

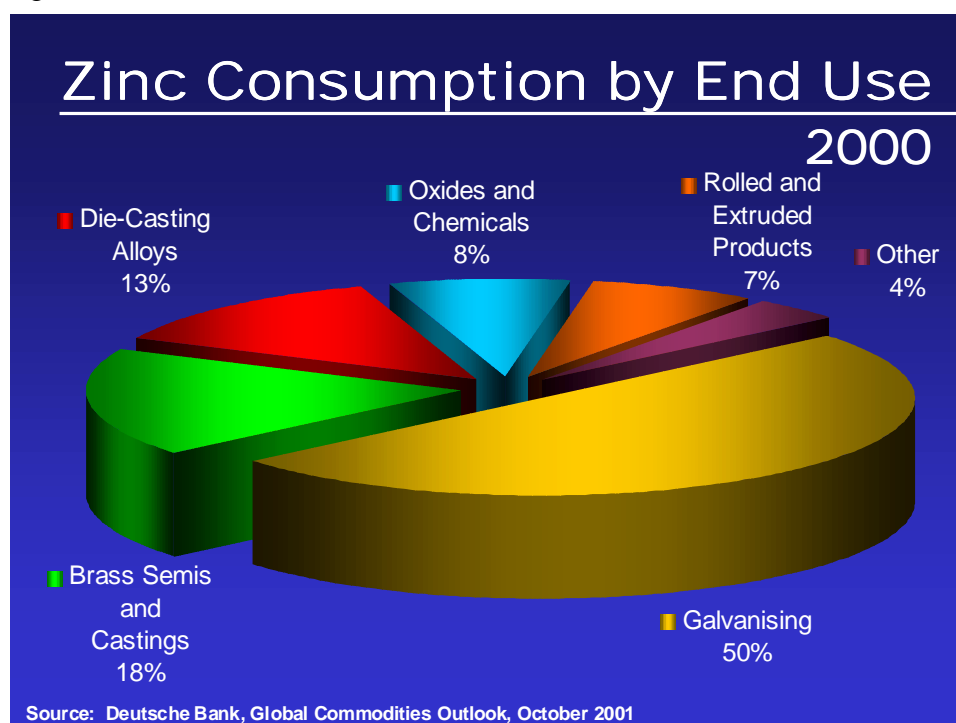
“The Future of Lead and Zinc – A Supplier’s Perspective”

Presented by Vince Gauci, Managing Director, M.I.M. Holdings Limited
at the ABARE Annual Commodities Outlook Conference, Canberra
7 March 2002

Zinc and lead are significant contributors to the Australian economy, having generated \$2396 million in export revenue in the 2001 financial year, a 30% increase over the previous year. Both metals continue to have important and well established industrial uses in modern society, and their consumption is growing, albeit slowly, year by year. Yet producers globally have had to endure very poor profitability for more than a decade, with zinc in chronic oversupply and prices at very low levels.

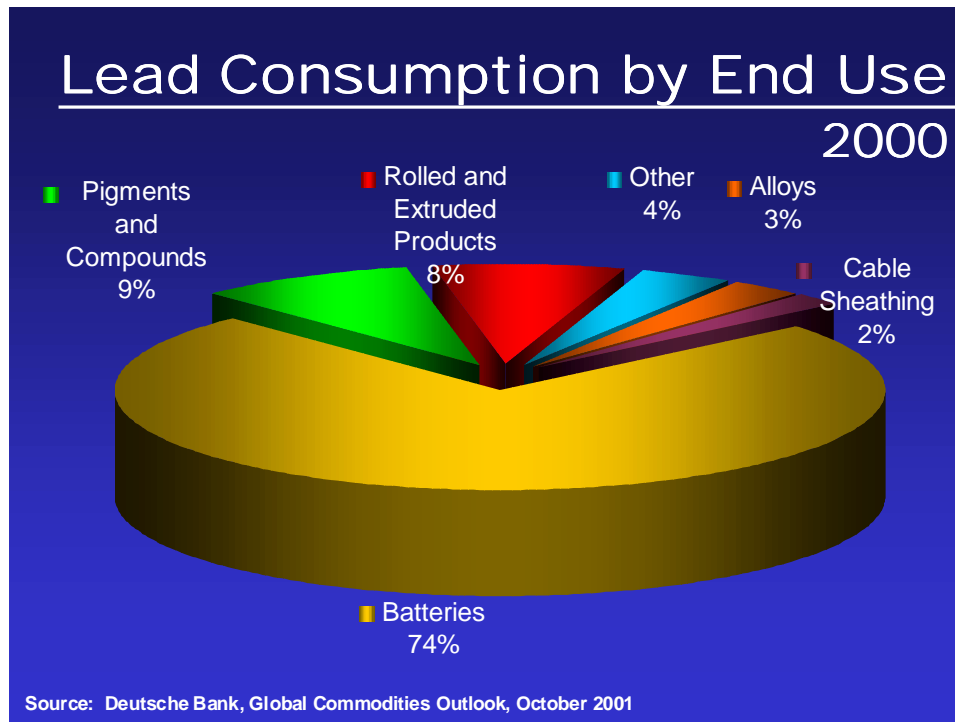
I propose to expand upon these points, and then to comment on the future of both metals.

Figure 1



Zinc usage is dominated by the galvanising of steel which has been increasing to the point where it now accounts for half of the Western World consumption of zinc. However, steel protection is also the area that offers the most opportunity for growth in zinc consumption. With only 12 per cent of steel used in the Western World galvanised, there is considerable scope for increasing galvanising and therefore the consumption of zinc. This potential is even greater when it is considered that in developing countries - and I think particularly of the heavily populated countries of China and India - per head steel consumption is many times lower than that of the developed world. To take one growing use, the application of galvanised steel to house frames offers real potential for growth in zinc consumption.

Figure 2



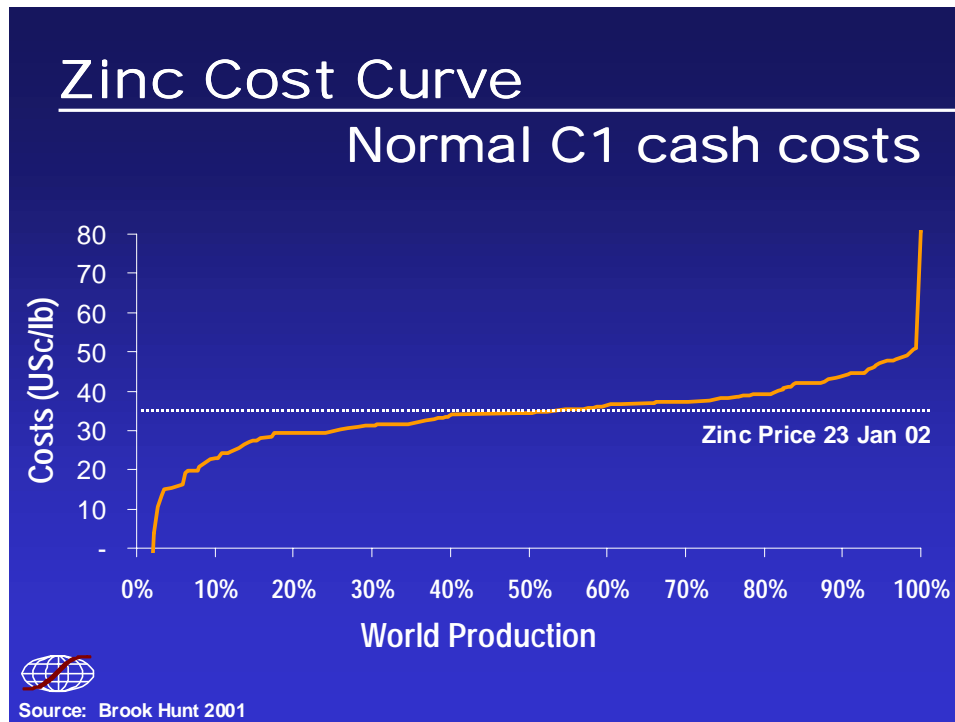
The lead acid battery is overwhelmingly the principal use of lead, with almost three quarters of world lead production applied to battery manufacture. The use of the batteries is changing, however. While the lead battery has the market for SLI (starter, lights and ignition), there is increasing demand for stationary and electric vehicle batteries. The lead battery is maintaining its dominant position among the competing battery technologies through improving efficiency, reliability and cost.

While lead is constantly meeting this market challenge, it is also proving its sustainable development credentials. Few materials are so efficiently utilised.

Recycling is a major feature of the base metals business, and lead is the most recycled of the base metals. More than half of the world's lead consumption comes from recycled sources, with the figure rising to more than 60% in the western world. Considerably more lead is now recycled than mined. In the major economies, recycling of lead is a mature business, and in the biggest economy, the United States, 93% of batteries are recycled.

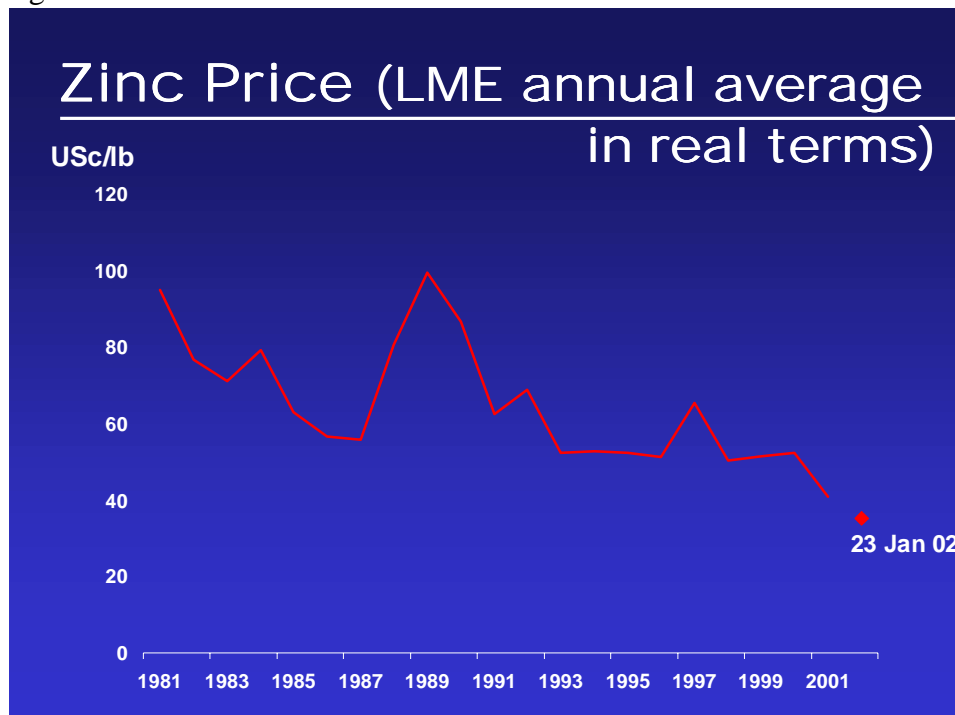
While zinc will never reach this level of recycling, nevertheless it is increasingly being recycled. Industrial waste material including flue dusts from steel plants is used as feed stock to zinc smelters. This provides an important environmental service as concern grows about the disposal of such industrial wastes.

Figure 3



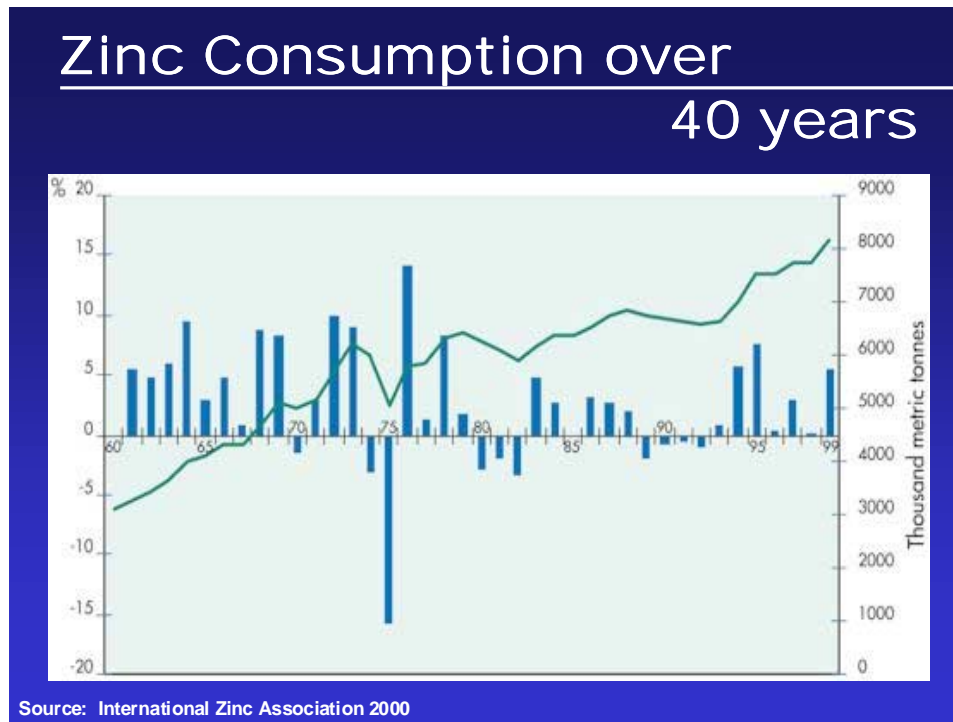
Despite the established position of zinc, it has provided very poor returns on investment for more than a decade, and in particular last year. Producers of half of the world's zinc are understood to be sustaining cash losses at the current price.

Figure 4



It is well recognised that the real prices of base metals have been declining for years. However, the fall in the zinc price has been particularly severe recently, highlighted by the fact that late last year, the US dollar price fell to the level of 15 years ago.

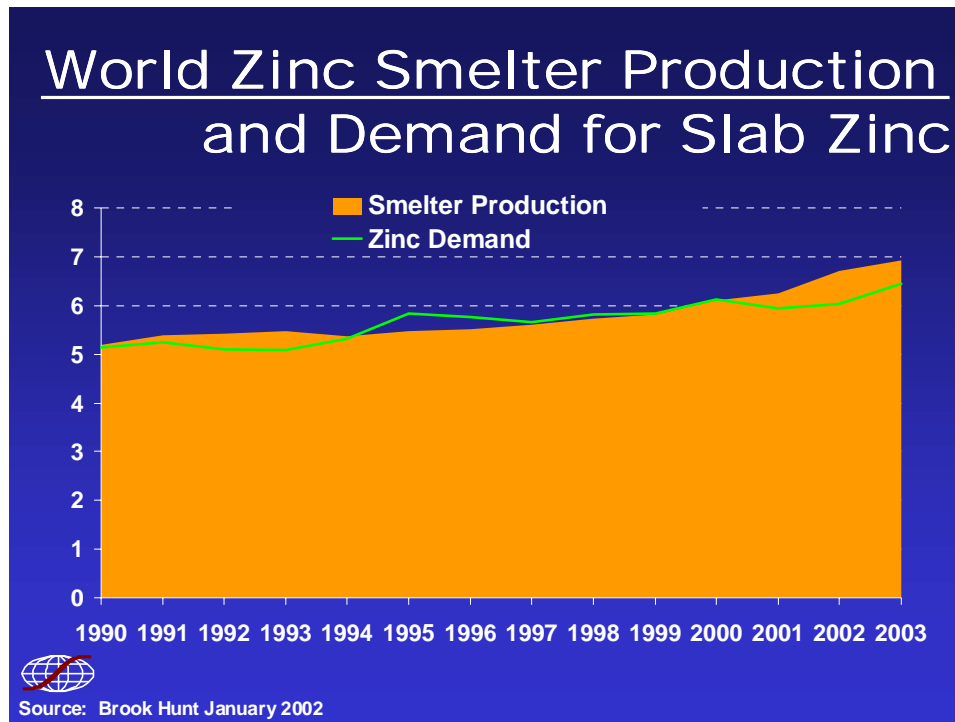
Figure 5



While the price has been falling, demand for zinc has been growing fairly steadily. Over the last 30 years, the real price of zinc has declined by an average of more than 2% a year, while consumption of zinc has grown at just under the 2% rate. Demand for zinc has almost doubled over 30 years, and can be expected to continue to increase with economic growth, particularly in the developing world.

However, despite this growth in demand, if production continues to increase as is presently forecast, supply is still expected to be in surplus for several years to come, with the familiar depressing effect on the price. Late last year, six mines announced production cuts amounting to some 500 000 tonnes. This will reduce substantially the surplus, but is insufficient to bring the industry into supply-demand balance.

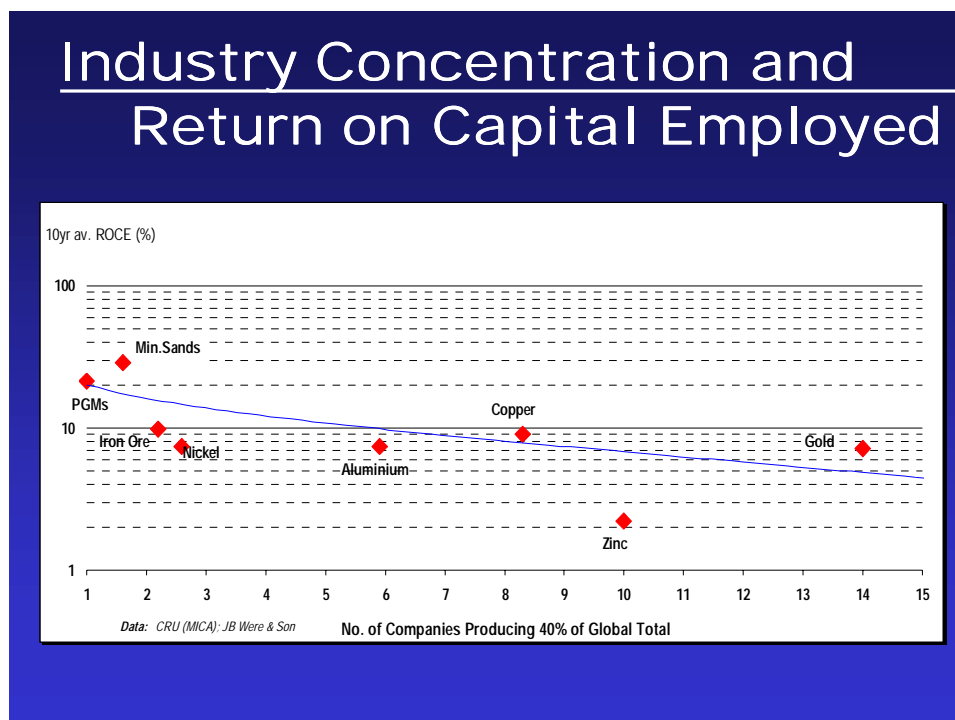
Figure 6



How did we get into this situation? In the 1990's the zinc industry failed to adjust to the increase of zinc that emanated from Eastern Europe, Soviet bloc countries and China. Throughout that decade, China accounted for almost two thirds of total world growth in zinc supply. From its expanding mines and from its substantial imports of concentrate, last year China produced more than two million tonnes of zinc of which more than half a million tonnes was exported.

And so, while demand for zinc is growing, it continues to be outstripped by supply. This state of almost constant surplus must be changed.

Figure 7



The zinc industry is more fragmented than the other base metals. The five largest zinc mining companies produced only 30% of mine production last year, while the smelting side is only slightly more concentrated. The resources sector generally is witnessing progressive consolidation. Consolidation in the zinc industry should lead to greater rationalisation of operations. More importantly for the longer term, consolidation should produce greater financial discipline in the allocation of capital for new projects and expansions of mines and smelters. The mentality of banking on an increase in the zinc price would be replaced by a harder nosed approach to development funding.

Table 1

Zinc-Lead Resources			
Mt Contained Metal			
	Lead	Zinc	Silver
George Fisher/ Mount Isa	7.5	13.6	0.5
McArthur River	7.2	16.1	0.2
Century	1.7	12.5	0.1

Resources = Measured, Indicated and Inferred Resources

Source: Pasminco 2000 Annual Report, MIM 2001 Annual Report

At MIM, our focus is on mining copper, coal and gold, as well as silver, lead and zinc. While MIM is not the biggest of the producers, we are a large scale and long term participant in the zinc and lead business with substantial mineral reserves providing the potential for long mine lives. Our two major ore sources, at McArthur River and George Fisher near Mount Isa, both have identified mineral resources larger than Century. In fact, we have been able to increase the mineable reserves at both locations by improving the operating performances of the mines and processing plants, and so reduce costs.

We have good quality zinc-lead assets at Mount Isa and McArthur River, and our strategy is to strengthen the business by reducing costs. Other companies have the same objective, of course, and it is encouraging to see that, in the process, some less competitive operations are closing.

However, zinc producers are not sufficiently responsive to the market, and surpluses persist. Consolidation in the industry would result in larger, fewer companies that not only aim for low positions on the cost curve – which in zinc is quite flat – but also have the same expectation for new projects.

Today's large resource companies are under increasing pressure from investors to deliver consistent returns that are competitive with returns that can be obtained in other industries. The demands of investors for consistent returns should ensure that the investment criteria of these increasingly large resource companies will be so rigorous that they are unlikely to get into the position of developing high cost operations in the first place.

The task of ending the state of chronic oversupply and improving the economics of the zinc industry extends beyond the mining companies. It should be noted that more than half the cost of producing zinc is incurred beyond the mine in realisation costs, largely in transport, smelting and refining. To lift industry performance will require improvements at all stages of production.

The zinc custom smelters and refiners have an important role in achieving supply-demand balance. There are three main elements to the current commercial arrangements between the smelter/refineries and the mines, and two of them encourage overproduction.

First, treatment and refining charge rates are at their highest when there is a surplus of concentrate looking for a home. This acts as an incentive for smelter/refineries to maximise metal production.

Secondly, the smelter/refineries pay only for 85% of the assayed metal content of the concentrate, an old rate far below the present recoveries which average more like 95%. Again, the smelter/refineries have a significant incentive to produce to the maximum whatever the price of zinc.

True, the pricing formula does allow for the charges to vary from the agreed base rate with the metal prices, and this provides some incentive for the smelter/refineries to see the price rise.

The smelting and refining business has been changing, with the refineries sharing more of the price risk in recent years, and with growth in multi-year contracts. However, the achievement of a balance between supply and demand leading to greater stability of price and returns on investment in the industry requires a review of the commercial arrangements around which smelting and refining is structured.

The future of zinc is heavily dependent on changes within the industry and improved business decisions by producers.

Because much of the world's primary lead is mined together with zinc, the future of lead supply will be influenced somewhat by the course of the zinc industry. However, the dominant factor in the future of lead will be the rate of growth in demand and the maintenance of the market position of the lead acid battery. On the supply side, mature though recycling of lead is, the proportion of lead sourced from battery scrap can be expected to increase even further, particularly in the developing economies. Lead is not suffering from oversupply.

Last year it was in deficit and LME stocks are at low levels. But significant price rises are not being triggered because consumers are confident that any sign of substantial shortage would be met with increased supplies from secondary sources and probably from China.

At MIM, our Mount Isa lead business is fully integrated. The mine product is smelted at Mount Isa and the lead and silver refined in the UK where we operate the world's largest lead refinery. We are also the largest recycler of lead in the UK. We take a positive view of the future of lead, and have just made a considerable investment in upgrading our production facilities at Mount Isa. The future for MIM in lead lies in maximising the use of these facilities and reducing unit costs.

In looking forward, let me bring the main points together.

There is every reason to believe that zinc and lead have important functions in the future, with opportunities for growth through galvanising and electricity storage and through increased usage in the developing economies. Both zinc and lead are relevant in a world concerned with sustainability, the environment and the efficient use of resources.

The problem of chronic surpluses of zinc must be overcome, so that competitive returns on investment in the industry can be achieved. As producing companies consolidate, there is the prospect of greater discipline in the application of capital for new mine developments. With more than half of the cost of zinc incurred as post-mining realisation costs, smelter/refineries can contribute to the necessary improvement by reviewing their commercial structure.

Only a few years ago, Australia's major industry, coal, was in a state of "profitless prosperity". I am pleased to say that at MIM we have turned our coal business around from loss to significant profit. While coal and lead-zinc have differences, lead and zinc are important to Australia and their contribution to the producing companies and to the nation can be increased considerably.