



#### Valuation of Property, Plant & Equipment

The valuation of property, plant and equipment will be critical to coal and iron ore miners successfully implementing and efficiently administering the MRRT.

The market value of property, plant and equipment will be required to determine both the Market Value Starting Base and the annual Taxable Revenue at the taxing point.

Furthermore, management systems relating to these assets will need to be updated to ensure accurate ongoing administration.

PP&E Valuations Pty Ltd (PP&E) is well positioned to assist companies in these matters.

#### Determining the Market Value Starting Base

Key recommendations of the Policy Transition Group (PTG) relating to determining the Market Value Starting Base include:

- That an entity must make an irrevocable election to use market value or book value as the method for determining a starting base for each interest the entity holds in a project or other mining tenement in existence at 1 May 2010, by the due date for filing of the first MRRT tax return; and
- That the taxing point be the earliest of when the resource leaves the run of the mine (ROM) stockpile, when the resource is delivered to the first unit of operation after extraction, or on sale to a third party.

Many coal and iron ore miners will elect to adopt a market value starting base of mining assets upstream of the taxing point as at 1 May 2010 on the basis of accepted market value principles.

# Minerals Resource Rent Tax (MRRT)

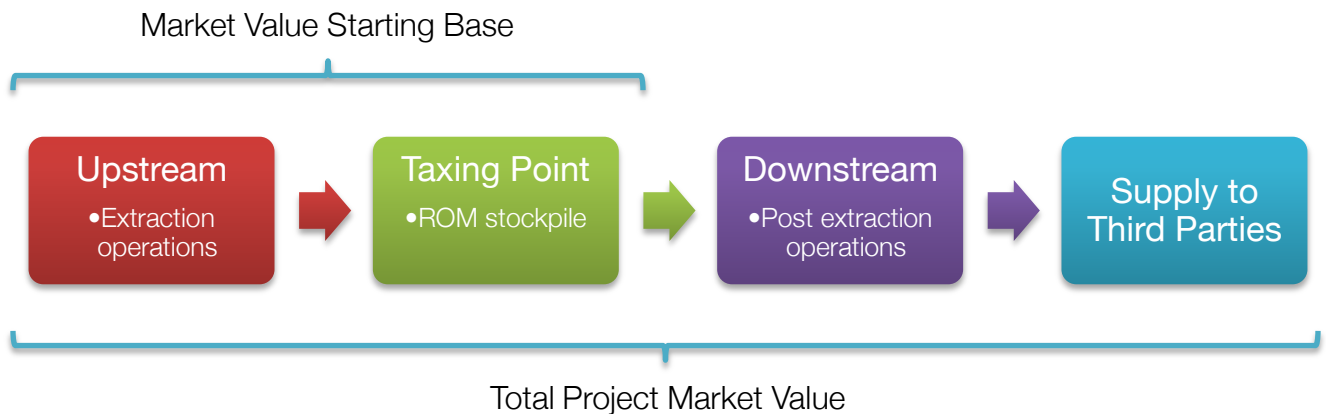
## Starting Base and Taxable Revenue

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The market value starting base should include all tangible assets including improvements to land and mining rights as well as relevant intangible assets such as mining information. The illustration below depicts the possible component assets of the market value.



In most projects the total market value will include value of assets downstream of the taxing point (as depicted below). It will be necessary to deduct the value of these assets to determine the market value starting base at the taxing point.



Any capital and mine development expenditure incurred between 2 May 2010 and 30 June 2012 should be added to the starting base. This may require verification of expenditure and allocation of costs to assets upstream and downstream of the taxing point.

#### Determining the Taxable Revenue

The annual MRRT Taxable Revenue of a project will be the value of the resource at the taxing point, less the costs incurred in getting to that point.

#### Value of the resource

The value of the resource is to be determined using the most appropriate and reliable arm's length pricing methodology. In many cases, this will involve starting with the sale price of the resource and 'netting back' to its value at the taxing point by subtracting an appropriate amount for activities undertaken between the taxing point and the point of sale.

This will include the depreciation of the property, plant and equipment downstream of the taxing point.

#### Deductions

Eligible deductions will be those amounts *necessarily incurred* in extracting the resource and bringing it to the taxing point. They will include relevant indirect head office costs that have a necessary relationship to the project, but not expenses related to the entity's non-project activities.

The depreciation of upstream assets is an eligible deduction. The property, plant and equipment within the Market Value Starting Base will be written off over the lesser of their effective life, life of mine or the period to 30 June 2037.

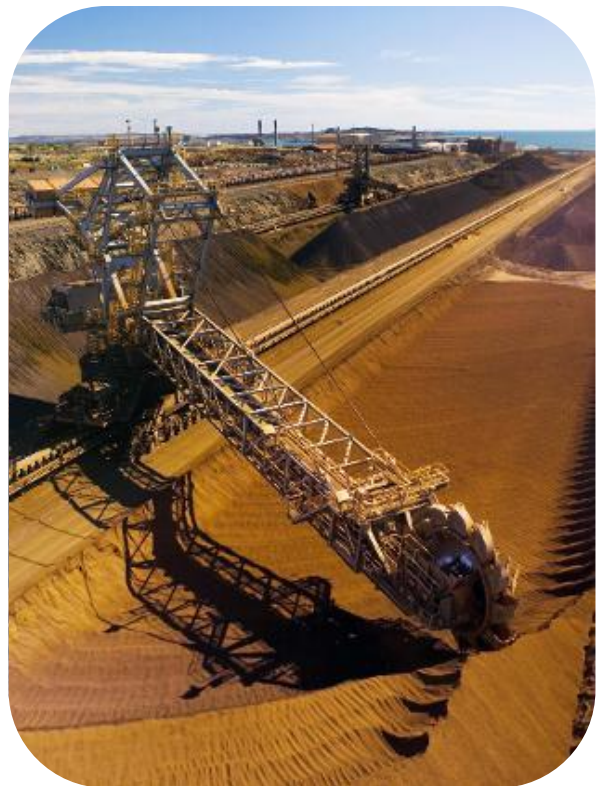
Balancing adjustments will also be made on an annual basis to reflect changes in the use of project assets and amounts previously assessed or deducted. This will include, inter alia, project asset additions and disposals.

#### Asset Management

To successfully implement and administer the MRRT many companies will need to improve asset management systems.

In relation to property, plant and equipment assets this may involve the verification of the fixed asset register, componentisation of assets, identification of upstream and downstream assets, review of asset lives, review of cost centre allocation, and other matters.

The determination of the Market Value Starting Base alone is not sufficient. We will work with our clients to ensure that the correct data is compiled and, most importantly, reported in a format that facilitates efficient ongoing administration.





# *The Experts in Property, Plant & Equipment Valuations*

## ABOUT US

PP&E Valuations Pty Ltd provides professional property, plant and equipment valuation services.

Our particular expertise is the valuation of specialised assets for insurance, accounting and taxation purposes.

Our valuers have extensive experience in the valuation of mining assets, including coal and iron ore mining assets.

We are experienced in working on mine sites and PP&E is totally committed to safe work practices.

Our valuers are Certified Practising Valuers and members of the Australian Property Institute.

We have experience in working with other business advisers, in particular corporate valuation advisors.

We understand the interrelationship of the market value of the property, plant and equipment to the enterprise market value.

## OUR COMMITMENT

We are committed to provide the highest quality professional property, plant and equipment valuation services, ensuring we always meet our client's expectations in regards technical expertise, communication, cost efficiency and timeliness.

As part of our commitment to our clients we have professional indemnity insurance cover of A\$10 million. We also have appropriate insurances in place regarding public liability (\$20 million) and workers compensation.

## SERVICES

We provide property, plant and equipment valuation services for the following purposes:

- Insurance
- Financial Reporting
- Taxation
- Mergers and acquisitions
- Disposal
- Loan security

We also provide asset management services, including:

- Verified fixed asset registers
- Reconciled fixed asset registers
- Reconstructed fixed asset registers
- Plant layout drawings
- Asset life reviews
- Impairment reports
- Project cost allocation services