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2014/15 SPECIAL 5-YEAR EDITION

Mining Business Outlook Report

No light in sight

Mining leaders hanging on with no sign of deliverance

Canvassing the views of Australian mining leaders on:

- Economic outlook
- Challenges & opportunities
- Productivity
- Labour market
- Advice to Canberra

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The Mining Business Outlook Report canvasses the views of Australia's mining leaders. It has been conducted on an annual basis since 2010. This year's report draws on lengthy face-to-face interviews that took place between 16th April and 30th June, 2014. Sixty mining executives participated from a broad range of mining companies.

For more information regarding the research, please contact Gemma Manning at Manning & Co. on (02) 9555 5233 or gemma@manningandco.com.au.

This year's Mining Business Outlook Report presents an even more negative outlook since our last report. We are witnessing the real impact of the mining sector's slowdown

an **introduction**

David Hand
Managing Director

The mining sector has reached a new five-year low, with confidence levels likely to take years to recover. Leaders are plagued by tough conditions and many share the view that their future success is out of their control.

This year's Mining Business Outlook Report presents an even more negative outlook since our last report, released in July 2013. Last year seemed to represent a new low in mining sector confidence, but this year the situation is worse. We are witnessing the real impact of the mining sector's slowdown – not just on the industry at large, but on Australia's declining terms of trade and on the whole economy.

Last year, we reported that despite the dramatic and painful downturn in the resources sector, this economic cloud did have a silver lining. We identified new opportunities for mining leaders to focus on efficient and productive operational management, to lift returns on investment for shareholders and investors.

However, the focus of the last year has been on cost-cutting: reducing expenditure and cancelling expansions and projects. The opportunity to operate assets better and drive value for investors, employees and the country has yet to become the priority it deserves to be. Mining leaders have shifted their attention to areas out of their control, such as falling commodity prices, changes in demand, escalating compliance costs, and a tough government regulatory environment.

The industry is saying it has taken all possible steps to sustain performance. An increase in commodity prices and demand is seen as the way out of today's difficulties. But as the industry has no control over demand or prices, mining leaders are effectively saying they no longer control the industry's immediate future. There is a growing risk that these conditions will prompt an accelerated closure of unprofitable mines, particularly thermal coal, which would have a severe economic impact on regional Australia.

This challenging and fluctuating landscape is forcing mining organisations to shift their approach to the coming years. Last year's change in government is generally viewed as a positive for the industry; as we go to press, the repeal of the carbon tax has been welcomed throughout the sector. However, the last 12 months have brought few other changes sought from the government.

The mining industry is once again recalibrating, and management teams must respond effectively. Mining leaders must continue to focus on operating their mines well and achieve greater levels of efficiency. This means keeping their eye on the ball, and investing in sustainable management of their operational facilities. With labour, capital and energy costs all committed to an operation, sustainable throughput is the key. Mining companies need to demonstrate a greater level of agility in response to changing conditions in the landscape, and invariably their operations.

The purpose of our Mining Business Outlook Report is to check the pulse of the industry first-hand, by speaking with mining leaders on their outlook, challenges and opportunities, and views on government policy. The report concludes with advice to the new federal government: wake up and get going. We hope you find the report both compelling and insightful, and we welcome your feedback

key insights

This year's Mining Business Outlook Report paints an even more sombre outlook for the mining industry than our previous four reports.

In 2014-15, mining leaders are concerned by uncontrollable market conditions such as low commodity prices, changes in demand, escalating costs, a tough regulatory environment and a changing competitive landscape.

Mining leaders need to re-focus primarily on what they can control, including more effective cost management, operational efficiencies, improved productivity, profitability and cash flow.

From our interviews with more than 60 mining leaders, here are the take-away messages:

insight 01

01

Future outlook reaches a new five-year low.

An overwhelming 93 percent of mining leaders in this year's report were not optimistic about their growth prospects for the next 12 months – up by more than 50 percent compared to last year. Most hold low hopes of the sector resuming large-scale projects in the next 12 month, and only 7 percent believe they will see some large-scale projects return during this time.

insight 02

02

Low commodity prices and falling demand are the largest concerns for mining leaders.

Tough and volatile market conditions continue to drive the gloomy outlook of mining leaders, with 68 percent citing this as their main concern. A further one-quarter of respondents were concerned most by falling demand in key markets such as China. Meanwhile, demand from other markets remains hampered due to the Australian dollar's high price in comparison to the currencies of other resource producers such as Brazil and South Africa.

insight 03

03

Investment inhibited due to high business costs and a tough regulatory environment.

Our mining leaders spoke at length of the high costs of doing business, especially wages and energy, plus the negative effects following six years of an anti-mining government. They criticised the arduous process of getting developments approved, and government regulations that make new mining projects difficult to start.

insight 04

04

New federal government embraced, but industry wants more action.

A sizeable 70 percent of mining leaders had anticipated major changes to the sector in the new government's first year, but say that they have not seen adequate action yet or election promises delivered on. The sector is calling for more assistance with industrial relations laws, and a fast-tracking of the promised infrastructure investments that hold the key to economic growth.

insight 05

05

Knee-jerk cost-cutting reactions are hampering productivity.

A trend was observed this year of mining companies equating better operations with cost-cutting, evident in the number of retrenchments made over the last 18 months. The mining sector shed 26,000 jobs between May 2012 and the end of June 2013, and is likely to lose more in the coming year. Investment is also down. Both factors are likely to place enormous economic stress on the regional towns where mines close.

the outlook

This year's Mining Business Outlook Report paints an even more sombre picture of business confidence. Leaders are pessimistic with the view the sector is still in free-fall.

Miners' sombre outlook reaches a five-year low

Leaders are pessimistic, with the view that the sector is still in recovery from the last Labour federal government and continues to be in free-fall.

This negative outlook is confirmed by 94 percent of leaders stating that they hold low hopes of the sector resuming large-scale projects in the next 12 months. Only 6 percent believe they will see some large-scale projects return during this time (Figure 1). Further, 82 percent of leaders don't see large-scale projects returning for another three to five years, with 11 percent believing this may not happen for another five years or more (Figure 3).

An overwhelming 93 percent of mining leaders in this year's report were not optimistic about their growth prospects for the next 12 months – up by more than 50 percent compared to last year's results. Only 7 percent of interviewed leaders reported that they were cautiously optimistic about their future growth prospects, a marked contrast with the 19 percent of leaders last year who held optimism about growth.

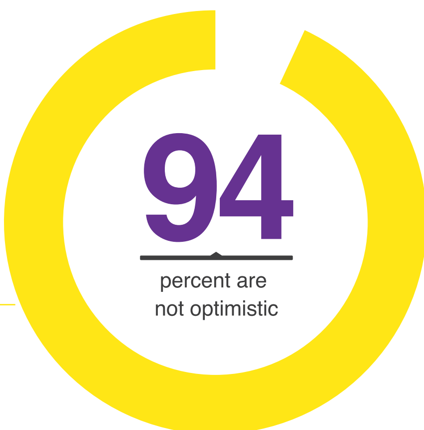
This reinforces our data over five years of running this survey. The percentage of leaders not optimistic has steadily risen, with particularly sharp increases between 2012-13, and again between 2013-14 (Figure 2).

Many leaders think that the coal mines in particular will continue to suffer, with coal prices hitting an all-time low and with an oversupply of coal. This has forced some major coal mines to close down, and leaders don't see the trend reversing anytime soon.

It is evident that the outlook has reached a new low point.

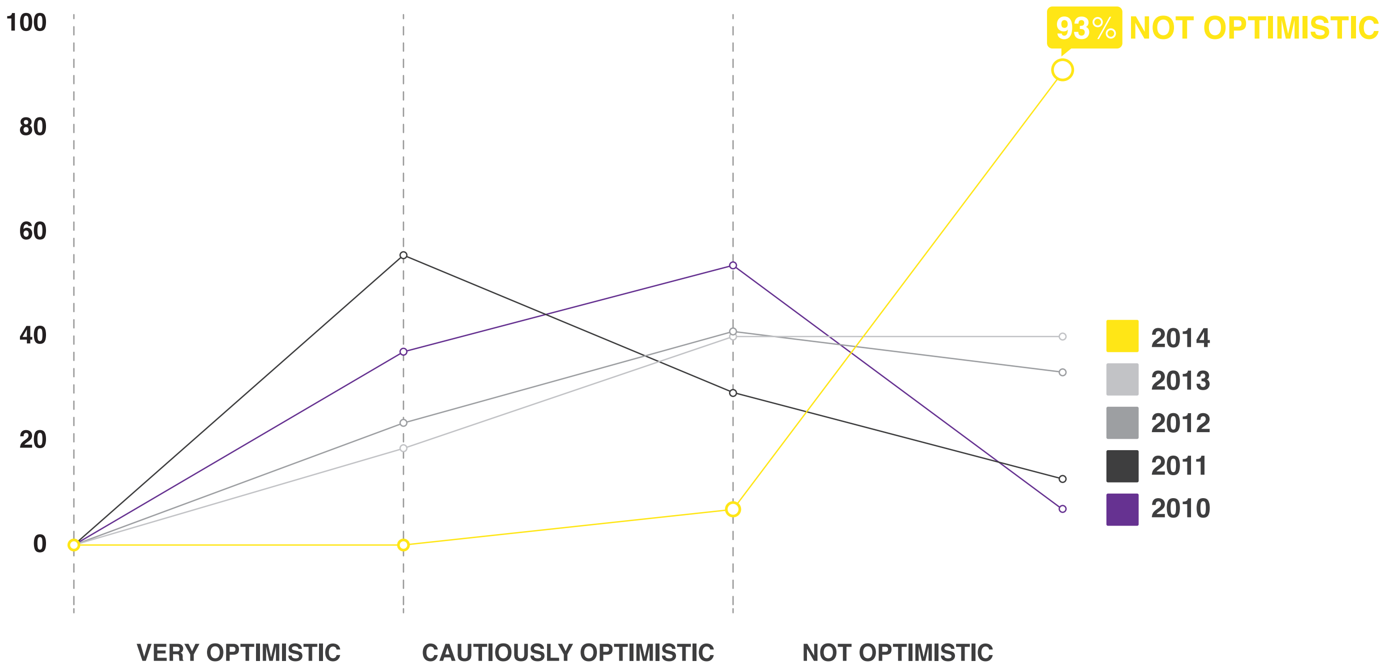
Figure 1 Large scale projects returning in the next 12 months?

6 % cautiously optimistic



> There is too much coal capacity available at the moment and we continue to be hampered by infrastructure deficiencies. We will continue to close underperforming mines so in our view large-scale projects are years away

Figure 2 Leaders on their future prospects



> Australia has gone from being one of the best places in the world to invest in mining to just about the worst. We are too expensive and companies go elsewhere, which threatens future developments in Australia's mining sector.
>
> – **GM**, Publicly Listed Coal

What is driving this increasingly negative outlook?

Tough and volatile market conditions continue to drive the gloomy outlook of mining leaders (68 percent), followed by falling demand in key markets such as China and the impact of the last federal government (Figure 4).

Last year's negative outlook was dominated by the postponement of new investment in the resources sector. This has been replaced by a general pessimism about future demand, and doubts that commodity prices will increase.

Arguably, mining leaders have begun accepting the new lows hit by their businesses. Last year we witnessed mining companies cancelling projects and postponing investments for a range of reasons, but this year mining leaders seem reconciled with the significant delays or complete stalling of new projects.

Meanwhile, leaders continue to wrestle with persistent and ongoing challenges beyond their control, such as low commodity prices, falling demand and a tough business environment. In the last 12 months, they have attempted to control some areas of their business, adjusting their activity to fit new conditions. However, having gone as far as they can, mining leaders are now desperate for market conditions to change, thereby easing the pressure.

Leaders call for a friendly business environment

Mining leaders agree firstly that better business conditions are essential if large-scale projects are to resume in Australia. Low commodity prices are currently the biggest barrier to large scale projects going ahead. Secondly, stronger demand from international markets such as China is required to kick-start activity again.

Leaders also believe that more flexible industrial relations conditions (20 percent) and major improvements to national infrastructure (20 percent) should be a priority (Figure 6).

The consensus among mining leaders was that the regulatory environment is tough, with too many hoops to jump through for mine development approvals. They maintained that the approvals process takes too long – many, many years in some cases – and is hurting the industry. Interestingly, this was not a reference to the environmental restrictions that have been introduced in recent years, indicating that mining leaders are trying to navigate the new business conditions with a level of acceptance, and don't expect it to be easy or as a free ride.

Australia is no longer an attractive destination for resource investment

In previous years, we've asked mining leaders about their plans to increase spending and investment. Last year nearly half (44 percent) of the mining leaders interviewed were reducing their spend. This year, our leaders spoke at length about whether Australia is a good destination for investment in the current environment or not.

Figure 3 How long will it take for large scale projects to return?

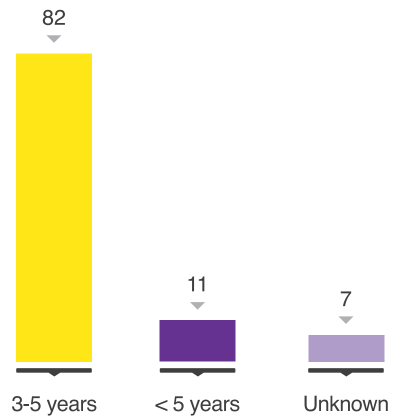
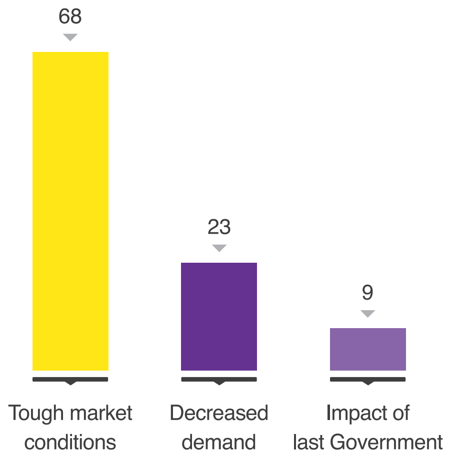


Figure 4 What is driving the negative outlook?



> It is going to take years for Australia to return to a time of enjoying large-scale mine development projects. All commodities have been hit hard over the last 12-24 months and the trend going forward does not look too bright for a few years.
>
> – **VP**, National Transport Company

A majority of mining leaders (89 percent) reminisced about the boom of the 2000s and the earlier decades of Australia's mining history and were adamant that Australia was once among the world's best investment markets. These same leaders agreed that Australia is currently not attractive as an investment destination.

Some leaders found this distressing, even given the boom-bust nature of the industry, saying that the situation could be remedied with better leadership.

Only 7 percent of leaders believe Australia is still a good place to invest in (Figure 5).

This suggests that, while Australia has always retained a reputation as one of the best places in the world to invest for mining that is currently not the case. Local mining leaders are desperate for Australia to win back its reputation as a top mining investment destination. There is no doubt that mining companies are investing their dollars in mines elsewhere. The leaders we interviewed said that changes at a macro-level are essential if Australia is to turn this situation around.

Figure 5 Australia: an attractive resource nation for investment?

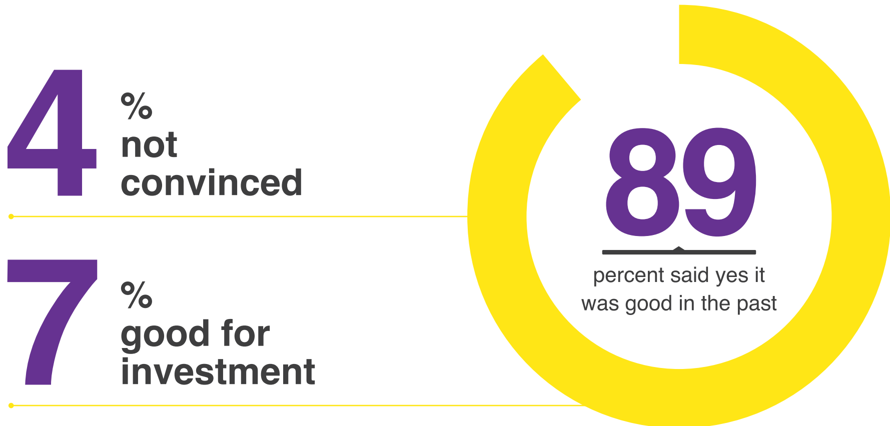
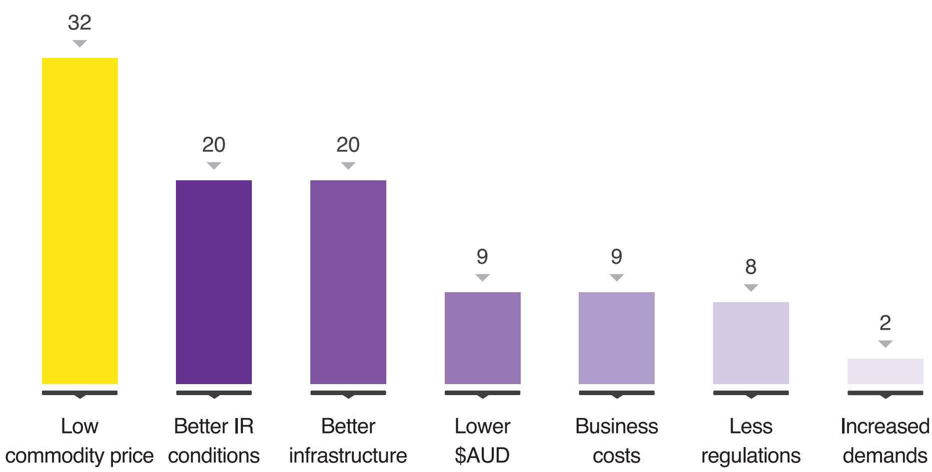


Figure 6 Key conditions to restart projects



"We see no new projects starting in this industry for at least 3-4 years. There is too much capacity and costs are still too high. The sustainable rise in costs has moved us from the least costly to the most costly over five years.

– **MD**, Private Copper Company

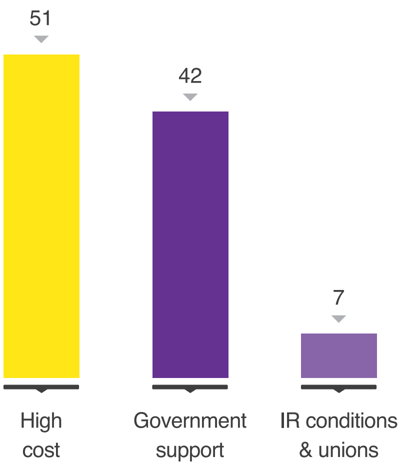
Australia: a high cost place to do business

When asked about the barriers to investment in large-scale projects, and more broadly in Australia as a place to mine, just over half of the interviewed leaders reported the high costs of doing business.

This was followed by the government's lack of support for the industry. Mining leaders spoke at length about the arduous process of getting developments approved, and government regulations that make new mining projects incredibly difficult to start. The impact of having an anti-mining government in power for the last six years has compounded the perception of Australia being a country difficult to conduct business in, and has deterred investors.

Lastly, industrial relations and the role of the unions is another perceived barrier to increased investment. Despite the change in federal government, this perception could take a long time to shift

Figure 7 What are the perceived barriers for investment?



Mining leaders share the view that the future is now out of their control, signalling a possibility of drastic changes to the industry.

Saul Eslake

Leading Economist

For this special five-year edition of the Mining Business Outlook Report, we spoke with Saul Eslake, one of Australia's most respected economists on his views on the mining sector and Australia's overall economic outlook. In this interview, Saul provides insights into Australia's productivity imperative as well as the challenges the mining sector faces.

"

I agree entirely with the RBA's and Treasury's assessment that overall economic growth is likely to continue at a below-trend pace over the next 12 months, and that the unemployment rate will continue to edge upwards.

How has the end of the mining boom contributed to the current state of Australia's economy?

As the investment phase of the mining boom draws to a close, and commodity prices continue to decline following their peak three years ago, this is the first commodities boom in Australia's history that hasn't ended in double-digit inflation followed by recession. This fact is probably under-appreciated.

This unprecedented ending is a tribute to three great reforms of the 1980s and 1990s: the floating of the exchange rate, the creation of an independent central bank, and the decentralisation of Australia's wage-fixing system. It makes for a vastly better outcome than might be expected, despite the below-trend rate of mining investment (which peaked as a share of GDP in the first half of 2013), and the upwards creep of unemployment.

Other factors have also contributed to Australia's economic performance during this period. These include the patchy recoveries in the major advanced economies, the slowing in the more important emerging economies (in particular China), the maintenance of unorthodox monetary policies (zero interest rates and quantitative easing) in the major advanced economies, the persistent strength of the Aussie dollar in the face of falling commodity prices, and declining Australian interest rates.

What is the outlook for the next 12 months?

I agree entirely with the RBA's and Treasury's assessment that overall economic growth is likely to continue at a below-trend pace over the next 12 months, and that the unemployment rate will continue to edge upwards.

Do you see confidence in large scale mining projects returning?

I don't expect any major new mining projects to commence in the next few years. That's partly because there is now a fairly wide consensus that commodity prices will continue to decline as more supply comes on stream globally, while the growth rate of global demand for most commodities continues to slow.

It also reflects the fact that Australia has become a relatively high-cost location for resources projects. Aside from a recent wages slowdown, wages and other costs including energy have generally risen over the past decade. Meanwhile, the Australian dollar remains strong while other resources-based currencies (such as the Brazilian real, South African rand and Indonesian rupiah) have declined. I don't think this is likely to change in the next 12 months.

Outside of the mining sector, confidence remains below average, and the brief improvement associated with last year's change of government appears to have evaporated.

What are the mining industry's biggest challenges and opportunities in the year ahead?

The mining industry's biggest challenges are likely to concern the ongoing strength of the Australian dollar, especially, as noted above, compared with currencies of other resource-producing countries. The sector will also grapple concerns over economic stability in China, along with geopolitical risks in the Middle East and Russia-Ukraine, along with ongoing high operating costs in Australia.

> In my view one of the biggest reasons for Australia's poor productivity performance over the past 12 years or so is that businesses dropped the ball on productivity in the lead-up to the financial crisis.

The installation of new governments in India and Indonesia may represent potential opportunities if those governments can launch new waves of economic growth in their respective countries. This would encourage more industrialisation and urbanisation, and push up demand for many commodities to offset, at least in part, the inevitable slowing over the longer term in Chinese demand.

Mining leaders remain uncertain on how to boost productivity. How should the industry address productivity?

Productivity as conventionally measured will improve dramatically in the mining sector over the next five years, as the transition from the investment phase to the production phase continues.

During the investment phase, inputs of labour and capital increased dramatically while output didn't – with the result that both labour productivity and multi-factor productivity in mining fell by around 50 percent over the decade to 2012-13. This is because productivity is defined as output divided by inputs.

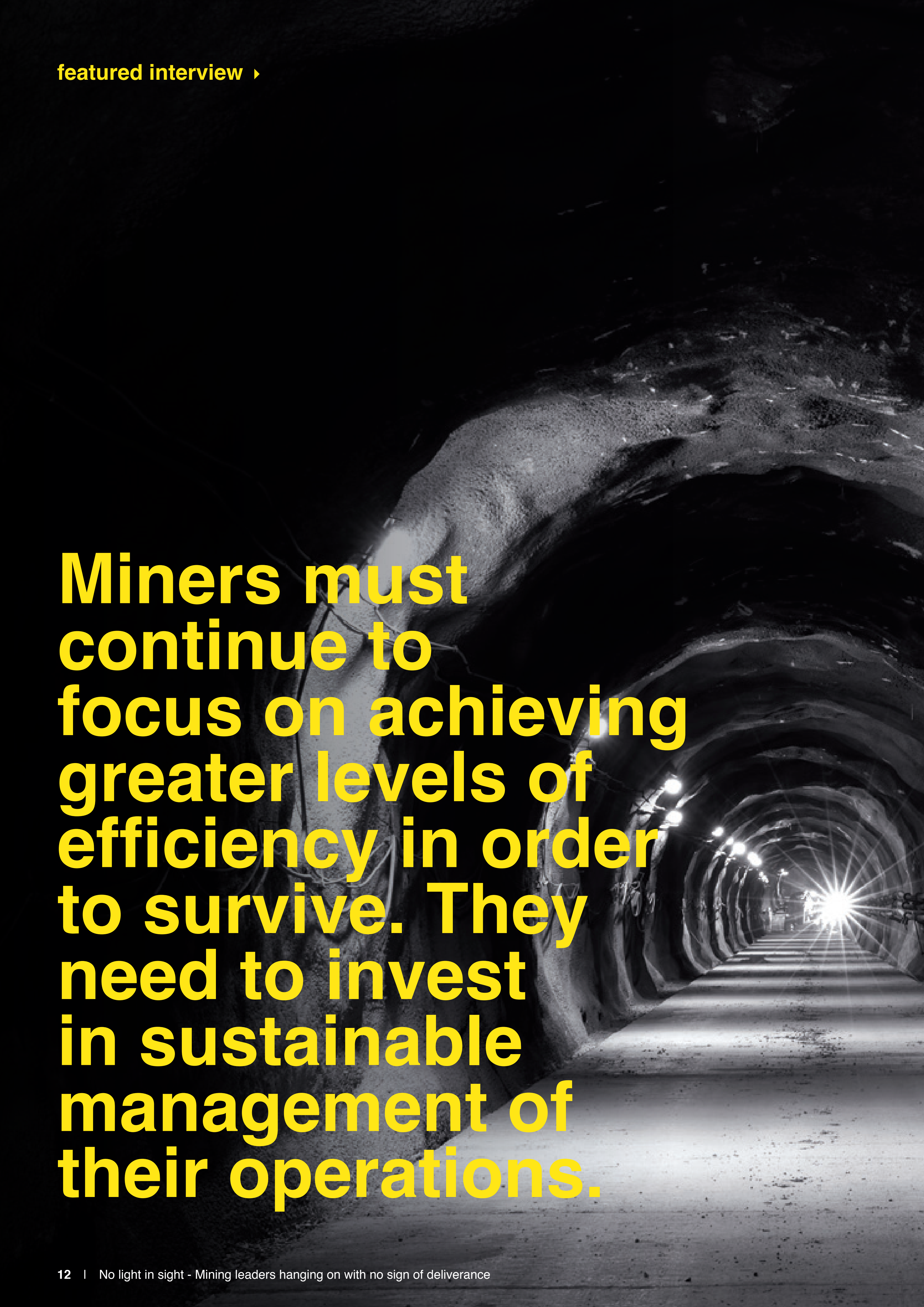
We are now beginning to see that, as output increases substantially while labour and new capital inputs are wound back, measured productivity in mining is starting to improve. There is a lot more of this to come. To some extent, the closure of high-cost mines as commodity prices fall will reinforce this trend.

The current industrial relations framework is an obstacle to achieving faster productivity growth, although it's not the only one. Further, this won't change materially before the next election. Moreover, faced with having to plug its latest budget, the government may grow more cautious about taking big industrial relations reform proposals to the next election.

As for the broader productivity challenge facing Australia, in my view one of the biggest reasons for Australia's poor productivity performance over the past 12 years or so is that businesses dropped the ball on productivity in the lead-up to the financial crisis.

A toxic combination of rising commodity and asset prices, freely available credit, declining personal saving rates, and repeated personal income tax cuts and cash handouts by governments made it easy for firms to generate acceptable rates of profit without pursuing productivity gains. This situation has continued even in the aftermath of 2009, because of widespread beliefs that post-GFC phenomena, such as the high Australian dollar, credit growth, rising personal savings and negligible tax cuts, would sooner or later revert to their pre-crisis norms.

More recently, there have been signs that companies are beginning to get serious about productivity growth for the first time since the late 1990s. But it takes time to devise and implement productivity enhancing changes in individual workplaces. Meanwhile, the increasing obsession with various forms of security (coupled with an ignoring of its associated costs), and other aspects of risk aversion, continue to detract from national and individual efforts to improve productivity. That seems unlikely to change any time soon



Miners must continue to focus on achieving greater levels of efficiency in order to survive. They need to invest in sustainable management of their operations.

challenges
& opportunities

External market conditions are keeping mining leaders awake at night and nearly all mining leaders said they did not see any opportunities currently

Commodity prices and the regulatory environment keep leaders awake.

External market conditions are keeping mining leaders awake at night. While last year we reported cost control and management as being the number one reported issue for mining leaders (40 percent), this year mining leaders are beset by low commodity prices.

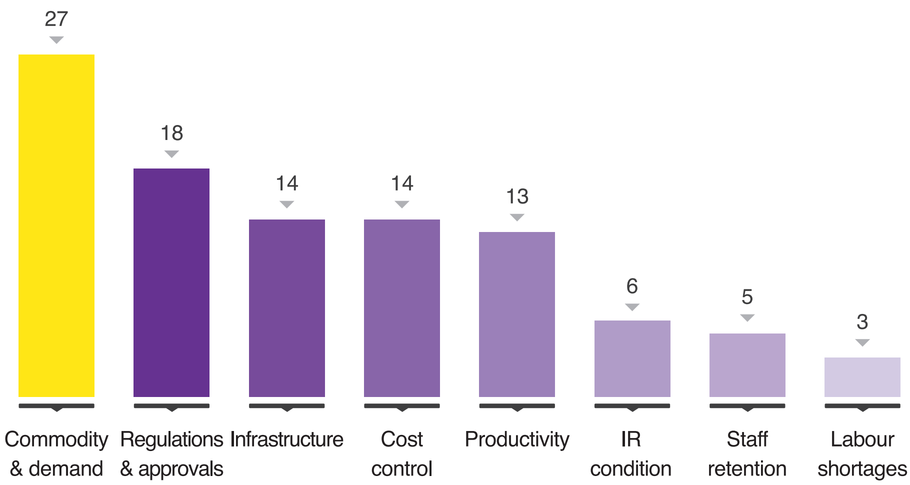
Red tape and the overall business environment are two more key challenges for the year ahead (18 percent), a doubling in this category compared to the previous two years. A tough regulatory environment has been spoken about at length from our leaders and the frustrations that it causes for the sector at large.

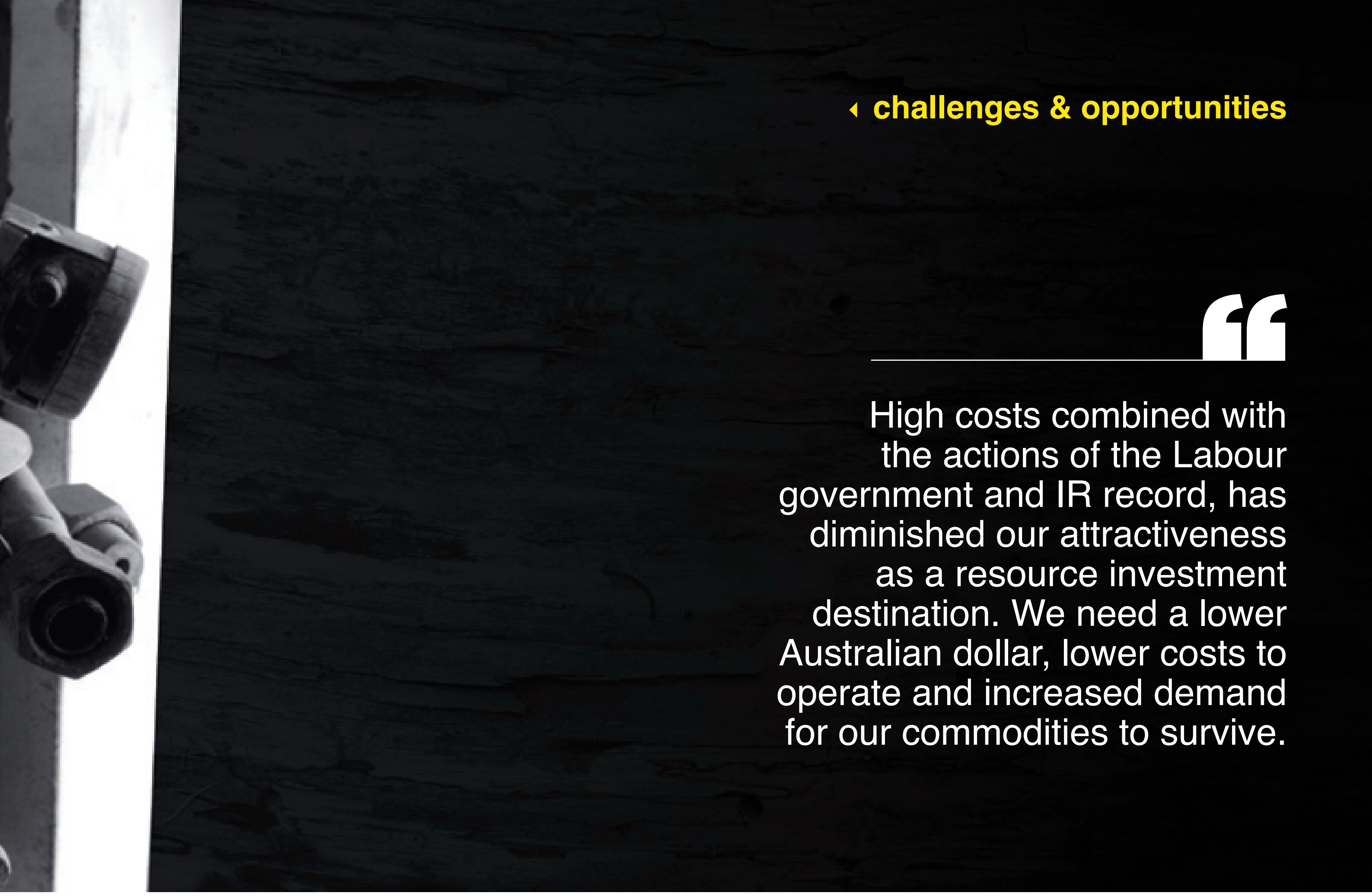
Cost control and management has moved down on the list of issues keeping CEOs awake, compared to last year, with only 14 percent of leaders reporting this as a primary challenge (Figure 8).

Once again there has been a shift in focus for mining leaders. Last year, mining leaders were showing signs of accepting market conditions by focusing on areas of their control, such as cost, productivity, waste and operational excellence. This year the pendulum has shifted, and the worsening market conditions have risen again to the surface.

In keeping with tradition, this year's survey also asks leaders about the opportunities for their organisation and sector as a whole.

Figure 8 Key challenges keeping mining leaders awake





> High costs combined with the actions of the Labour government and IR record, has diminished our attractiveness as a resource investment destination. We need a lower Australian dollar, lower costs to operate and increased demand for our commodities to survive.

> The major challenge in the industry is price... If we had good prices, we would have fewer problems. The new federal government is the only opportunity we see in the mid-term. We need to make the most of the new government and hopefully its policies – If they can be implemented.
>
> – **CEO**, Iron Ore Company

Nearly all mining leaders said they did not see any opportunities currently – only challenges. A small minority of respondents identified the prospect of positive change from a new government as an opportunity. While they agreed the new government has not taken much action to change conditions for the mining sector yet, several stated their hopes that the promised changes will achieve a positive difference once delivered.

Last year, operational excellence and productivity were considered opportunities for mining leaders as a way to extract more value from their existing assets. However, our leaders actually focused on large scale cost cutting. Having done that, productivity and operational excellence do not appear to be on the radar at all now. This lack of action suggests that leaders have gone as far as they know how to go with operational excellence. Many have mistakenly equated better operations with cost-cutting, evident in the number of retrenchments made over the last 18 months. The mining sector shed 26,000 jobs between May 2012 and the end of June 2013. With national unemployment figures now at 6 percent, the highest since 1992, the forecast for mining sector job cuts is likely to rise again over the next 12 months. It is also important to note the flow-on effect of the sector's downturn to other parts of the economy especially mining services companies with many reporting significant job retrenchments also.

However, operational excellence means more than cost cutting, as the next section discusses. One opportunity that remains untapped for miners is to reduce the number of high cost mines actually operating and drive highly efficient throughput in the ongoing operations. This would improve significantly the financial performance of the industry. It would also, however, accelerate job losses and more particularly, place enormous economic stress on the regional towns where mines close.

Government must play a leading part in protecting the economic wellbeing of stressed regional towns as the effects of low commodity prices continue to wreak havoc in the industry

the productivity **imperative**

Mining leaders believe that Australia faces a productivity imperative and that the sector's own productivity performance has suffered more recently. However, the burning question is how to improve productivity.

Leaders show appetite for productivity, but don't know how to achieve it

Mining leaders believe that Australia faces a productivity imperative, with 91 percent agreeing that productivity levels across the Australian economy are still in decline. Of this majority, 52 percent think there are some subtle signs of improvement. A slim 9 percent believe that productivity in Australia is actually improving and on the way up (Figure 9).

At the macro level, the mining sector's productivity is expected to improve as new installations begin producing output. At the business operational level however, the question remains open.

In the last two Mining Business Outlook reports, productivity was discussed at length as a challenge for mining leaders. This year, it appears that productivity has gone down the list of challenges for mining leaders, who have spent the last year taking large amounts of costs out of their operation. Many seem to equate cost-control with improved productivity.

This is evident by only 5 percent of mining leaders stating that productivity is high on their agenda, and that they are taking action to improve it. Of the mining leaders interviewed, 81 percent reported that productivity is on the agenda but their organisation is struggling to address it or implement the right initiatives. For 14 percent of companies, productivity is not even on the agenda (Figure 10).

It appears that the industry is still coming to terms with the adjusting mining landscape, with 93 percent of leaders recalling the sector's boast of productivity during its golden years. Many leaders admit that this is now questionable (Figure 11).

Technology has long been recognised as an enabler for productivity, and the industry continues to look in this direction. But low commodity prices make investments in technological solutions marginal or not viable in today's environment.

Figure 9 What are your views on Australia's productivity performance?

9 % believe there's improvement

> Our biggest challenge is productivity. You can only cut heads for so long. Both management and unions need to acknowledge poor productivity levels and work together to improve it.

> Productivity needs to be recognised as an essential element of management. This applies to all businesses, but especially mining. Productivity is the life-blood of survival and we must be smart and solve issues rather than just eliminate people and costs.
>
> – **VP**, Iron Ore Company

Mining leaders remain uncertain as to how they can achieve higher productivity levels, with most believing cost-cutting and staff cuts are the answer. They also believe that there are many barriers preventing them from achieving higher rates of productivity, in particular the strength of the unions and the current industrial relations landscape. However, they have not taken other steps to improve productivity such as streamlined reporting, better systems, worker incentive schemes, staff training or technology upgrades .

Interestingly, the cost cutting mentality which is heavily associated with improved productivity has a negative impact on business capability. Many miners have cut back on exploration to reduce costs, but this must inevitably put the viability of the business at risk. Exploration and development can only be put off for so long. The alternative opportunity that remains is to focus on operational performance – getting the maximum throughput possible from an existing investment.

Mining leaders are talking about the difficulty of reducing input costs in response to the revenue falls. They warn that several years may pass before the higher, post-boom input costs return to sustainable levels, and bring down the production costs of commodities

Figure 10 Is productivity on the agenda?

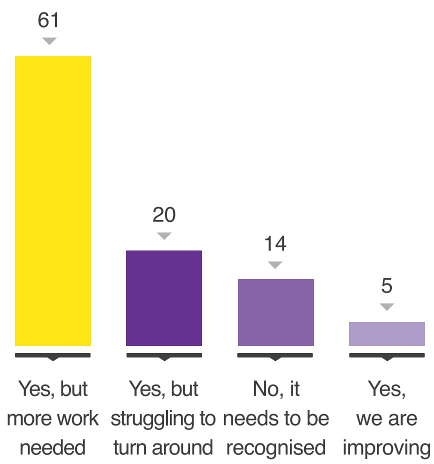
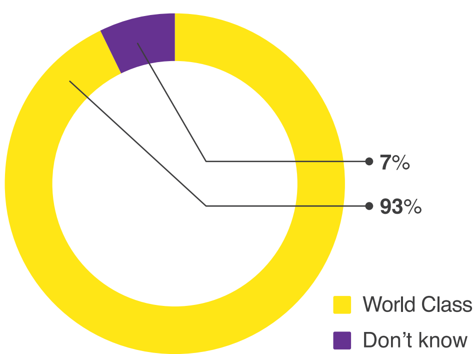


Figure 11 What are your views on the sector's past productivity performance?



Philip Dimitriu

Regional Engineering Director, Australia-New Zealand,
Check Point Software Technologies

With technology playing an increasingly important role in the future of mining, we spoke to Philip Dimitriu, an expert in cyber-security and asked for his insights into how the mining sector should protect themselves.

> “As the complexity of network infrastructures has changed, cyber-attacks have increased, targeting critical infrastructure systems and controlled networks. The mining industry is not immune from this.

What are your views on the role IT, technology and automation plays in Australia's mining sector?

Within the mining sector, investments in IT, technology and automation have traditionally lagged behind compared to other sectors. The focus has been on the physical extraction of resource from the ground. Automation and advances in machinery in these areas were not seen as a priority over IT or IT security.

In recent years there has been a shift. As the complexity of network infrastructures has changed, cyber-attacks have increased, targeting critical infrastructure systems and controlled networks. With the increase of organisational exposure, due to the dependency on the internet to connect the mining industry's dispersed workforce, IT and technology have become a board-level and senior management priority.

Cyber-hacking and information system breaches are emerging as one of the top risks to the mining and metals sector. What are your views on this as experts in the security sector?

Criminals – not just cyber – are attracted to the sector. Over the years, the increased dependence of the industry on IT and technology has seen criminals actively looking for ways to threaten the denial of access to processes, mining equipment and, importantly, sensitive data. The passive collection of commercially sensitive intelligence, such as new geographic exploration fields, via IT systems can have huge repercussions for mining companies, both from a monetary and reputation perspective. Malware could be used to specifically target a company, as was highlighted by Stuxnet not long ago. Cyber-security is now a priority for governments, to help their state-owned mining companies, as well as activist groups and "hacktivists" wanting to fulfil agendas, given the potential financial gains for cyber-underworld groups.

With innovation giving companies a competitive edge, what do you think the mining sector should be doing with their technology in the next three years?

Innovation is critical part of maintaining an edge and minimising the impact of a cyber-breach. Organisations must try and anticipate what may happen next. There are four key areas for mining companies to consider:

- Intelligence: Threat prevention is intelligence-driven. Early warning, and knowledge of the unknowns, will help organisations put proactive measures in place to mitigate IT risks and cyber-breaches. Targeted threat intelligence is what will give the biggest advantage.
- Segmentation: Look at sub-dividing the network, to limit the impact of a compromise to the network. Build a zone-based defence with multiple enforcement and control points, allowing limitation of a compromise.
- Prevention: Look beyond traditional firewalls and use next generation threat prevention and firewall technologies that can inspect industrial protocols.
- Monitoring: Ongoing security assessments should be standard IT strategy. This will also improve and promote the IT security culture among technical teams, end users and management at all levels.

A key focus of federal government to support enhanced security should be to promote development of a skilled cyber security workforce.

Thinking along these lines will enable a defence-in-depth posture that will help protect mining operations from targeted attacks and industrial espionage. Long-term outlook and execution on the present are key to maintaining an edge.

From a risk management standpoint, how do the smaller mining companies compare to larger mining companies?

Larger mining companies have relatively good risk models and teams in place. They tend to have risk models that are adaptive and can cope with a range of shocks, be it IT security related or otherwise, to maintain organisational resilience. The larger mining companies tend to lead rather than lag and have the ability to respond to risks that in some cases may be unknown. A smaller mining company may not have as sophisticated a risk management process. While this is understandable, the key is that as they grow, their risk management quickly becomes more sophisticated to compliment that growth.

From your perspective what are the mining industry's biggest challenges and opportunities?

The challenges in IT for the mining industry are not inherently different to those in other sectors. They include cloud strategy, virtualisation, big data, green IT, social networking, bring your own device and a relative newcomer, bring your own access point. These are portable WiFi access points, which if left uncontrolled provide an open entry point for network compromise. These are challenges for companies who need to stay across the ever-changing and evolving threat landscape. However, I will use a cliché here – challenges bring opportunities. These same challenges provide opportunity to introduce, maintain and hopefully grow innovation and maintain an edge.

What should the federal government focus on in order to support enhanced security in not only the mining sector, but overall?

A key focus should be to promote the development of a skilled cyber security workforce. This is done by providing access to research and development to develop innovative solutions.

Australia's national computer emergency response team (CERT), and the Australian Signals Directorate (ASD), provide such support and best-practice information. Examples include the ASD 35, strategies to mitigate targeted intrusions, and the annual CERT Cybercrime and Security survey report.

To complement all this, the government needs to grow an effective legal framework and enforcement capabilities to target and prosecute cyber crime

employment **outlook**

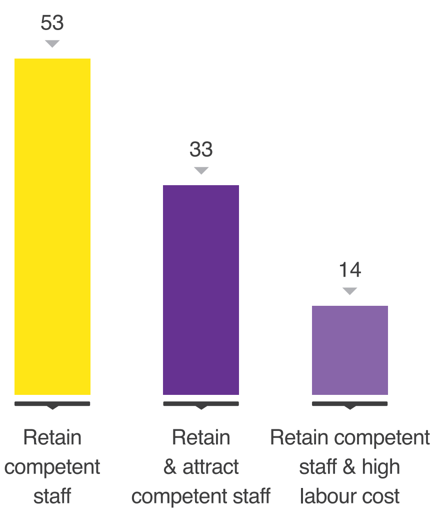
Job retrenchments continue to be on the rise for the mining sector, and retaining competent staff is the top priority of the day for mining leaders.

Retrenchments continue to rise

Job retrenchments continue to be on the rise for the mining sector, for the second consecutive year. We first witnessed this emerging trend last year when there was a notable change in vacancy rates within the sector.

In 2012, one-fifth of the companies interviewed had high job vacancy rates and were struggling to find people with the right skills for the jobs available. In the last two years, this has dramatically shifted and there are no longer vacancies – instead, more than half of the mining leaders interviewed are aiming to retain only the best, brightest and most competent staff (Figure 12).

Figure 12 Employment challenges



Miners are taking the opportunity to get competent staff

We were encouraged to see that the mining leaders surveyed are taking the opportunity in this downturn to improve the experience and competency of their workforce. This reflects a situation of easing pressure on wages, combined with a reduced number of jobs available.

The data also supports other statistics demonstrating the large-scale, industry-wide staff retrenchments over the last 12 months, which has alleviated the pressure of high labour costs for many mine sites.

Employee engagement is key for future success of mines

Retention and employee engagement is the key strategy for labour management for the next 12 months. This compares with a focus in previous years on training and development, and finding and promoting staff with the right skills into the many positions that were vacant across Australian mines sites.

Just under a third of interviewed mining leaders (30 percent) reported that having an engagement plan for their staff was a key part of their retention strategy over the next 12 months. A further 16 percent were focused on a staff development plan as part of their strategy of motivating, developing and retaining the best and brightest staff. The data also shows that many mine companies have significantly reduced contractor numbers as part of their labour hire strategy, and are now focused on remunerating and retaining their permanent staff (Figure 13).

This shift is reinforced by our findings that only 14 percent of interviewed mining leaders will recruit in the year ahead, while 77 percent will focus on retention (Figure 14)

> Our challenge is in encouraging existing staff that the company is the place to obtain career progression. There is little loyalty from employees because management has demonstrated no loyalty with employees

> We're focused on surviving by closely managing costs and retaining our highly skilled and experienced people. We're working on developing a suitable programs for our employees and ensuring we have the best policies in place to retain our competent people.
>
> – **CEO**, Publicly Listed Coal Company

Figure 14 Key HR priorities for the year ahead

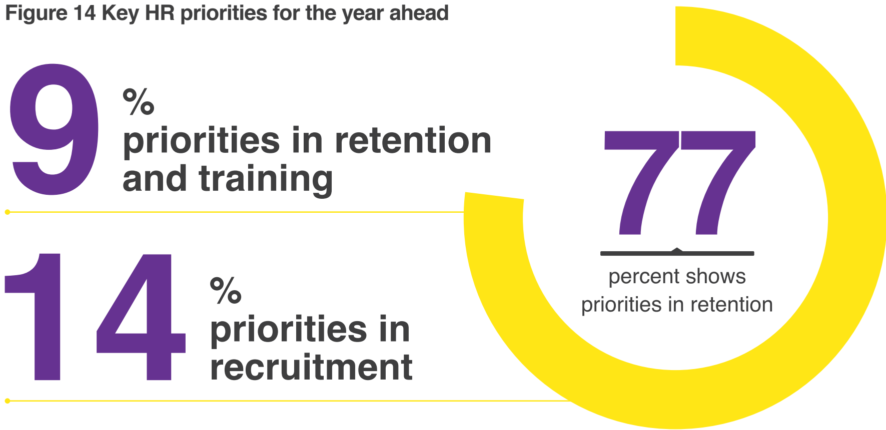
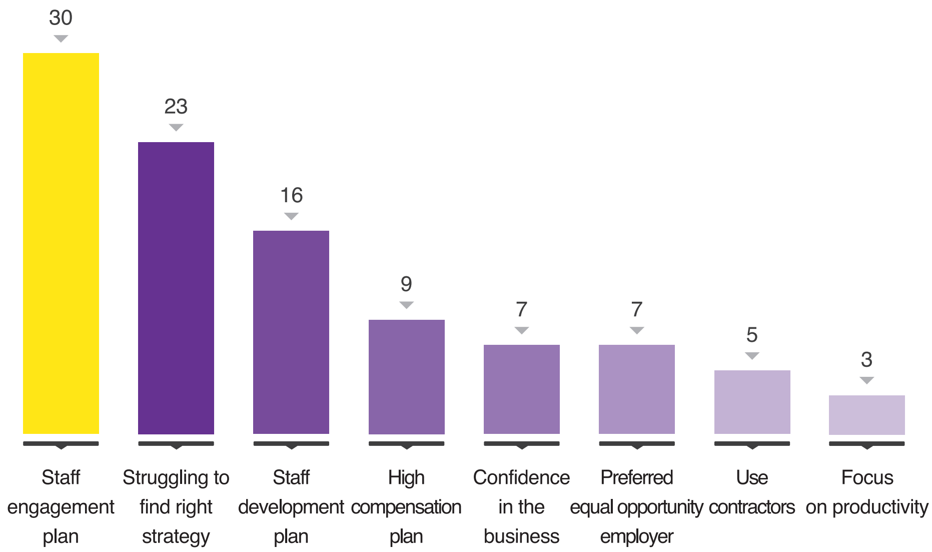


Figure 13 Key HR strategies



advice to **canberra**

Mining leaders have accepted that they have a government that will listen. They have now moved the conversation to the issues including IR laws and promised infrastructure investments that will promote economic growth.

Still a long way to go

Despite a new federal government, the industry continues to show signs of being disgruntled with the government of the day.

Last year, the industry was looking forward to a change in government as we conducted our interviews just ahead of the federal election. This year's Mining Business Outlook report found that 70 percent of mining leaders were expecting big and fast changes to the sector, but feel that they have not seen adequate action yet or election promises delivered on (Figure 15).

While fewer than a third of leaders were expecting minimal changes in the government's first year, even this cohort agrees there has been little evidence of action on part of the new federal government one year on.

Close to half of the mining leaders interviewed called for more flexible industrial relations laws (48 percent) and fewer regulations or restrictions on doing business (45 percent), to place Australia on a level playing-field with other countries. This echoes previous concerns raised through the report of an increasingly tough regulatory environment and the challenges that this presents the industry as a whole.

Since last year, leaders have shifted their views however on the area of government listening to the industry. Last year, one-quarter of surveyed leaders advised Canberra to listen to the industry more in order to support them, compared to only 5 percent this year. This suggests that while little action has been delivered in the eyes of leaders, Canberra is starting to listen to the industry and no longer is this a top concern (Figure 16).

Further, when compared to last year, the environment is missing from this year's advice. Last year, leaders did comment on the need for Canberra to be pragmatic with environmental issues. This year, the regulatory environment and IR landscape are the key areas that leaders want change in

Figure 15 Have you seen a change since the new government

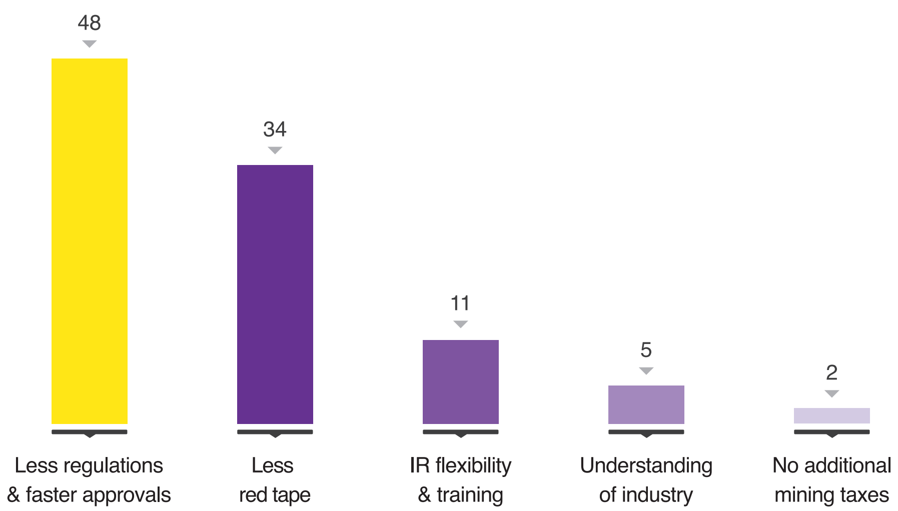
30 % expected minor changes but yet to see action

We would like industrial relations changes, a reduction in red tape, and greater support for the mining sector with substantial expenditure on infrastructure

We expected big changes, but have seen little action. The budget looks okay but there is still a long way to go before effective legislation. We want less red tape, more flexible and industrial relations and greater focus on training for the sector. We want action, and ask the government to deliver on their promises.

– **COO**, Publicly Listed Bauxite Company

Figure 16 What is your advice to Canberra?



research **methodology**

Research design and analysis for the Mining Business Outlook Supplement Report was conducted by Manning & Co., and field work conducted by Newport Consulting.

Our research is based on one-on-one interviews with 60 leading mining executives at a number of companies across the resources sector. The interviews were conducted face-to-face, so that we could gain a personal view and detect underlying motivations, beliefs, attitudes and feelings on a range of areas and subjects.

We asked the following questions:

- How optimistic are you about future growth and business in 2014-2015, and why?
- Our last year's MBO report showed that confidence in new large scale projects had disappeared in Australia. Do you see confidence returning to the sectors in the next 12 months?
- There have been a large number of postponed and cancelled resources projects over the past two years. What conditions need to prevail for these projects to be restarted?
- How does Australia compare with other emerging mining destinations as an attractive place to invest?
- What are the key challenges that your company faces in the year ahead?
- What is your view on Australia's national productivity imperative and its impact on the mining sector?
- What are your recruitment strategies and priorities for the next 12 months?
- What is the single piece of advice that you would like to offer to Canberra?
- What are your views on the new federal government and it's performance to-date?
- What should the government's role be in relation to the sector?

The mining leaders interviewed and the companies they represent can be broken down accordingly:

Figure 17 Company size

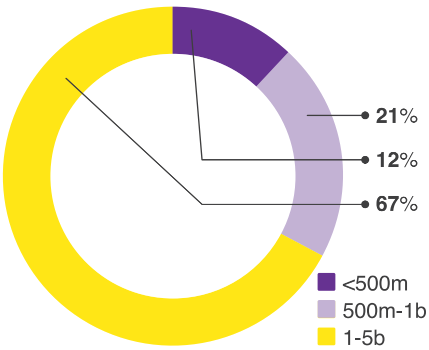


Figure 18 Type of business

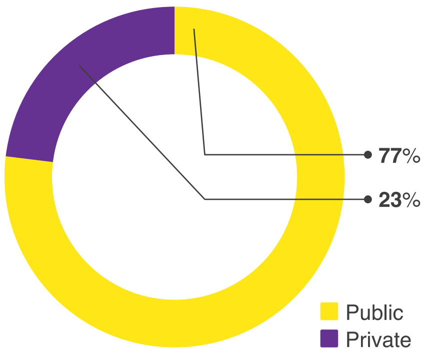


Figure 19 Industry sub-sector

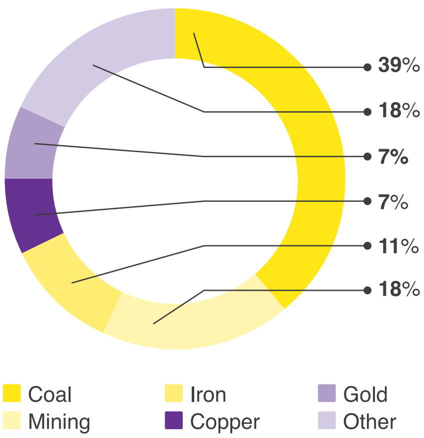
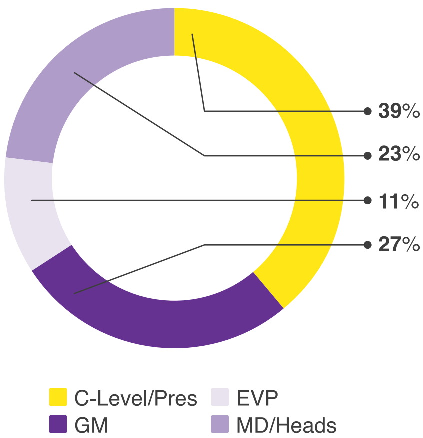


Figure 20 Titles



Miners are saying they've taken all possible steps to sustain performance. They need to shift their approach in the coming years.

newportconsulting

Newport Consulting is an Australian-headquartered operational management consultancy that focuses on achieving operational excellence for corporates. We work extensively in the mining sector, having delivered measurable and sustainable operational improvements to a number of mining projects across the country.

Australia
Level 2, 74 Reservoir Street
Surry Hills, NSW 2010
P +61 2 9211 1424
www.newportconsulting.com.au

New Zealand
Level 3 Queens Arcade
34–40 Queen St, Auckland 1143
P +64 9 282 4026
www.newportconsulting.co.nz

Singapore
4 Shenton Way, 28–03 SGX
Centre 2, Singapore 068807
P +65 9182 2499
www.newportconsulting.com.sg

South Africa
377 Rivonia Boulevard
Rivonia 2128, South Africa
P +27 11 275 0088
www.newportconsulting.co.za

www.newportconsulting.com.au