

Melbourne Mining Club
‘The role of contract mining in the resources industry’
Wal King - CEO, Leighton Holdings
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Thank you for the invitation to talk to you today.

[Slide 1: Cover slide - The role of contract mining in the resources industry]

My address today will cover:

- Some of the global economic developments impacting on demand for Australia’s mineral resources
- A look at the valuable role contract miners play in meeting the challenges facing the mining industry and;
- A brief outline of the Leighton Group and our role in the mining industry.

[Slide 2: Divider - The minerals demand cycle]

Historical Context - The minerals demand cycle

As the people in this room know, the minerals demand cycle in Australia is driven by a range of factors including economic growth domestically and in our region, the advantages of our geography and by demographic changes.

[Slide 3: Australia’s economic growth]

Australia's economic growth has been significant over our short modern history, both in real GDP terms and in Standard of Living terms (real GDP per capita). This impressive growth however masks significant setbacks at least until the end of the industrial age, primarily due to poor commodity outcomes caused by climatic factors in Australia (floods, droughts) and global demand factors impacting on prices.

[Slide 4: Changing Importance of Australian industry]

As the graph shows, the share of GDP contributed by commodities (both agriculture and minerals) has fluctuated over time, declining in relative proportion as the services sectors have grown in Australia.

However, the minerals industry still comprises 8% of Australia's Gross Domestic Product and in 2007-08 it generated exports of over \$100 billion, 42% of total Australian exports.

Estimates of the value of minerals industry exports last year were close to \$130 billion.

The minerals sector is a major source of tax revenue for Australian Governments, and employs over 130,000 people directly, and approximately 200,000 indirectly.

Demand factors in our region

[Slide 5: Regional share of world GDP]

We are fortunate to be part of the Asia Pacific Region, which accounts for over 27% of global GDP, and this share is growing, primarily due to continued high growth in China and an emerging India as one of the world's leading economies.

China has been the world's largest economy for most of the last two millennia.

[Slide 6: World's 30 largest economies]

China is the world's second largest economy, currently accounting for around 13% of the global economy on purchasing power parity terms.

Depending on whom you believe, China will be the world's largest economy somewhere between 2025 and 2035.

Of course a lot can happen over the next 15 years, as we've seen recently a lot can happen over 18 months, but China's growth path seems inevitable and unstoppable.

[Slide 7: Economic growth in China]

China's economy has grown by an average 8.2% per annum for the last 60 years and has experienced consistent high rates of economic growth since 1990.

The World Bank and the International Monetary Fund both recently raised their forecasts for China's 2009 growth from an original estimate of 6.5%. The World Bank now forecasts growth of 7.2%, while the IMF expects 7.5% growth.

With 7.9% growth in the June quarter, China looks well set to meet the Government's target of 8% growth in the near future, in line with its long term average, which is good news for the Australian resources sector.

[Slide 8: China's steel use by sector]

China's growth consumes a lot of resources, and Australia supplies the key ingredients of one of the crucial components of that growth, steel.

Over 60% of China's steel use is for construction and infrastructure i.e. domestic consumption – the key targets of its \$500 billion + stimulus package.

[Slide 9: Economic growth in India]

India is emerging quickly as a destination for Australia's resources and has not been as adversely impacted by the global economic downturn as many other economies.

India also has a large infrastructure construction program and mining prospects to underpin social demographic changes and growth.

Growth forecasts for India are around 5.4% for 2009, expanding to around 7% next year, continuing on its impressive long term improvement of its standard of living.

Impact of the Global Financial Crisis

[Slide 10: Impact of GFC on world GDP]

The Global Financial Crisis has obviously has a major impact on the mining sector.

During the crisis, the value of the world's 40 largest mining companies dropped by around 60%.

But whilst asset values are down and equity for new growth remains a problem, demand for commodities remains strong.

World consumption of steel, and hence iron ore, is still forecast to grow moderately in 2009 and further growth can be expected beyond that as the Asian region, and particularly China, recovers.

[Slide 11: Selected commodity prices]

Whilst the prices of coal, iron ore and base metals are dropping they are coming off record high levels that had been growing for half a decade. Even so, prices are expected to remain above long term averages in the future.

ABARE forecasts that the value of mining production in Australia will increase by 2.7 % in real terms in the coming financial year.

[Slide 12: Australian oil and gas reserves]

At the same time there will be a significant increase in investment in oil and gas, particularly LNG, with over \$32 billion worth of projects committed and another \$86 billion at various stages of planning and development.

Demographic demand drivers

I wish to touch briefly on some of the demographic factors which I believe will continue to drive long term demand for Australian resources.

Across Asia, sustained population growth combined with an absolute determination to lift standards of living will continue to drive future demand for resources in our region.

[Slide 13: Population growth trajectories]

There are currently forecast to be 9 billion people in the world by 2050.

That's 50% more people than are alive today, with nearly all of these increases contributed by developing countries.

And the majority of them are going to live in the region supplied by the Australian minerals industry.

By 2050 Asia will have an estimated 57% of the world's population, with Africa nearly doubling its population and Europe continuing its relative decline.

That means ongoing demand for our minerals.

I believe that the current temporary slow down in the demand cycle caused by the global financial crisis is an opportunity to plan for the future, not to take our eye off the ball as has occurred in the past.

This led to the skills shortages and infrastructure bottlenecks that have hampered our export performance.

So what does this all mean for Australian miners and for contract miners in particular?

Australian resources producers are very well placed on the cost curve and being close to Asia are positioned to benefit from a recovery in regional markets.

And contractors can play a crucial role in meeting that demand.

[Slide 14: Divider - The Role of contract mining]

Contract Mining in Australia

First I want to give a quick overview of the role of contract miners in the Australian minerals sector.

[Slide 15: Contract mining in Australia]

Contracted services are estimated to be \$6 billion in 2008 and accounts for approximately 12% of all mining services expenditures (excluding exploration), with an average growth rate of 11% per annum.

The components of Contract Mining by commodity are shown in the chart.

As you can see, Coal dominates as a user of contracting services with a 41.6% share. In contrast, the bauxite industry essentially operates as an in-house operation.

We have seen cyclical reductions in contract mining in the past. In the last big resources downturn in the late 1990s, the value of contract mining fell by 17% overall, but by 50% in iron ore.

[Slide 16: Value of contract mining]

However, as the table shows, the value of contract mining in coal has more than doubled in the last seven years, whilst the value of iron ore contract mining has more than tripled. Other minerals with a significant contract mining presence include gold and nickel.

As demand picks up again, the critical issue will again be how to resource rapidly increasing levels of production to meet the demands of our Asian trading partners.

Contract miners have been crucial to the growth of the iron ore industry in Western Australia and produce more than 40% of Australia's iron ore exports.

Contract miners offer a number of significant advantages to mine owners.

Scope of Mine Contracting Activities

[Slide 17: Contractor range of services]

The scope of contract mining activities can range from basic earthmoving to full services contracting.

Contractors can also provide associated infrastructure such as wash plants and roads, rail and port facilities.

The scope of a mining contract will be defined and agreed between the client and the contractor and may relate to Operational or Maintenance activities, Infrastructure Development and upgrade and whole of mine operational management.

Operational activities can be grouped as follows:

- Mine Planning
- Drilling/Explosives
- Earthmoving/Overburden removal
- Extracting/Mining/Dragline operations
- Processing/Beneficiation/Washing
- Materials/Commodity handling
- Rehabilitation/Remediation

Maintenance activities may be undertaken for either:

- Mobile Plant & Equipment
- Fixed plant (e.g. Wash Plants)
- Buildings
- Facilities Management

Activities of a specialised nature are the activities most likely to be 100% outsourced. Drilling and blasting for example is an activity of significant specialisation which requires a highly trained workforce.

[Slide 18: Wilpinjong Coal Mine]

Advantages of contract mining

Using contractors can provide a number of advantages to mine owners.

They offer economies of scale and scope through access to capital equipment and human resources both in mine management and in technical areas such as plant management, mine planning and materials handling.

This can deliver superior plant utilisation rates and labour productivity.

This can also minimise the owner's capital exposure which allows them to better utilise their cash.

It also enables the mine owner to focus on its core capabilities which may be exploration, sales and marketing.

Contract mining is fundamentally about managing risk.

Contractors manage risks around workforce availability, OHS and environmental incidents.

Contractors are also able to benchmark their operations across a range of mines to maximise efficiencies.

Contract mining also provides a great deal of flexibility for owners.

That flexibility allows the owner to terminate after regular reviews and employ another contractor or take the work in-house. It also allows the mining company to look at a range of staging options.

During fluctuating market cycles as demand picks up, contractors are also able to quickly react and ramp up during the mobilisation and commissioning phase. Contractors allow a client to increase production without incurring increased capex.

[Slide 19: Key reasons for using contractors]

A survey undertaken recently by BIS Shrapnel indicated that the most important reason that miners use contractors is the ‘need for flexibility/short term needs’.

The table on the slide provides a summary of the survey results, noting that in the Coal sector, Cost Management and Accountability was the second most important reason.

I believe that the contractor model which has a focus on delivering what the client wants, based on low overheads and simple workable systems, is a valuable part of the mining industry in this country now and into the future.

Ultimately, contract mining is a service for clients and contractors do their best to meet the needs of their clients.

For an informed and expert client such as BHP, contractors can assist the rapid growth of new mines or expansions of existing mines.

For other clients who may be primarily investors in the resources sector, contractors can provide the full range of mining services from mine planning to mine rehabilitation.

[Slide 20: Divider - Leighton Group contract mining]

Leighton Group contract mining history

[Slide 21: Leighton World's largest contract miner]

Of course I have a vested interest in telling you all of the advantages of contract mining.

The Leighton Group is the world's largest contract miner.

Contract mining accounts for approximately 25% of Leighton Group total operating revenue which equates to over \$3 billion last year.

We are also Caterpillar's second largest global customer, after BHP Billiton.

The Leighton Group through Leighton Contractors, HWE and Thiess has been undertaking contract mining in Australia for over 30 years now.

[Slide 22: Map of Australian mining projects]

As the slide shows, we have range of contracts in iron ore, coal, gold and nickel across Australia.

The Leighton Group is actively involved in mining here in Victoria. Thiess is the lead partner in operating the Yallourn Brown Coal mine.

Thiess is actively seeking to expand its Victorian mining operations through its investment in Exergen, who is the project lead for a consortium also involving

Tata Power of India, Itochu of Japan and Sedgman in developing a 12 m.t.p.a Latrobe Valley coal export project.

We also undertake significant contract mining work in Indonesia and in other parts of Asia, including most recently, Mongolia.

[Slide 23: UHG mine]

Mongolia has massive reserves of coal and Leighton Asia is well positioned to develop a contract mining business in that country where little local expertise is available.

The minerals and resources sector is a major contributor to the Mongolian economy, and its world scale copper and coal resources remain largely undeveloped.

Leighton Asia is currently working on site at the UHG mine and commenced the mining contract in March 2009. The UHG coal deposit is located in the South Gobi region of Mongolia some 200 kilometres from the China border and 540 kilometres from Ulaanbaatar. It is already one of the largest coal mines in Mongolia.

The contract works includes the removal of overburden and mining of the coal, plus provision of mining planning and engineering services.

There is also a number of other potential projects in Mongolia that Leighton Asia is investigating.

I visited Mongolia a few weeks ago and there is no doubt that Mongolia offers tremendous future opportunities, but also major challenges operating in an unforgiving environment.

[Slide 24: Thiess workers, Mt Owen]

Safety

Finally, I want to clearly address the issue of safety with respect to contract miners.

I acknowledge the grief of families who have experienced the loss or serious injury of a family member within the industry.

Safety statistics can be somewhat misleading.

Mining and construction have lower injury rates than a range of other industries - but these injuries tend to be more serious and unfortunately are sometimes fatal.

We have a strong focus on safety and a goal of zero life changing injuries, as I assume everyone in the industry does.

But serious injuries and fatalities still occur.

[Slide 25: Frequency of fatal injuries per 100 million hours]

A study of the frequency of fatal injuries in the Australian mining industry (per 100 million man hours) over the period 1998-2000 to 2006-07 shows a relatively

steady trend. At the end of nearly a decade the fatality rate is the same as at the start.

We all know that mining and construction are inherently risky businesses.

But it is our job as contractors and operators to minimise and manage those risks.

I think it can be misleading to draw conclusions from aggregated data, as conditions in different sectors of the industry vary considerably.

But I think I can say that, as an industry, we need to redouble our efforts to sustain improvements in safety.

Within the Leighton Group we have put in place a Fatal Risk Protocol to examine potential serious risks and put in place initiatives to prevent those risks resulting in serious injuries.

These initiatives require:

- Leadership
- Strong systems and procedures
- A focus on risk management
- Verification and measurement
- A culture of learning and continuous improvement

We will continue to focus on safety as a key to the sustainability of our business.

Conclusion

[Slide 26: Role of contract mining in the resources industry]

In conclusion, I believe the events of the last 18 months have seen a bump in the minerals demand cycle, but the fundamental drivers of that cycle remain the same.

We have continuing demand for our resources to support the economies of our region, particularly China, as they work to improve the standard of living of their populations.

There will be continued world population growth, where our region will comprise more than half of the world's population of 9 billion by 2050.

Australia is fortunately located in the Asia Pacific Region, with access to world class minerals resources, and we have low cost producers with the capital and workforce to get the products to market.

Contract miners should continue to play an important role in delivering those products for our clients safely and efficiently.

Thank you.