

QRC STATE OF THE SECTOR

MARCH QUARTER 2019

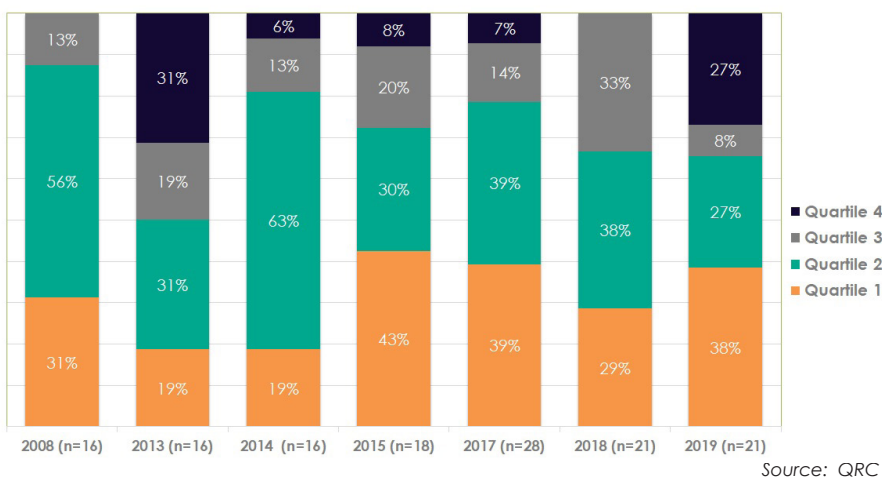


CEOS ON A JOB AND GROWTH TIGHTROPE

Queensland is the east coast's export powerhouse. Its merchandise exports are larger than New South Wales and Victoria combined¹ and represent more than a quarter of our gross state product (26%)². If Queensland was a country, the proportionate size of its exports would be higher than China (19.8%), Japan (17.7%) and the United States (12.1%).³

This export focus means the wealth of Queensland is inseparable from the health of its export industries. Queensland businesses must continue to battle costs if they are to stay competitive and attract investment—particularly for the resource industry, which is reliant on exports to achieve the scale and growth necessary to stay competitive.

CHART 1: QUEENSLAND MINING OPERATIONS COST QUARTILE COMPARISON (2008, 2013-2015, 2017-2019)



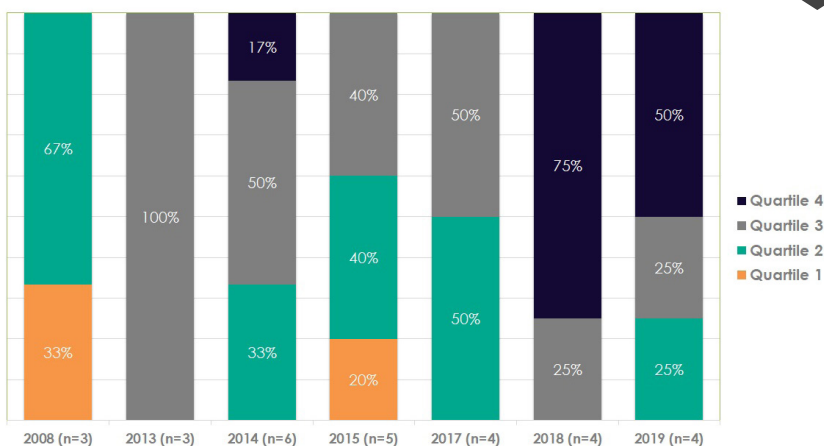
To track the resource sector's cost competitiveness, each year the QRC asks member CEOs how they rate their Queensland operations against their global competitors. The survey results from the March 2019 quarter results show some QRC members are struggling to contain costs, while others are further firming their position as low-cost producers.

In the past year, Queensland mining companies have drifted from the middle of the cost curve towards the two extremes. 27% of producers are now in the highest cost quartile, a real concern given no producers were in this quartile a year earlier. But the good news is that Queensland miners are typically lower-cost, with two-thirds of producers remaining in low-cost half of the curve. Furthermore, the proportion of miners sitting in the lowest cost quartile has increased from 29% in 2018 to 38% this year.

In contrast, Queensland's oil and gas producers continue to face substantial cost pressures. None of the producers sit in the lowest cost quartile and 75% are in the highest cost half of the cost. Regrettably, the Queensland Government's decision to increase the petroleum royalty rate

by 25% will likely place further pressure on Queensland's competitive position in global markets.

CHART 2: QUEENSLAND OIL AND GAS OPERATIONS COST QUARTILE COMPARISON (2008, 2013-2015, 2017-2019)



¹Media statement - New Figures Show Queensland Winning Economic State of Origin

²Department of Foreign Affairs and Trade - recent economic indicators

³The World Bank - exports of goods and services

However, there are signs for optimism among oil and gas producers. Half of Queensland's oil and gas producers have managed to improve their competitive position over the previous year, with one producer shifting from the 4th to 3rd quartile and another from the 3rd to 2nd quartile.

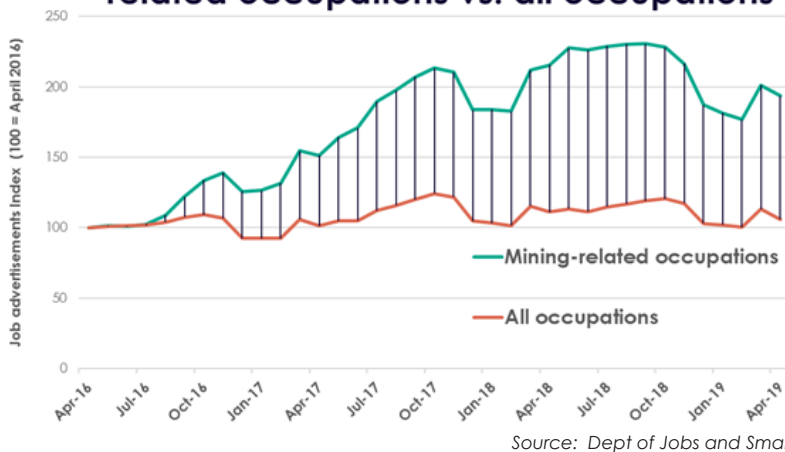
The Queensland resource sector's battle with costs will continue given the growing appetite for expansions and new projects across the state. According to the Queensland Major Projects Pipeline Report, around \$2 billion of resource projects are currently under construction with a further \$19 billion in the pipeline to 2022-23.⁴ That's the equivalent of nearly five Cross River Rail projects.⁵

“Input costs are genuinely rising, driven by a general ramp up in activity across the industry.”

QRC member CEO sentiment survey, March 2019

CHART 3: QUEENSLAND JOB ADS INDEX

Queensland job ads index: mining-related occupations vs. all occupations



This growing project pipeline has propelled the sector's labour demand. Queensland job advertisements for resource-related jobs have risen at around fifteen times that of all jobs in the Queensland economy. In the three years to April 2019, the number of job advertisements for mining-related occupations has increased by 94%, whereas the number of job advertisements across all industries increased by just 6% (figure below).

A tight labour market means the surging demand for skills has made recruitment particularly difficult for resource companies. Unemployment rates across Queensland's resource regions are well

below the state average of 6.1%—with Central Queensland at 5.3%, Mackay-Isaac-Whitsunday at 4.8% and Darling Downs-Maranoa at 5.9%.⁶

QRC member CEOs recognise the size of the challenge:

“The lack of skills availability will drive a labour “bubble” and this will drive up cost of labour”

“The competition for skilled employees has risen and looks to remain at heightened levels for some time”

“Our large recruitment drive for a new project in a tight market will be difficult”

QRC member CEO sentiment survey, March 2019

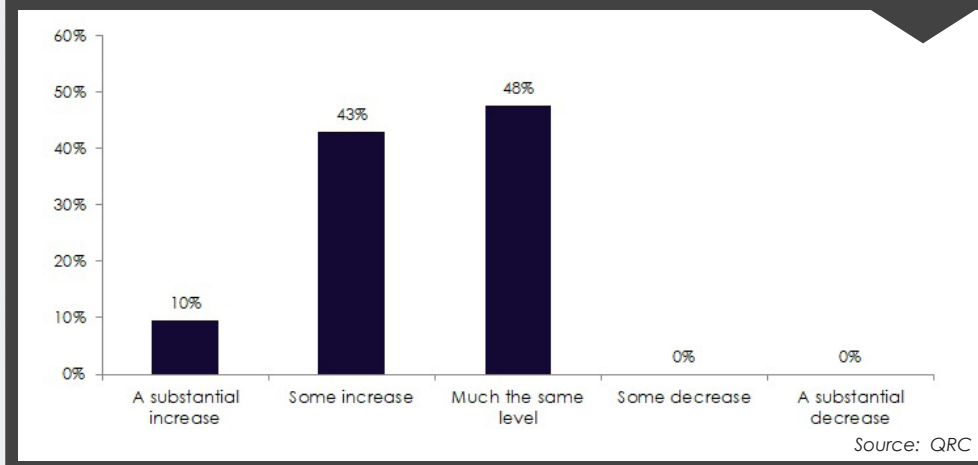
⁴2019 Major projects pipeline report

⁵Cross River Rail

⁶Queensland Government Statistician's Office, Regional labour force - region summary, May 2019

CEOS POINT TO JOBS AND GROWTH CONTINUED

CHART 4: SKILLS IN DEMAND: CEOS' 12-MONTH OUTLOOK FOR WORKFORCES



The competition for skilled labour is likely to increase over the next year. According to the QRC's latest CEO Sentiment Survey (see below), 53% of QRC member CEOs expect to increase the total workforce at their Queensland operations over the next 12 months—with 10% planning a substantial increase. Not a single CEO said they planned to reduce their workforce in the coming 12 months.

While the competition for skills is good news for job seekers in the short-

term, the long-term challenge will be to slow the growth of costs as the sector expands. Higher costs diminish the attractiveness of new projects, and that could mean fewer jobs and royalties for Queensland.

KEY INDICATORS

QRC PRODUCTION VOLUME INDEX

Steady growth in the Quarter

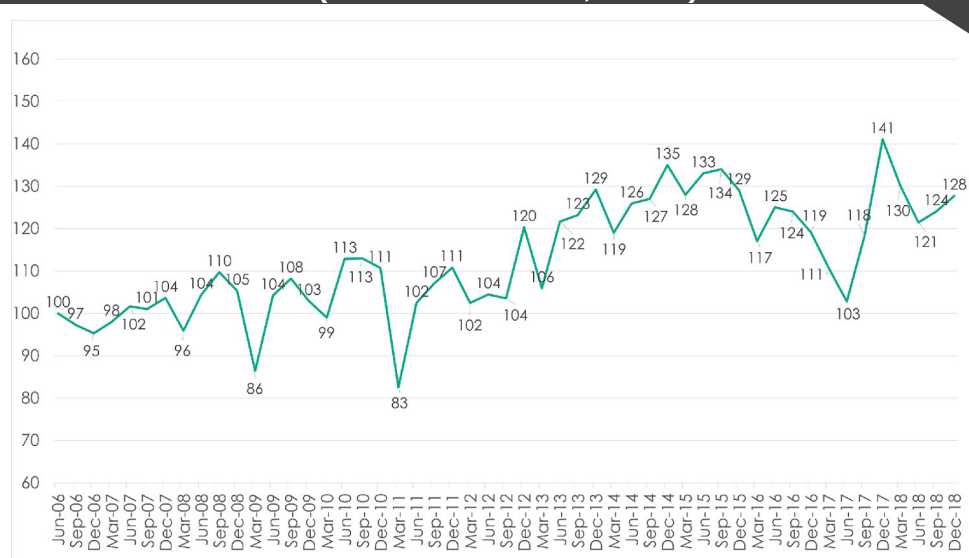
The QRC's quarterly Production Volume Index tracks changes in the total production of Queensland's major commodity exports—alumina, aluminium, bauxite, coal, copper, gold, lead, LNG, silver and zinc.

The Production Volume Index is weighted by the value of each commodity. This means changes in the volume of coking coal (which is over half of the total index value) has a larger impact on the quarterly index result than, for example, changes in thermal coal volumes (representing approximately 10–15 % of total value).

For the December 2018 quarter, the QRC's Production Volume Index increased to 128 points, four points above the September 2018 quarter and the third quarter of production growth in a row. Queensland's resources production is now 28% higher than when the index began in 2006.

Queensland's zinc production achieved the highest growth out of Queensland's commodities across the quarter, increasing by 8% thanks to increased production

**CHART 5: QRC PRODUCTION INDEX (A\$) (DECEMBER 2018 QUARTER)
(INDEX BASE JUNE 05/06=100)**



Source: QRC, OCE, EnergyQuest, IHS McCloskey

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across Queensland's Dugald River, Lady Loretta and New Century zinc mines. However, in terms of contribution, Queensland's coal operations drove much of the increase, achieving a solid 4% growth. Steady increases in zinc (8%), LNG (5%) and alumina (5%) production, all offset decreases in bauxite (-9%) and silver (-17%) production for the quarter.

QRC VALUE OF PRODUCTION INDEX

A new record to end 2018

QRC's Value of Production Index reflects changes in the prices of the resources that Queensland produces. The weighted index reflects the same mix of commodities as the QRC production volume index, which includes LNG production from the December 2016 quarter.

Over the December 2018 quarter, the QRC's Value of Production Index increased from 243 points to 279 points — 10 index points above the 269 point record set two years earlier. This new record means Queensland's resources export values are close to three times the size they were when the index began in June 2006.

This quarter's record comes from a steady increase in prices and volumes across all of Queensland's major commodities rather than a single stand-out performer. The largest increases in spot prices were seen by four of Queensland's key commodities—coking coal spot prices increases by 18%, LNG by 8% with 4% increases for alumina and zinc in the quarter.

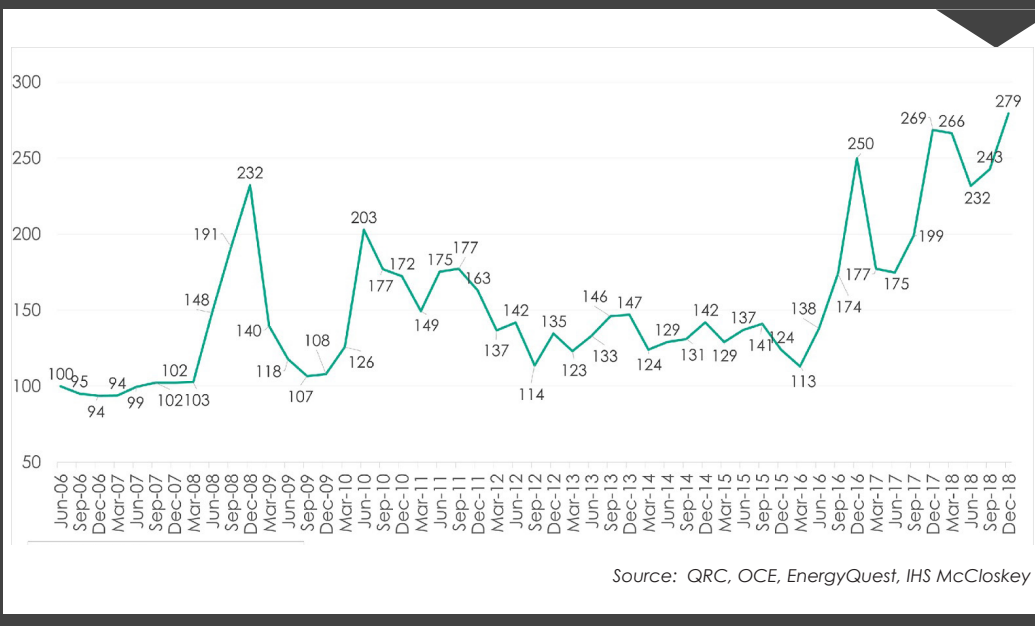
QRC CEO SENTIMENT INDEX

Each quarter, the QRC prepares its CEO Sentiment Index by surveying its full member CEOs. The survey typically receives between 20-35 responses from mining and energy, minerals processing, contracting, exploration, electricity generation and oil and gas extraction members in Queensland.

Each survey asks CEOs to nominate the extent they expect a series of eleven factors will impact on the objectives of their organisation over the next 12 months. The QRC weights the responses to create a single sentiment value for that factor. The weighting means the factors generating the greatest concern receive the lowest scores and are lower down on the negative axis.

For the March 2019 quarter, CEOs were most concerned by uncertain and/or poor regulation, which has increased by six places from its low in the previous quarter. It's common for uncertain regulation to remain in the top three negative factors for CEOs—yet this quarter's result is particularly concerning given it's the strongest negative result on record.

CHART 6: QRC VALUE OF PRODUCTION INDEX (A\$) (DECEMBER 2018 QUARTER)
(INDEX BASE JUNE 05/06=100)



QRC's member CEOs called out several uncertainties driving this result:

“Despite the strong coal markets, investment is unlikely—constantly changing regulations creates an unpalatable environment.”

“Uncertain regulatory frameworks and lack of “real” consultation with industry is challenging”

“Royalties and environmental regulations are the biggest concerns for us”

QRC member CEO sentiment survey, March 2019

Royalty rate handbrakes and ladders

The Queensland Government's 2019-20 Budget delivered mixed results for resources. QRC secured a commitment from the Palaszczuk Government to freeze royalty rates on coal and minerals for 2019-20. The Government also committed to freezing coal and mineral royalty rates for a further two years provided companies voluntarily contribute to a Resource Community Infrastructure Fund. The Government proposed to contribute \$30 million towards the Fund, with companies voluntarily contributing \$70 million.

Separately, the Government announced the royalty rate on petroleum would increase from 10% to 12.5%, backdated to the start of 2019. The Government also committed to consulting with industry on the development of a new system for the calculation and collection of royalties. QRC is working with its gas members and APPEA to prepare for the consultation with the Government.

In a welcome development, QRC secured a commitment from the LNP Opposition that, if elected at the next State election on 31 October 2020, it would freeze royalties on coal, minerals and petroleum for a period of 10 years.

Policy stability is essential for investing in long-lived resource projects. Resource projects already carry significant financial risk given volatility in commodity prices and demand. Providing certainty on legislation, royalties and tax regimes improves certainty on outcomes—which means more interest from investors in Queensland resource projects.

QRC's member CEOs called out royalty rates as one of the major uncertainties for the sector:

“any increase in royalty rates will make projects less economic and may prevent their development”

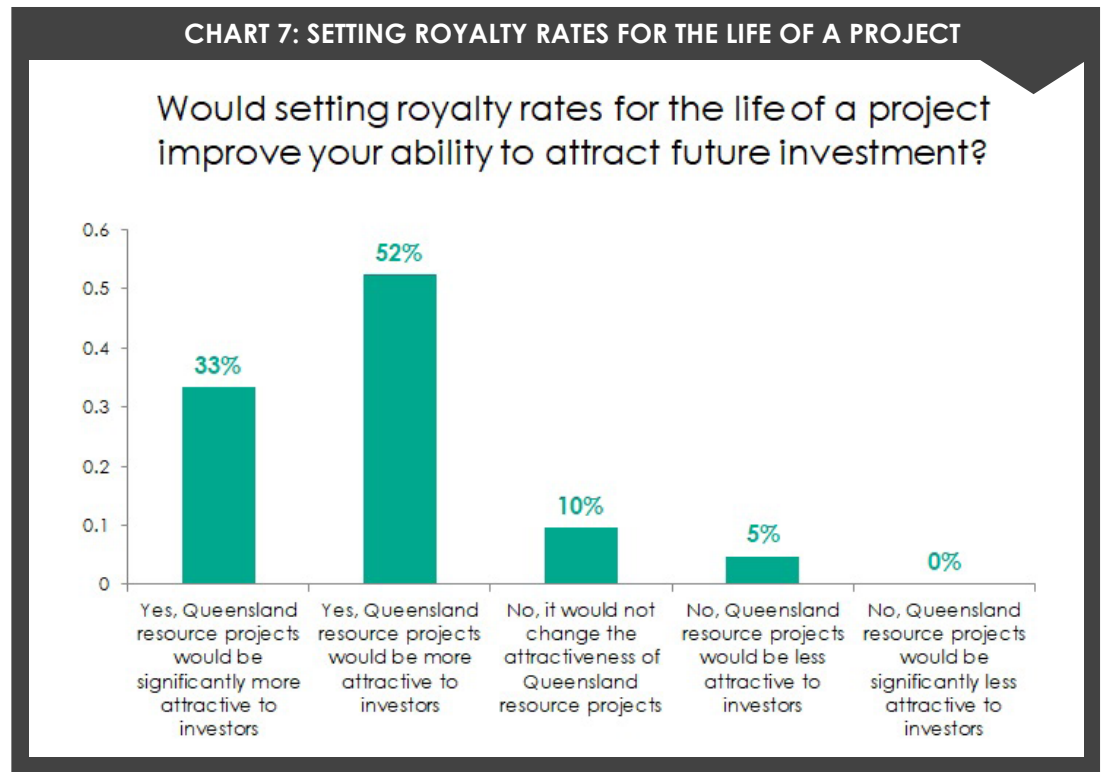
QRC member CEO sentiment survey, March 2019

When asked whether locking in royalty rates for the life of a project would improve the ability to attract investors, the overwhelming answer was yes. 85% of member CEOs said providing royalty stability would make resource projects more attractive to investors, with 33% saying Queensland projects would become significantly more attractive. Therefore, commitments to royalty stability, such as the LNP's pledge to a ten year royalty freeze if elected, go a long way in boosting investor confidence in Queensland.

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Outside of uncertain regulation, attracting and retaining skilled employees is the next greatest challenge for CEOs. This drop to second place ended the factor's three quarter run as the most negative category. But that's not cause for celebration. Despite the drop in ranking, sentiment towards attracting skilled employees grew more negative over the quarter—just by less than uncertain regulation.

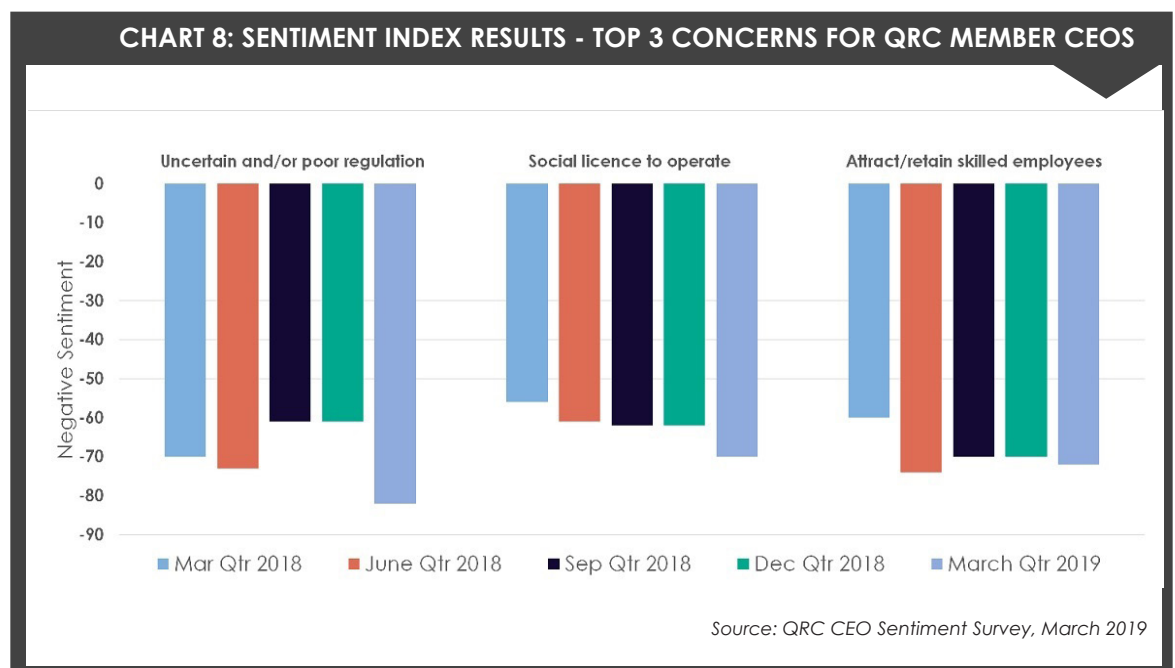
CEOs also pointed to the link between the second and third highest categories—social licence and attracting skilled employees.



The negative portrayal of coal in the media makes it difficult to attract and retain the younger generation."

QRC member CEO sentiment survey, March 2019

Figure 8 illustrates the change in sentiment over recent quarters for our member CEOs' top three concerns.





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