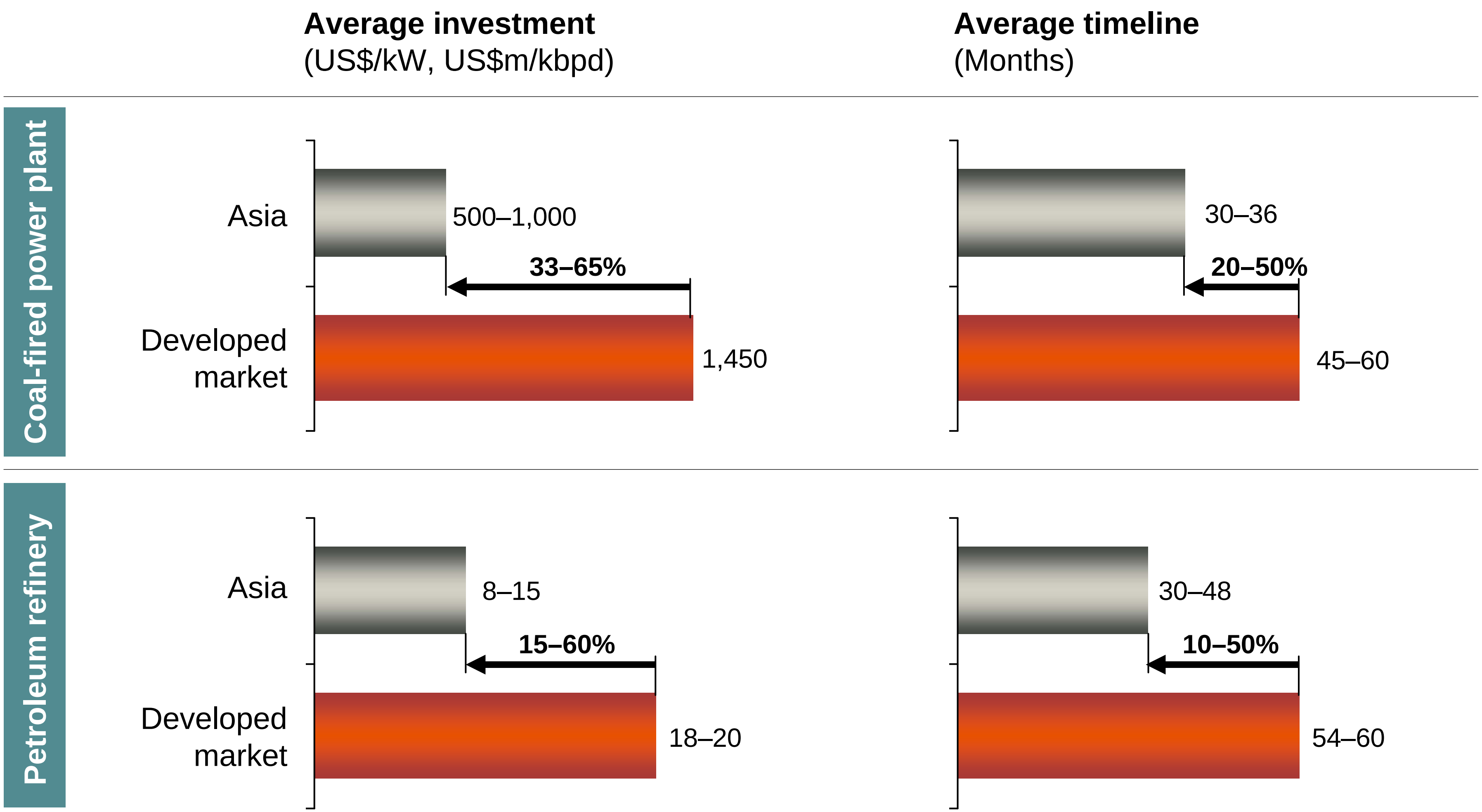

Source: Company websites; Industry interviews; Internal analysis.

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Factors perceived to be the most problematic for doing business in Australia

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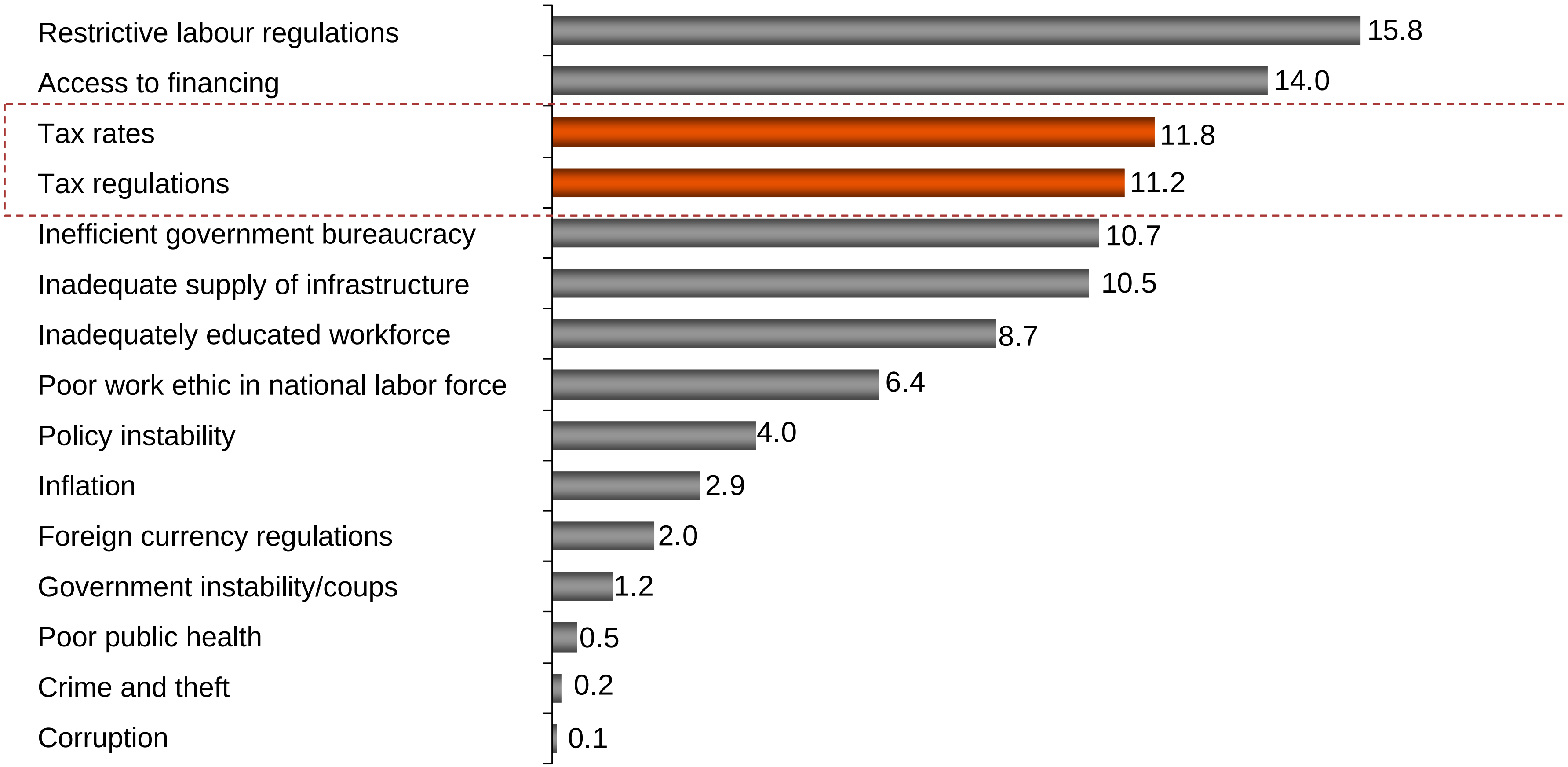
Survey of the most problematic factors for doing business in Australia
(% of responses)



From a list of 16 factors, respondents were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.
Source: The World Economic Forum 'The Global Competitiveness Report 2009-2010.

A$18b incremental export revenue benefit by holding share in 4 minerals to China & India

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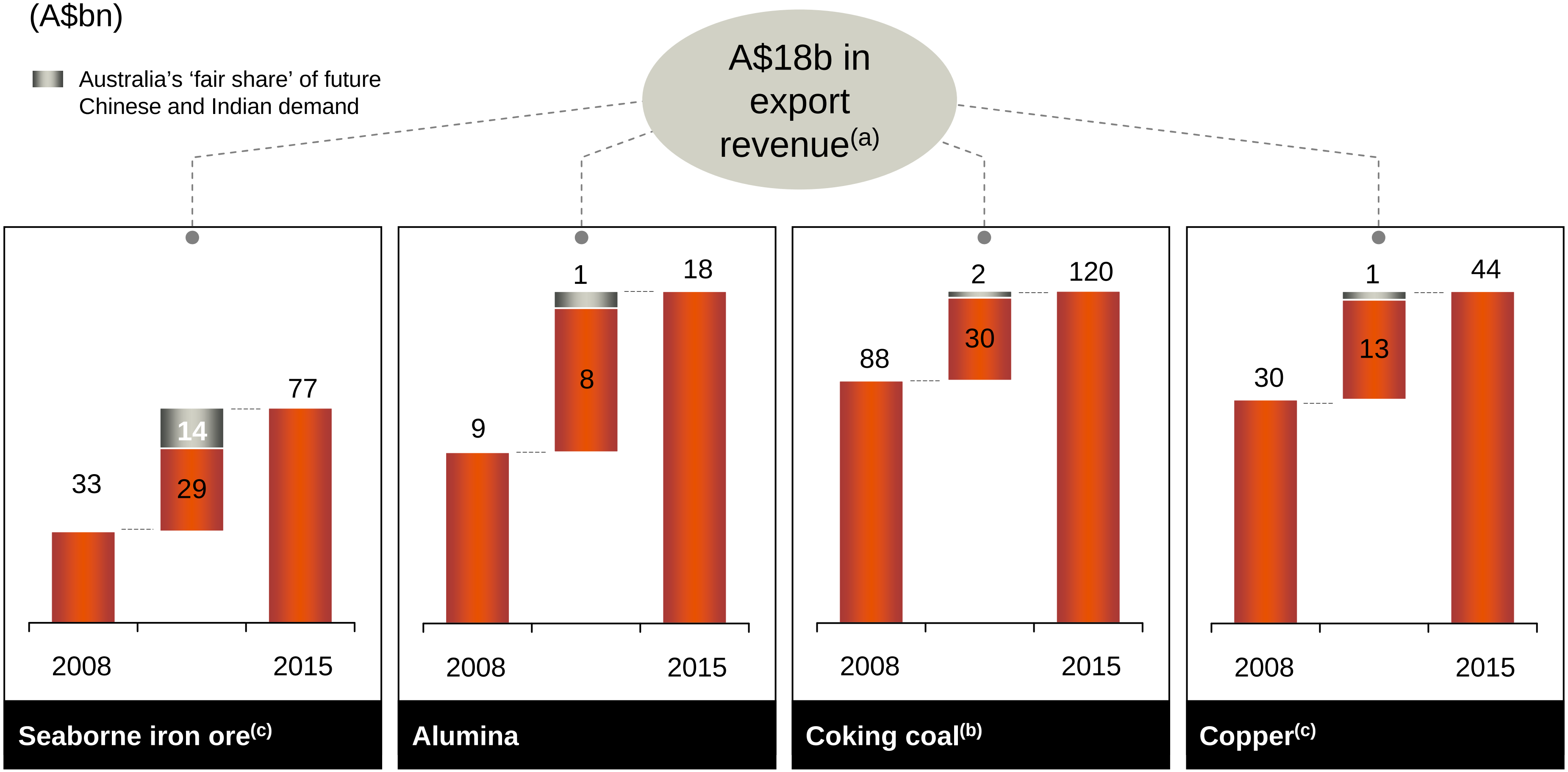
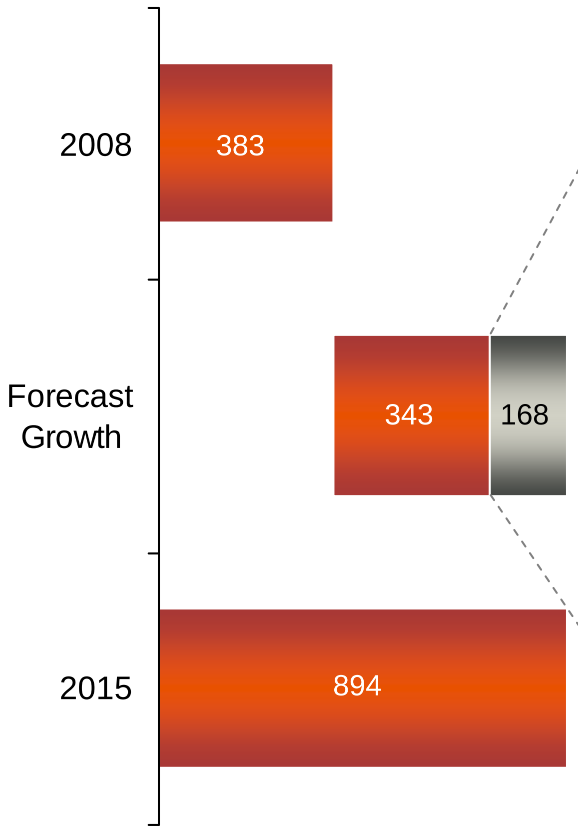
Chinese and Indian demand by mineral
(A$bn)



(a) Assumes current prices, future share based on share of current Chinese imports only.
(b) Australia's share calculation based on global share of total coal (thermal and coking) production.
(c) Chinese demand only.
Source: Internal analysis; EIA; USGS; Metal Bulletin; LME; SBB; Platts; UN Comtrade; ABARE

Other economic and social benefits will be created in Australia

Estimated Chinese iron ore demand
(Million tonnes)



Australia's 'fair share' of future China demand

Capturing 33% (Australia's current share of Chinese iron ore imports) of forecasted growth would have significant benefits(a)

Additional annual export revenue	**A$14b**
Additional annual GDP contribution	**A$34b**
Additional annual tax revenue	**A$8b**
Additional jobs created	**35,000**

(a) At current prices.
Source: Internal analysis; EIA; USGS; ABS Input-Output multiplier table, employment multiplier table, 5204.0 National Accounts; Federal Budget papers; Oz Forex; ABARE; UN Comtrade; Team analysis.

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