



Gold Corporation

Statement of Corporate Intent

2018-19





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1. INTRODUCTION

The state of the global economy impacts Gold Corporation through both the supply and demand for precious metals. The current global economic outlook continues to change, with economists moving from an outlook of weak cyclical stagnation to one of global growth stabilisation. As a result, the markets for precious metal remain challenging, and it is possible that the buying of safe-haven assets may not return until a significant macro-economic or geo-political shock occurs.

This plan suggests a continuation of current conditions in the world economy. The plan, however, does include a number of strategic actions which are expected to result in growth regardless of market conditions, and in the right market conditions should add materially to the profitability of Gold Corporation. To the extent that they include capital expenditure, this will be funded from internal resources and there will be no requirement to borrow funds.

Of course, any forecast of economic and market conditions is tentative and uncertain. There is no way of knowing the future, as history has repeatedly shown. Flexibility and quick reactions will be required as, inevitably, unexpected developments occur. The plan also considers the flexibility necessary to operate in this environment.

2. ACTIVITIES

Gold Corporation, using the trading name The Perth Mint, is an integrated precious metals business, starting with the refining of gold and silver, moving on to the production of London Good Delivery bullion bars, value-added bullion bars, bullion coins, coin blanks and other bullion and numismatic products. Safe storage facilities for bullion are also marketed to investors from around the world. The Perth Mint is Australia's sole accredited gold and silver refiner and sole producer of the Australian legal tender bullion coin series. It is also licensed to produce Australian legal tender numismatic, collector or commemorative coins and produces such coins on behalf of other issuing authorities as well. Much of its revenue is generated from exports and it is currently Western Australia's fifth largest exporter.

Gold Corporation has three wholly owned subsidiaries; Western Australian Mint, GoldCorp Australia and AGR Management Services Pty Ltd. Its integrated business model operates across all three in such a way that it is impossible to give meaningful financial figures for each of the subsidiaries – the operations report on a consolidated basis.

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Aspects of the business are:

Precious Metal Refining

The refinery located near Perth Airport refines nearly all of Australia's gold doré production, as well as gold produced in surrounding countries and varying quantities of recycled gold, mainly from Asia. It also refines significant amounts of silver.

Gold mines produce most of their gold in the form of doré – gold alloyed with silver and base metals. After the doré arrives at the refinery it is weighed, melted and assayed, after which the producer's bullion account is credited with the precious metal ounces or payment is made in cash to the producer. It takes the refinery about ten days to refine the gold and silver and after that it is ready to be used elsewhere in the organisation, to be sold to customers around the world as bullion (bars and other forms) or, failing either of these, to be shipped to the bullion market in London as London Good Delivery bars.

Coins and Other Minted Products

Some of the gold and silver is turned into coin blanks, either for sale to other mints around the world or for use in Gold Corporation's own products. The latter include;

Bullion Coins

The Perth Mint is one of a handful of mints worldwide which produce bullion coins and is the sole official issuer of Australia's bullion coin series. The series consists of the gold and silver Kangaroo, the silver Kookaburra and Koala, the Lunar gold and silver coins and the platinum Platypus. The purpose of bullion coins is to make available to the public and institutions a convenient way of acquiring precious metals – in a form that can be trusted, is difficult to forge, is easily recognisable and is readily tradable.

Numismatic Coins

These are also sometimes referred to as modern numismatic coins, commemorative coins or collector coins. The Perth Mint is one of two mints issuing Australian legal tender numismatic coins and it also issues coins which are legal tender of other countries.

The Australian numismatic coins celebrate Australian culture, places, history, nature and events, and they also promote Australia around the world.

Minted Bars

These are popular in some markets around the world and are minted in the same way as coins. Bearing the mark of a known mint or refiner and packed in tamper proof packaging, they are another way in which precious metal can be acquired conveniently.

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Depository – The Safe Storage of Precious Metals

Perth Mint Depository allows customers to own precious metals with the following advantages:

- They do not have to deal with the problems associated with taking physical possession of the metal, like transport, physical security or insurance.
- The metal can be liquidated (sold for cash) readily and the cash remitted to the customer's bank account. The customer does not have to transport it anywhere and can give the instruction to sell from anywhere in the world.

Customers wishing to invest in precious metals in Perth Mint Depository have access to the following types of products:

Unallocated Metal: Gold Corporation has a liability to the customer denominated in fine ounces. Gold Corporation provides assurance to such customers and ensures that at all times it holds sufficient metal inventory to back all such liabilities. Gold Corporation's precious metal holdings are held in various locations: the mint, the refinery, approved vaults or with bullion banks in London. The unallocated customer metal holdings are used to fund the precious metal inventory needs of Gold Corporation. Gold Corporation's London metal holdings are maintained for liquidity and transactional purposes. The advantage to customers of unallocated over allocated products is that they pay no storage fees.

Allocated Metal: Specific precious metal items (coins or bars) are kept for customers in the vaults. The metal is not used by Gold Corporation and there is a storage charge for the service.

Pool Allocated Metal: Customers own a share in a stock of bullion bars kept in vaults. Gold Corporation does not use the metal and a storage charge (lower than for Allocated Metal) is payable.

The ways in which customers have access to these products are:

Perth Mint Certificate Program: Generally for small investors.

Perth Mint Depository Services (off-line and on-line services): Generally for investors wishing to invest larger amounts.

Perth Mint Gold: This is for gold only and is a security listed on the Australian Stock Exchange.

The Shop & Exhibition

The Perth Mint is housed in a beautiful heritage building, erected when the Perth Branch of the (British) Royal Mint was founded in 1899. The Hay Street site contains all of Gold Corporation's operations, other than the refinery, and accommodation has been increased over the years with the addition of a number of new buildings. Part of the ground floor of the original building is taken up by the Shop & Exhibition.

The Shop sells not only The Perth Mint's own products (such as coins and bullion bars), but other Australian goods like natural gold nuggets, South Sea pearls, opals, pink diamonds and all these items set in jewellery.

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The Exhibition is an interesting tourist attraction displaying historical and modern coins and gold bars, and visitors get a glimpse of the actual coin minting process through security glass. The highlights of any visit are the world record holding 1 tonne gold coin and the hourly gold pour in the historic melt house, in which a 200 ounce bar of pure gold is melted and poured into a bar.

3. OBJECTIVES

The financial objectives of Gold Corporation are:

- to earn a commercial return on capital;
- to meet its capital expenditure and other funding requirements from its own resources;
- to pay tax equivalent and a 75% dividend to Government; and
- to remain debt free.

According to the financial projections, Gold Corporation will achieve its financial objectives during the plan period.

Operational Objectives are:

- continue enhancement of safety, environmental and quality systems;
- maintain gold and silver refining volumes and levels of service to the precious metals industry;
- increase bullion coin world market share;
- continue developing the market for numismatic coins; and
- increase Gold Corporation's profile in the industry both in Australia and overseas.

4. PRIORITIES FOR 2018/19

- Continual improvements in the management of safety and the environment within Gold Corporation.
 - Maintain high levels of service to refining customers to retain their business in the face of competitive pressures.
 - Increase distribution of precious metal bars and coins into target markets.
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- Pursue institutional accounts and Depository Online business to increase the amount of metal held on deposit.
- Actively market all components of Gold Corporation's business to existing and target customers.

5. CAPITAL INVESTMENT

The cost of Gold Corporation's Capital Investment Programme for 2018/19 is \$20.8 million. It covers the following:

- The manufacturing operations are capacity constrained due to the speed of press machines. The addition of various new presses will replace equipment at the end of its economic life and increase the capacity of the manufacturing operations through the plan period.
 - Gold Corporation's silver refining volumes are approaching the maximum production capacity. An upgrade to the silver production area is required to ensure Gold Corporation maintains sufficient production capacity to meet demand.
 - The heritage-listed buildings at the Hay Street site require some additional attention over the plan period to ensure their continued longevity and to preserve their cultural and historical importance.
 - Assay fingerprint technology will improve overall security for the gold industry and reduce theft, as well as assisting Gold Corporation in complying with OECD conflict minerals requirements.
 - Upgrading the existing caster with modern technology increases the production capacity of the factory and replaces equipment that is already at the end of its economic life.
 - Routine capital expenditure in the mint and refinery is managed in terms of a rolling 10-year plan. This contains replacement of equipment due to wear and tear, technology upgrades, efficiency improvements, waste reduction, safety enhancements and security enhancements.
 - The replacement of the ERP computer system, the organisation's core financial computer system, and the development of a front end customer facing e-commerce platform capable of meeting Gold Corporation's growth objectives are being planned during the plan period in tandem. The current systems are several IT generations old and continuity of service is likely to become an increasing risk. Growth in the business has also resulted in current systems being at the limit of their performance making them incapable of delivering the next stage of the strategic initiatives to increase profitability.
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6. BUSINESS MANAGEMENT

Dividend Policy

A dividend of 75% of after tax profit is expected to be paid.

Borrowings

Gold Corporation will not seek to borrow any funds from Western Australian Treasury Corporation and will fund its capital expenditure from operational cash flows.

Accounting Policies

Gold Corporation's financial statements for the year ended 30 June 2017 have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), which comprise a Framework for the Preparation and Presentation of Financial Statements (the Framework) and Australian Accounting Standards (including the Australian Accounting Interpretations).

The Financial Management Act 2006 and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

Details of Gold Corporation's significant accounting policies can be found in the Notes to the Financial Statements in the 2017 Annual Report.

The impact of the new Accounting Standards, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases* has not been included within this Statement of Corporate Intent.

Performance Reporting

The Chairman and Board of Directors are appointed in terms of Section 5 of the *Gold Corporation Act 1987*. One director is the Executive Director of Infrastructure and Finance in the Department of Treasury as an *ex officio* board member.

The Board receives monthly reports on the performance of Gold Corporation and more detailed quarterly reports are tabled at quarterly board meetings. A special meeting is held to approve the annual accounts and additional board meetings are held when necessary.

The Board has established four committees – the Audit and Risk Management Committee, the Remuneration & Allowances Committee, the Treasury Committee and the Environment, Occupational Health and Safety Committee. These meet regularly as appropriate.

Meetings are also held with the responsible Minister or members of his or her staff regularly at which performance and other issues are discussed.

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Annual Report

Gold Corporation's web site at www.perthmint.com.au promotes the organisation and its business. It also contains the annual report and other important documents. It is anticipated that the annual report for the plan year will have contents similar to the one currently on the web site. Printed annual reports are submitted to the Minister (the Premier) and Department of Treasury, with the required number of copies being prepared for tabling in Parliament.

RICHARD G HAYES

Chief Executive Officer

5 June 2018

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APPENDIX A – FINANCIAL OUTCOMES AND BUSINESS TARGETS

TARGETS

	<u>Forecast</u> 2017-18 \$000	<u>Projected</u> 2018-19 \$000
Assumptions		
Gold Price - USD/oz.	1,303	1,349
Exchange Rate USD/AUD	0.780	0.778
Dividend Provision Rate - Percentage of After Tax Profit	75%	75%
Financial outcome		
Operating Profit before Income Tax	12,044	30,686
Operating Profit after Income Tax	8,431	21,480
Dividend (for previous fin. year)	12,752	6,323
Cash balance	35,338	42,271
Net Assets/Equity	128,634	143,791
Capital Expenditure	17,873	20,788
Accruals to Government		
Income Tax	3,613	9,206
State Tax on Payroll	2,101	2,082
Dividend	12,752	6,323
Total Accrual to Government	18,466	17,611
