



Tax Reform in the Minerals Sector

Craig Yaxley

Tax Partner

KPMG Perth

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Agenda

- Scope of our engagement
- Details of the modelling exercise
- Model outputs
- Comparative project ETR calculations

Scope of our engagement

KPMG has worked with the MCA to develop whole-of-life financial models for Australian mines across six commodities

Iron ore

Coal

Copper

Nickel

Bauxite

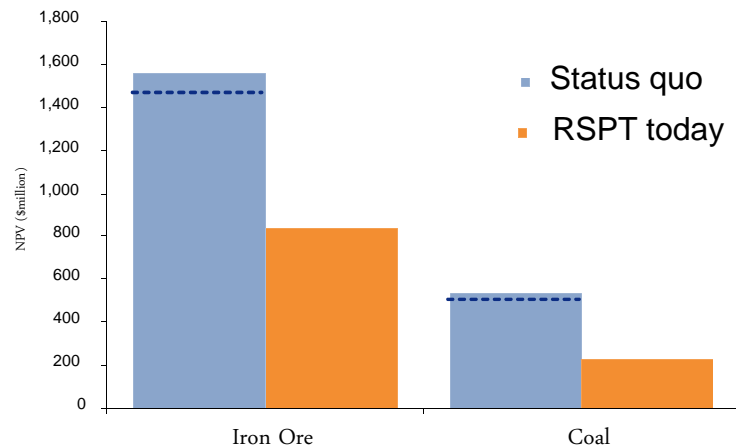
Gold

The key features of the mine models are:

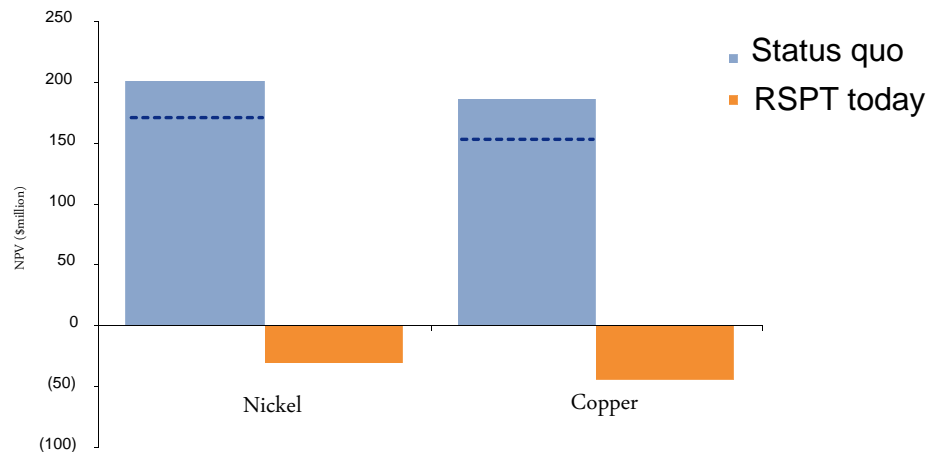
- The models are for greenfield mines, with project development assumed to commence on 1 July 2012
- The capital and operating costs of the mines would result in them being in the second quartile in the world cash cost curve
- External forecasts for capital and operating costs and revenues, including commodity pricing, exchange rates etc, have been incorporated

Model outputs – Net Present Value

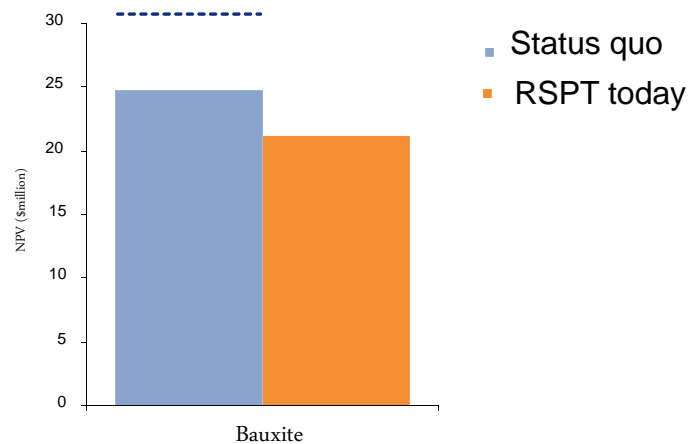
Bulk Commodities



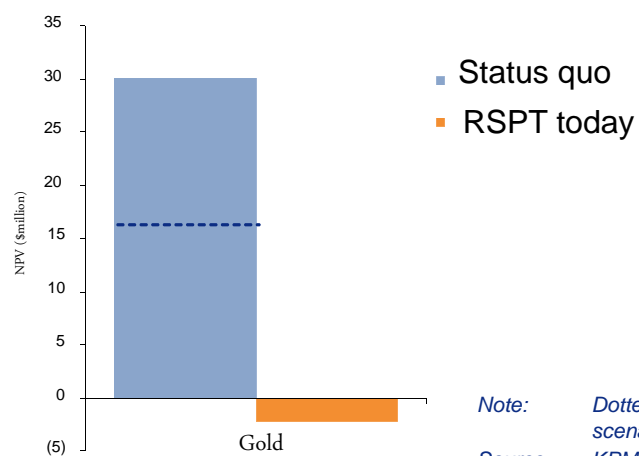
Base Metals



Bauxite



Precious Metals



Note: Dotted lines refer to "Tax neutrality" scenario
 Source: KPMG analysis

Model outputs – effective tax rate

$$\frac{\text{Total taxes paid in relation to a project}}{\text{Total project profit before any taxes}}$$

Effective Tax Rate	Iron Ore	Coal	Nickel	Copper	Bauxite	Gold
Status quo	43.6%	41.1%	34.3%	34.4%	50.1%	34.6%
RSPT Today	54.7%	55.0%	55.1%	55.0%	54.0%	54.1%

Comparative project ETR calculations – iron ore and coal

Iron Ore	Calculation	Rate	Tax base	CTR	ETR
Australia RSPT	profits-based	40.0%	Profits	28.0%	56.9%
Canada (Quebec)	profits-based	14.0%	Net income	29.9%	40.2%
Brazil	ad valorem	2.0%	Sales	34.0%	37.8%
China	unit-based	\$4.20	Per tonne, 25 CNY ~ A\$4.20	25.0%	31.1%
Coal	Calculation	Rate	Tax base	CTR	ETR
Australia RSPT	profits-based	40.0%	Profits	28.0%	52.2%
Indonesia	ad valorem	13.5%	f.o.b value or sales revenue	28.0%	47.4%
India	Per unit & ad valorem	\$9.40	180 Rs/tonne +5% price ~ A\$9.40 / tonne	34.0%	47.0%
South Africa	ad valorem	7.0%	unrefined, sales (5% refined)	34.6%	43.7%
Canada (Saskatchewan)	ad valorem	15.0%	Mine mouth value	28.0%	38.8%
Canada (Alberta)	profits-based	13.0%	Two tier; 1% on op. income, 12% on cuml net profit	28.0%	37.4%
Canada (Ontario)	profits-based	10.0%	Profit > C\$500,000	27.0%	34.3%
China	unit-based	\$0.60	Per tonne, 2.4 CNY ~ A\$0.60	25.0%	25.9%

Comparative project ETR calculations – nickel, copper

Nickel	Calculation	Rate	Tax base	CTR	ETR
Australia RSPT	profits-based	40.0%	Profits	28.0%	52.8%
Brazil	ad valorem	2.0%	Sales	34.0%	36.9%
Canada (Ontario)	profits-based	10.0%	Profit > C\$500,000	27.0%	34.3%
Copper	Calculation	Rate	Tax base	CTR	ETR
Australia RSPT	profits-based	40.0%	Profits	28.0%	52.7%
USA (Arizona)	ad valorem	2.0%	Market price (2% minimum)	42.0%	44.8%
Canada (Quebec)	profits-based	14.0%	Net income	29.9%	39.7%
USA (Nevada)	profits-based	5.0%	Net proceeds	35.0%	38.3%
Canada (B.C.)	profits-based	13.0%	Two tier, 2% on op. income, 13% on cuml net profit	28.5%	37.8%
Chile	ad valorem	5.0%	Sales	17.0%	27.0%

Comparative project ETR calculations – bauxite and gold

Bauxite	Calculation	Rate	Tax base	CTR	ETR
Australia RSPT	profits-based	40.0%	Profits	28.0%	53.4%
Brazil	ad valorem	2.0%	Sales	34.0%	38.7%
Gold	Calculation	Rate	Tax base	CTR	ETR
Australia RSPT	profits-based	40.0%	Profits	28.0%	53.5%
South Africa	ad valorem	7.0%	Unrefined, sales (5% refined)	34.6%	45.4%
Argentina	ad valorem	3.0%	Sales	35.0%	39.6%
Brazil	ad valorem	1.0%	Sales	34.0%	35.6%



Model limitations

There are limitations with the models and therefore potentially the modelled outcomes. We have relied on independent data sources for information, including forecast commodity prices, the comparative value of the Australian dollar and operating expenditure information. Differences between actual data and forecast data would impact the accuracy of the models

The models are at a project level with start dates in the short to medium term. Financial modelling approaches at the project level may vary between companies and, importantly, may vary significantly from approaches adopted for broader macroeconomic modelling

There are also limitations arising because the RSPT rules are still under development. For example, we have assumed that the taxing point for the RSPT will be at the “mine gate”. This means that the RSPT calculations include both revenues and expenses (including the depreciation of capital assets) relating to activities carried on at the mine site. As the taxing point has not been defined in the RSPT Guide and is an issue that is subject to consultation, it is possible that the taxing point could be earlier (i.e. at the mine mouth) or later (post secondary processing)

Limitations of comparative project ETR calculations

The following limitations should be noted when reviewing the indicative Project ETRs:

We have completed the Project ETR calculations using data and outputs from the fifth year of production in the mine models and have assumed that taxes are paid in the same year as the project profits on which the taxes are paid arise. We have used tax rates applicable in 2010 in all cases other than Australia, where we have applied the 2015 rate of 28%

We have assumed that the “taxing point” is consistent in each jurisdiction for profits based taxes

Property and lease charges and taxes and sales taxes payable on the acquisition of mining equipment are excluded from the Project ETR calculations

Mining royalties and financing costs are deductible from company income tax in all jurisdictions. Only the iron ore calculations have financing costs

We have completed Project ETR calculations for Canada by Province and the United States by State in accordance with the MCA’s instructions

The Canadian tax rates disclosed in the tables are a combination of the Federal company tax rate (which is 18% in 2010, reducing to 16.5% in 2011 and 15% in 2012). British Columbia’s Provincial tax rate is 10.5%. Ontario’s Provincial tax rate is 9%, which is the headline rate of 12% less a Resource Allowance Reduction of 3% (in 2013, Ontario’s tax rate will be 7.5%, the 10% headline rate less a Resource Allowance Reduction of 2.5%). Saskatchewan’s Provincial tax rate is 10%, which is the headline rate of 12% less a rebate of 2%. We have assumed processing allowances are not available

The United States tax rates disclosed in the tables are a combination of the Federal company tax rate of 35% plus a State tax rate of 6.98%. Arizona’s mining royalties are based on an assessment of the profitability of the project, but with a minimum rate of 2%. We have assumed a 4% royalty payment. Nevada’s corporate tax rate of 35% is equal to the Federal tax rate of 35% as Nevada does not impose a State income tax. Nevada applies a maximum 5% royalty

The effective tax rate calculations in this presentation are indicative only, as they do not identify all potential tax concessions or benefits available to the project throughout the life of the projects, such as tax holidays, processing allowances and R&D concessions, and do not include property and lease charges and taxes, sales taxes or differences in payroll and employee taxes between those included in operating expenses in the mine model

Gearing levels can impact the effective tax rate



Presenters Details

Craig Yaxley

Tax Partner

KPMG Perth

Tel: +61 8 9263 7127

Email: cyaxley@kpmg.com.au