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5.4.2 Reserves and Resources

The Phosphate Hill deposit is extensive and expected to support operations for more than 35 years at targeted operating rates. Occurring as apatite (calcium phosphate), quartz, alumina and iron oxide impurities, the resource has high grades of phosphate (measured as P₂O₅). However, the extent of the economic reserves is constrained by high concentrations of iron oxide (Fe₂O₃) which impacts the quality of DAP.

The following table summarises ore reserves and resources at 31 December 2001:

QFO Ore Reserves and Resources at 31 December 2001					
Reserves	Tonnes (M)	P ₂ O ₅ (%)	Resources	Tonnes (M)	P ₂ O ₅ (%)
Proved	25.5	24.2	Measured	32.9	24.5
Probable	65.5	24.1	Indicated	56.9	24.0
			Inferred	22.7	20.6
Total	90.8	24.2	Total	112.5	23.6

Note: The reserves have been determined using an average ore feed grade of 2.0% iron oxide with a maximum cut-off of 2.45%.

5.4.3 Mining

Three pits (Galah, Brolga and Jabiru) are currently mined at Phosphate Hill, with mining conducted by contractors. The five year mine plan focuses on blending hard and soft ores from the Brolga and Galah pits.

The mine pits are relatively simple and shallow with extraction of the phosphate ore being undertaken by excavator trucks without drilling or blasting. Overburden material, mostly shale and alluvium, varies in thickness from 0-100 metres, with an average of approximately 35 metres. Overburden is disposed of at nearby mine waste dumps. Ore is hauled using small-scale mining equipment to stockpiles at the beneficiation plant. The mining fleet includes six 50 tonne haul trucks, two 100 tonne excavators, two front end loaders and ancillary fleet.

The QFO is selectively mining the ore to maintain an average feed grade of no more than 1.8% iron oxide. WMC expects that it will be possible to increase the average feed grade to 2.0% after the installation of a magnetic separation unit in the beneficiation plant.

5.4.4 Processing

The processing facilities at the QFO are the first of their kind in Australia. The QFO is one of the few operations worldwide that fully integrate mining operations, the production of ammonia from natural gas and the production of DAP and MAP.

The main feedstocks for the process are phosphate ore, sulphuric acid and ammonia:

- phosphate ore is mined on site. The mined ore is crushed, washed and deslimed, ground and thickened at the beneficiation plant to produce a phosphate rock slurry. Selective mining is currently occurring to ensure targeted iron oxide levels for processing are met. As this is not sustainable in the long term, WMC is modifying its beneficiation plant to allow feeds of ore with an average concentration of 2.0% iron oxide;
- sulphuric acid is sourced from the QFO's sulphuric acid plant located in Mount Isa and purchased from Korea Zinc's refinery in Townsville. The QFO's sulphuric acid plant uses waste gases from MIM Holdings Limited's Mount Isa copper smelter. If there is a shortfall in gas from the smelter, externally purchased sulphur is burned at the acid plant. It is uncertain whether waste gases from the MIM smelter will be available after 2012 due to the expected decline in current stated reserves and resources. Sulphuric acid is transported by rail to Phosphate Hill from Mount Isa and Townsville;

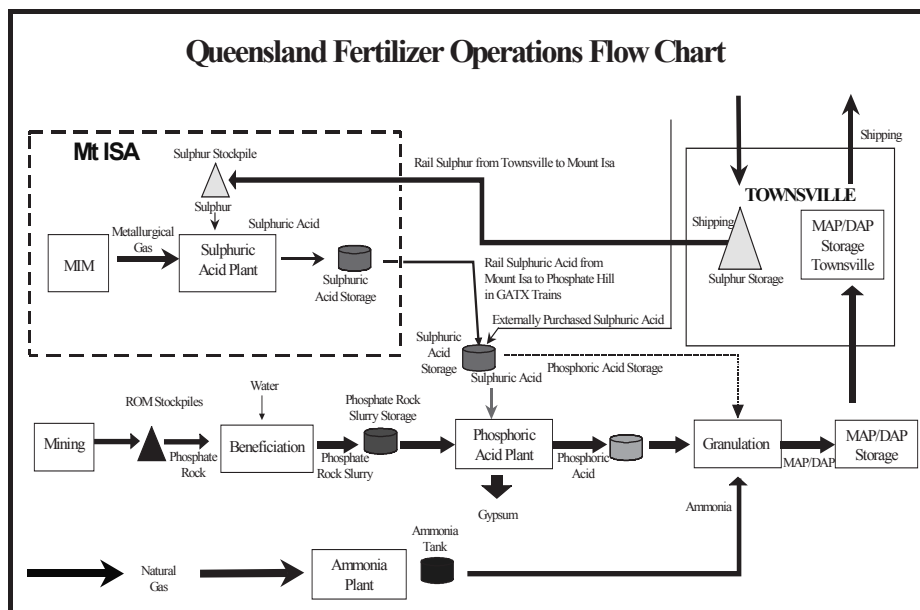
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- all the QFO's ammonia requirements are produced on site in its ammonia plant. Hydrogen is extracted from natural gas sourced from the Cooper Basin and transported to Phosphate Hill via AGL's Carpentaria gas pipeline.

Phosphate rock slurry is processed with sulphuric acid to first produce phosphoric acid. The phosphoric acid is then reacted with ammonia to form an ammonium phosphate slurry which is subsequently granulated to form MAP or DAP. The final product is railed to Townsville where it is stored and dispatched.

The following diagram illustrates the production process at the QFO:



The nameplate capacity of the plant is 975,000 tonnes. Since completion in late 1999, production at the QFO has been steadily increasing. In December 2001, the plant reached an annualised rate of 965,000 tonnes per annum of DAP equivalent. Production in the first half of 2002 has been below capacity largely because of a shortage of sulphuric acid created by operational difficulties at the QFO's sulphuric acid plant and issues with the rail infrastructure between Mount Isa and Phosphate Hill.

WMC expects to expand the QFO's capacity having identified a number of small capital projects and de-bottlenecking initiatives to increase capacity to 1.06 million tonnes per annum. The expansion process is anticipated to occur incrementally over the next few years. A major capacity expansion to 1.3 million tonnes per annum is also under consideration.

5.4.5 Markets

Approximately 74% of production is currently sold in Australia through major fertilizer distributors (Pivot and Incitec) and, at the retail level, Hi-Fert. Sales to Hi-Fert in 2001 accounted for approximately 20% of volume. The QFO's margin on domestic sales is greater than the margin on export sales due to the QFO's freight cost advantage in the domestic market.

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Export sales are made through Cargill Fertilizers Inc (“Cargill”) under a marketing agreement that expires in 2004 (subject to WMC exercising an option for a five year extension). Under the terms of this agreement WMC is contracted to supply a minimum of 350,000 tonnes per annum of DAP to Cargill. The majority of this product is targeted at the South East Asian market. Because of the differential between freight costs from North America and from Townsville, the QFO has a comparative advantage supplying product into these markets.

5.4.6 Hi-Fert

Hi-Fert operates a fertilizer marketing and distribution business in New South Wales, Victoria and South Australia, marketing 21 base fertilizers and 13 coated fertilizers. Hi-Fert has dispatch facilities in Newcastle, Lara, Portland, Adelaide, Kadina and Port Lincoln, from which it operates blending plants so that that fertilizer mixes can be produced to meet specific customer requirements.

5.4.7 Operating and Financial Performance

Operating costs have improved significantly since the plant was fully commissioned in October 2000, as production rates have increased towards nameplate capacity:

QFO Operating and Financial Performance		
	Year ended 31 December	
	2000	2001
Operating Statistics		
Ore mined (kt)	1,075	1,904
DAP produced (kt)	326	651
MAP produced (kt)	-	58
Total production (kt)	326	710
% of nameplate	33%	73%
Realised Prices		
DAP average price (US\$/t)	154	146
A\$/US\$ (cents)	0.58	0.52
Financial Performance		
Sales (\$m)	72.2	206.4
EBITDA (\$m)	(17.9)	6.1
Capital expenditure (\$m)	93.3	42.3
Operating Costs		
Cash costs (\$/tonne)	272	261
Total costs (\$/tonne)	383	396

Earnings in 2001 were affected by low production rates and historically low DAP prices in the period. In addition, cost performance in 2001 was impacted by the extended shutdown of the plant in July and August to resolve a number of production issues. The performance of the QFO improved in the first half of 2002 notwithstanding the shortage of sulphuric acid. Total production in 2002 is expected to exceed 2001 levels (800,000 tonnes) which together with improved prices, is expected to see improved earnings.

Hi-Fert’s historical financial performance is summarised in the following table:

Hi-Fert Financial Performance			
	Year ended 31 December		
	1999	2000	2001
Sales (\$m)	191.3	186.0	221.5
EBITDA (\$m)	4.0	(3.4)	3.7
EBIT (\$m)	1.4	(5.7)	1.4

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Hi-Fert's margins in 2000 were affected by heavy competition and discounting. An increase in sales and a reduction in operating costs through workforce reduction and restructuring resulted in a significant improvement in profitability in 2001.

5.5 Other Assets

5.5.1 Projects

WMC Resources will have two advanced exploration projects which are subject to feasibility work: the West Meliadine gold project in Nunavut, Canada, and the Corridor Sands mineral sands project in Mozambique.

The West Meliadine project is located near Hudson Bay in sub-Arctic Northern Canada. WMC has been exploring in the area since 1995 and holds a 56% interest in the project. The balance is held by Comaplex Minerals Corp and Cumberland Resources Ltd, listed Canadian companies. WMC attempted to dispose of its interest in West Meliadine in 2001. While this was initially unsuccessful, discussions continue with a number of interested parties. The project has been put on care and maintenance pending the outcome of those discussions.

The Corridor Sands minerals sands project is located approximately 180 km north of Maputo, the capital of Mozambique, approximately 60 km inland from the coast. The project, owned by Southern Mining Corporation Ltd ("SMC"), envisages an integrated mining, concentration and smelting operation to produce titanium dioxide slag. WMC paid US\$15 million for the right to conduct a bankable feasibility study and an exclusive option to acquire a controlling interest in the project.

A bankable feasibility study was completed in July 2002 identifying Mineral Resources totalling 16.6 billion tonnes of deposits containing high levels of total heavy minerals. The size and quality of the resource provides an attractive base for a project. However, major issues for the project include the magnitude of the capital requirement, the project's location in Mozambique and uncertainty as to whether the market could absorb the volume of titanium slag that is planned to be produced.

If WMC decides to exercise its option, WMC Resources will be required to provide US\$[180] million of initial project funding and may have other disproportionate funding obligations. For this investment, WMC Resources will acquire an initial 60% interest in the project. SMC will hold 40% in the project and South African state-owned Industrial Development Company will have an option to acquire 10% in the project.

5.5.2 Exploration

WMC Resources will assume all of WMC's exploration activities. These activities have historically involved a world-wide exploration effort focussed on gold, copper and nickel. In 2001, WMC spent \$57 million on exploration. The exploration budget for 2002 for WMC Resources has been significantly reduced to \$25 million. A number of projects are currently being pursued of which the West Musgrave project has been the main focus.

The West Musgrave project area of approximately 7,600km² is located near the border of Western Australia and South Australia, around 800 km north east of Leonora. Large geophysical and geochemical anomalies have been tested at the Nebo and Babel prospects. Although variable, these tests indicated large volumes of nickel and copper sulphides extended over a strike length of five kilometres. Follow up drilling has been less encouraging, but WMC is continuing its exploration programme in the West Musgrave project area. Further regional electromagnetic surveys of other prospective areas in the region was completed in early 2002. Follow up ground geophysical surveys were commenced in July 2002 with drilling at identified targets expected to commence in September 2002.

Other exploration projects include a number of Australian, Chinese and Peruvian prospects.

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5.5.3 Other

WMC Resources will have a number of other assets:

- the Group Technology division, which has an annual budget of around \$25 million, has acquired and developed a range of intellectual property in relation to, principally, geoscience, mining and minerals processing. The most significant of these is the intellectual property in a bioleach nickel sulphide processing technology; and
- a 94% interest in the Adwest Limited Partnership venture capital fund.

5.6 Earnings

The pro forma historical and forecast earnings performance of WMC Resources are summarised below:

WMC Resources – Pro forma Earnings Performance					
(A\$ million)	Year end 31 December				
	1999	2000	2001	2002F	2003F
Revenue					
Copper	499	895	913	772	840
Nickel	1,034	1,862	1,343	1,362	1,529
Fertilizers	192	230	382	426	448
Other	46	122	90	91	4
Total Revenue	1,771	3,108	2,728	2,651	2,820
EBITDA					
Copper	156	453	405	303	293
Nickel	354	1,027	511	471	628
Fertilizers	4	(26)	6	27	48
Corporate	(34)	(35)	(37)	(44)	(26)
Exploration, New Projects and Other	(87)	(64)	(109)	(74)	(60)
Total EBITDA (excluding hedging)	394	1,355	775	683	884
Depreciation and amortisation	318	429	482	(539)	(528)
EBIT					
Copper	24	262	223	46	77
Nickel	182	823	288	247	379
Fertilizers	(2)	(53)	(60)	(20)	(5)
Corporate	(38)	(40)	(44)	(54)	(35)
Exploration, New Projects and Other	(90)	(67)	(113)	(76)	(61)
Total EBIT (excluding hedging)	75	926	294	144	355
Hedging gains / (losses)	(52)	(320)	(291)	(24)	33
Total EBIT (after hedging)	24	605	3	120	388
Net interest				(55)	(48)
Profit before tax				66	340
Tax expense				7	(79)
Profit attributable to WMC shareholders				73	261
<i>EBITDA margin (%)</i>	<i>22%</i>	<i>44%</i>	<i>28%</i>	<i>26%</i>	<i>31%</i>
<i>Copper</i>	<i>31%</i>	<i>51%</i>	<i>44%</i>	<i>39%</i>	<i>35%</i>
<i>Nickel</i>	<i>34%</i>	<i>55%</i>	<i>38%</i>	<i>35%</i>	<i>41%</i>
<i>Fertilizers</i>	<i>2%</i>	<i>nm</i>	<i>2%</i>	<i>6%</i>	<i>11%</i>

Source: Scheme Booklet. Numbers may not add due to rounding.

In analysing the pro forma earnings of WMC Resources, the following should be noted:

- results for the three years ended 31 December 2001 are based on audited accounts. Forecasts of earnings for the years ending 31 December 2002 and 31 December 2003 have been prepared by and are the responsibility of WMC management. Forecasts for the year ending 31 December 2002 are based on six months of actual results;

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- the pro forma forecasts for the years ending 31 December 2002 have been prepared by WMC on the basis that the Demerger occurred on 1 January 2002. Pro forma forecasts for the year ending 31 December 2003 have been prepared assuming the Demerger occurs on 30 November 2002. Pro forma EBIT has been presented for prior years on the basis WMC Resources existed at the beginning of the period and excludes revenues and costs of discontinued operations. All pro forma information is stated before non-recurring items;
- the pro forma earnings relate only to the continuing businesses of WMC Resources. They exclude those businesses which have been divested or discontinued during the three years ended 31 December 2001, and the gains or losses on the disposal of those businesses or other assets;
- the pro forma results for 2000 reflected strong performances from the Nickel Business Unit and Olympic Dam. Nickel prices were sharply higher. Together with increased production volumes and lower costs, this resulted in record contribution from the Nickel Business Unit. The first full year's production following the expansion of Olympic Dam, higher copper prices and lower unit operating costs resulted in a significantly improved performance from Olympic Dam;
- earnings for 2001 declined considerably, principally due to lower nickel and copper prices. EBIT for 2001 was negatively impacted by the inclusion of non-recurring items totalling \$32 million, Olympic Dam accounted for \$11 million (\$72 million write off of plant offset by insurance proceeds of \$61 million) and a provision for redundancies accounted for the imbalance;
- underlying earnings are expected to fall further in 2002 reflecting a decline in earnings for Olympic Dam and the Nickel Business Unit partially offset by improved performance of the QFO and lower exploration expenditure. The key assumptions underlying the forecasts are:
 - copper prices fall marginally to US\$0.71/lb, nickel prices improve to US\$3.03/lb and DAP/MAP prices remain relatively constant at US\$157/tonne;
 - exchange rate of A\$1 = US\$0.54;
 - production at Olympic Dam is curtailed due to the fire leading to sales of 185,000 tonnes of copper and 3,888 tonnes of uranium. Higher costs are also expected partly stemming from the fire, partly from insurance and backfill costs and partly from increased third party purchases. Insurance proceeds arising from the business disruption from the Olympic Dam fire are estimated to be \$80 million;
 - production of metal from Nickel Business Unit is expected to be approximately 25% higher than in 2001 resulting in higher sales of metal. This is offset by a fall in nickel-in-matte sales reflecting, in part, diversion of production to the Kwinana refinery. Costs are expected to rise due principally to increasing costs of third party feed purchases;
 - the ramp up of the QFO operations is hampered by sulphuric acid supply issues although it operates at 82% capacity (up from 73% in 2001). Sales increase to 876,000 tonnes in 2002 and are met by increased production (up by 91,000 tonnes), a run-down of stocks and third party purchases. Costs are expected to decline marginally with earnings being driven by increased sales volumes particularly through Hi-Fert;
 - new projects, exploration and other costs fall by \$35 million to \$74 million following a restructure of the exploration operations in 2001;
 - hedging losses are based on the mark to market value of the hedge book to be assumed by WMC Resources. Actual cash outflows from the hedging book based on forecast exchange rates is estimated to be \$157 million materially higher than the profit impact;
 - interest expense reflects the proposed capital structure of WMC Resources and average borrowing costs of 4.1%;

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- a taxation benefit is expected largely reflecting permanent differences. Minimal tax is expected to be paid due to utilisation of tax losses; and
- a dramatic improvement in earnings is forecast for 2003 as a result of improvements at each of the operations. The key assumptions underlying the forecasts are:
 - copper prices improve 10% to US\$0.78/lb, nickel prices increase to US\$3.40/lb and DAP/MAP prices increase by 11% to US\$175/tonne;
 - the exchange rate strengthens to A\$1 = US\$0.58;
 - production at Olympic Dam increases as the rebuilt uranium/copper solvent extraction circuits come on stream through the year. However, copper production remains significantly below capacity due to the 40 day major smelter shutdown. Uranium sales increase to 4,285 tonnes and copper sales increase to 196,000 tonnes. Costs decline reflecting lower processing costs and third party product purchases (to meet contractual obligations);
 - production issues experienced in 2002 at the Nickel Business Unit are resolved leading to higher production levels (particularly of nickel in matte). Accordingly, sales increase to 114,000 tonnes. Lower third party product purchases together with lower mining costs at Mount Keith are forecast to reduce unit operating costs;
 - the QFO is forecast to reach almost 90% of capacity. While sales remain relatively flat at 874,000 tonnes, third party product purchases are expected to be replaced with QFO product. Increased production levels are expected to reduce unit costs although total costs are anticipated to remain relatively constant;
 - new project, exploration and other costs are expected to fall to \$61 million;
 - hedging gains are based on the mark to market value of the hedgebook to be assumed by WMC Resources. Based on forecast exchange rates, cash outflows from the hedging book of \$95 million are anticipated;
 - interest expense reflects the proposed capital structure of WMC Resources and average borrowing costs of 4.3%; and
 - the effective tax rate is expected to be 23% largely reflecting permanent differences due to hedging. However, minimal tax is expected to be paid due to the utilisation of tax losses; and
- earnings in 2003 reflect the ongoing impact of curtailed production at Olympic Dam. WMC expects Olympic Dam will be operating at full capacity by the end of 2003. The impact on WMC Resources performance is material. Accordingly, WMC has prepared forecasts for the year ending 31 December 2003 adjusted to remove the impact of the Olympic Dam production constraints. WMC's analysis suggests that EBITDA and net profit after tax for the year ending 31 December 2003 would have been \$88 million and \$65 million higher respectively if no production constraints existed at Olympic Dam.

Detailed pro forma financial information is set out in Section 7.12 of the Scheme Booklet. The key assumptions upon which the forecasts are based are set out in Section 7.12.2 of the Scheme Booklet. The forecasts should be read in conjunction with the risk factors described in Sections 4.5 and 7.11 of the Scheme Booklet, the sensitivity analysis set out in Section 7.12.2 of the Scheme Booklet, and the Investigating Accountant's Report set out in Section 12 of the Scheme Booklet. Grant Samuel takes no responsibility for the forecasts. Grant Samuel does not warrant the achievement of the forecasts. Forecasts by their nature involve assessments of uncertain future events. Actual future performance may be significantly more or less favourable than the forecasts.

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5.7 Financial Position

The pro forma balance sheet of WMC Resources as at 30 June 2002 is summarised below:

WMC Resources – Pro forma Balance Sheet	
(A\$ million)	As at 30 June 2002
Receivables	478.2
Inventories	481.9
Other	69.6
Creditors and current provisions	(411.9)
Net current assets	617.8
Property, plant and equipment	5,625.7
Non-current receivables	12.2
Non-current inventories	83.1
Exploration and evaluation	62.3
Net hedging position	(711.0)
Non-current provisions	(537.4)
Other	12.3
Capital employed	5,165.0
Borrowings (net)	(1,640.7)
Minority interest	(0.8)
Shareholders funds	3,523.5
<i>Gearing¹</i>	<i>32%</i>

Source: Scheme Booklet. Numbers may not add due to rounding

Note: (1) Net debt / (net debt + shareholders' funds)

The pro forma financial position of WMC Resources has been prepared on the basis that the Demerger had been completed on 30 June 2002. In analysing the pro forma balance sheet of WMC Resources, the following should be noted:

- WMC's hedge book, which WMC Resources will assume, has been restated at fair value;
- the property, plant and equipment of Olympic Dam and the QFO have been restated at fair value resulting in a net increase of \$995 million. This adjustment comprises an increase for Olympic Dam of \$1,313 million and a \$308 million decrease for QFO. Pro forma gearing based on the book value before the restatement to fair value is 39%; and
- as part of the financial restructuring for the Demerger, WMC Resources will seek to refinance its US dollar denominated debt. WMC currently has four outstanding fixed interest debt securities with a total outstanding of US\$800 million. Given the current interest rates, WMC Resources will offer to acquire these securities at a premium to face value. The proforma debt has been adjusted to include an amount of \$198 million representing the premium and break costs which WMC Resources expects to pay.

A detailed description of the assumptions and adjustments incorporated in the pro forma balance sheet of WMC Resources is set out in Section 7.12.2 of the Scheme Booklet.

5.8 Taxation

WMC Resources will inherit the significant tax losses generated from its key projects. As at 31 December 2001, these tax losses were estimated at \$616 million on an after tax basis (A\$366 million revenue losses, A\$250 million capital losses). The Demerger, coupled with the impact of the tax consolidation regime may impact WMC Resources' ability to utilise the tax losses as quickly as WMC might have been able to. The likely impact is not able to be fully determined with any certainty due to the incomplete nature of the legislation and the preliminary nature of WMC's tax planning. Notwithstanding the uncertainty, WMC expects WMC Resources will pay only minimal tax in the short term. As a consequence WMC Resources is expected to pay only unfranked dividends in the immediate future.



6 Evaluation of the Demerger

6.1 Summary

The Demerger will have no direct impact on the asset portfolio in which WMC shareholders have an economic interest. WMC shareholders will continue (at least initially) to hold interests in the same set of assets, although through different corporate structures. Accordingly, evaluation of the Demerger requires an assessment of whether a change in the asset ownership structure is, of itself, likely to:

- promote more efficient utilisation of the assets;
- enhance share market perceptions of the value of the assets, as reflected in share prices; or
- increase the price that could be realised for the assets in the context of a takeover or similar transaction.

The Demerger will result in the creation of two more focussed companies, with expected benefits in terms of investor flexibility, transparency and the alignment of management incentives with corporate performance. These factors suggest that the Demerger should result in more efficient utilisation of the assets of WMC Resources and should increase investor interest in both Alumina Ltd and WMC Resources. On the other hand, the Demerger will have some potential drawbacks including the duplication of some corporate costs, a sub-optimal capital structure for Alumina Ltd (at least initially), higher gearing in WMC Resources and, potentially, an increase in the cost of capital for the two new companies. Assessment of the net effect of all these advantages and disadvantages is essentially judgemental. Some of the expected benefits should be achievable, at least in part, within WMC in its current form.

WMC's current structure severely limits the number of parties that could realistically be considered potential acquirers of WMC. In Grant Samuel's view, the Demerger will significantly increase the competitive tension between potential buyers of WMC (or its assets), and materially enhance the prospect that any change of control (by way of takeover or otherwise) will occur at prices reflecting full underlying value. In recent years there has been a substantial degree of rationalisation in the resources sector. WMC's assets are likely to be highly attractive to a number of the major resources companies. In this context, the Demerger's promotion of a more competitive market for control of WMC represents a compelling advantage. Moreover, market expectations of corporate activity are likely to provide material support for the share prices of Alumina Ltd and WMC Resources.

The Demerger is not expected to have any corporate tax implications for WMC of a material nature. Similarly the Demerger should have no tax consequences for the vast majority of WMC shareholders. Australian, eligible US resident shareholders and overseas tax exempt pension funds are unlikely to face any tax liability as a result of the Demerger. These shareholders are estimated by WMC to account for more than 85% of its total shares on issue. The consequences for other shareholders will depend on their domicile and tax status. Some of these shareholders are likely to face a potential tax liability, particularly in respect of their WMC Resources shares. Shareholders should consider seeking their own taxation and other professional advice when assessing the Demerger.

In Grant Samuel's view shareholders are likely to be better off if the Demerger proceeds than if it does not. The Demerger will help to ensure that competition for ownership of WMC's assets is maximised. As demonstrated in recent takeovers of large Australian resources companies, competitive bidding processes can deliver substantially enhanced value to shareholders. By comparison, other advantages and disadvantages of the Demerger are unlikely to be material. Accordingly, Grant Samuel has concluded that the Demerger is in the best interests of shareholders.