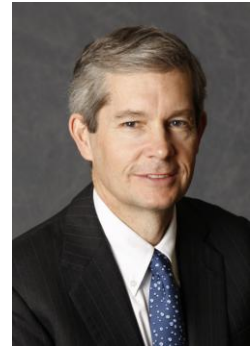




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That Was Fun! What Does the Next 10 Years Look Like?

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Oriental Mining Club – Shanghai
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Thank you. I very much appreciate the invitation and it is an honour to be one of the early speakers at the new Oriental Mining Club.

Ten years ago when you mentioned 'Rock Stars' people thought you meant The Rolling Stones or some other popular group or celebrity. Who would have though mining people would be the 'Rock Stars' of the 21st century?! Ladies and Gentleman, life is a collection of experiences and the last ten years has certainly been an experience. We have witnessed a huge revolution in almost everything. Technology, communications, information availability, geopolitics, trade and business have all undergone major changes.

Ten years ago 2/3 of the people in the world had never made a phone call. A mobile phone was still a luxury, even in developed economies. Internet access was through a dial up service. Y2K was going to cause the world to stop and climate change wasn't on any one's radar



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screen. Asia had just gone through the Asia Crisis from which the expectation was that it would take a decade to recover (and this recovery was lead by the IMF, an organization of the Developed economies). Technology companies were all the rage (and trading at multiples of revenue was the new paradigm). The world was now protected by one superpower and Al Qaeda was a word familiar to a tiny hand full of people.

And commodities were yesterday's business (and had been yesterdays' business for 15 years). The oil price was \$15/bbl. Copper was trading at \$0.65/lb. Iron Ore was around US\$20/ton. When I arrived at BHP in 1999 one of the first questions I got was: "Why would you go to work for a commodities business? The future is in computers and the internet." Now I had been in the resources business my whole career, but my response was simple: 'Without the products that we produce, there are no computers or internet or any other the other items that allow us to create the standard of living which we have all come to expect". However, I had no concept of the revolution we would see over the next ten years.

Today, over three billion people have mobile phones. You can carry your music, family pictures, maps, phone, contact list, movies and countless other things in a device the size of a deck of cards. Wireless connections are commonplace. Traditional newspapers are going out of business. More people live in cities than live in the country-side and while the world still has



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one superpower, the days of a more balanced geopolitical environment are visible. And the Global Financial Crisis has put the developed countries deeply in debt and Asia is booming.

Relevant to the resources world, during this period we would see:

- The market value the top 5 largest mining companies increase from approximately US\$60 billion to US\$620 billion
- The market value of BHP go from US\$10 billion to US\$220 billion.
- The revenue at Rio Tinto would move from \$8 billion to \$58 billion in 2008 (its peak year).
- The number of mining companies on the FTSE 100 would go from 1 to 9.
- China move from the 7th largest economy in the world to number 2 this year
- China become the biggest consumer of many mineral resources:
 - It would move from 15% of the worlds' seaborne iron ore trade to 70%
 - Iron Ore imports would increase from 60m tonnes/yr to 600mm tonnes/yr
 - China would move from 13% of the worlds' copper demand to 28%
 - China's aluminium consumption would increase from 13% of the worlds' demand to 34%; and
 - Steel production would go from 140m tones/yr to 550m tones/yr



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And it has been fantastic. It has been fantastic to have been so closely associated with the resurgence of the industry and witness the opportunity created for so many of the communities and employees associated with the mining business but it's also fantastic to see the impact that the availability of the commodities have had on our customers or, more precisely the final end users of the products created with our resources.

Without iron for infrastructure, aluminum for transportation, copper for electrification and communication and energy to make it all work, improving the standard of living would not have been possible. I was always jealous of General Electric for their slogan, "We Bring Good Things to Life" which they used for a large part of the last 10 years. Actually we bring good things to life, because without our resources none of what GE did was even possible.

I do want to digress a minute and give you a perspective on why this happened. It was not simply that China and India woke up one day and said, "Hey, where are going to buy commodities". In my view, it actually owes a lot to the technological revolution that has been part of the global landscape for the last 25 years. There are two major reasons:

- 1) communications technology (cable, satellite and internet) diversified the way people could get their information and made it easy to see that a better way of life was possible (particularly as the availability and cost to access this information fell.



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2) the collapse of economies of the FSU and Eastern Europe in the late 1980 led to social and political change. In some cases it had a direct impact (like in Eastern Europe) and in some places (like China) it had an indirect impact. People and their leaders in governments around the world determined that they needed a better way and that empowered people were a good thing. This has led to three or four billion people having an aspiration and opportunity to improve their standard of living.

And while it has been great fun to see the resurgence of the industry, it has also been very rewarding to see the way our products have enabled hundreds of millions of people to emerge from poverty and improve their own economic and social situations and the conditions of their communities. Ultimately this is good news for all of us as people who benefit from a system have a vested interest in continuing the system and those that don't have a vested interest in tearing it down.

What's Next

It is always dangerous to predict the future, particularly if you are trying to make 'point estimates', but what is very important to identify trends. I have six trends and observations that I think will have an important impact on the resources industry, and in some cases, society, in the next ten years. They are:



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First, the demand for resources will continue to rise for years to come. For much of the last ten years observers who witnessed the industry decline of the '80s and '90s have asked, "Is this just another business cycle or is this something different?" In fact, as commodities plunged in the global financial crisis there was an article in The Financial Times that basically said the investment community had been fooled again and that the increases in resource prices was just another cycle. In fact it was a 'buy signal'. The facts are that there remain several billion people who have an aspiration to improve their quality of life and their standard of living. As I said earlier, this requires commodities. However, I do want to caution that I do not believe that demand or price will be a straight line up. There will be business cycles that will move supply and demand around the trend line.

Second, the development of the resources necessary to support global economic and social aspirations will become more and more expensive. It takes 'Mother Nature' hundreds of millions to billions of years to create the resources we mine today so for any of us in the room there are no new resources being 'made'. What is happening is that lower grade deposits, minerals more difficult to process, resources in more challenging environments (farther from markets, more challenging logistics, deeper water) and recycling are being made economic by rising prices and improving technology. Substitution is limited. There is a reason these products have been around for thousands of years; they are really good at what they



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do! But prices will not go to the moon. At some point the cost to produce the product exceeds the value and supply and demand come into balance.

Third, consuming countries are beginning to once again recognize resources as one of the key items for their economic and social progress. This is true for developing as well as developed countries. It has really been since the 1960s (in Japan) and the 1970s (oil) that this has been the case. After the '70s the stabilization of demand created an oversupply situation that convinced consumers that prices would be falling in real terms and there was no reason to own the product; everything could be sourced at a price. As countries recognize the importance of controlling the physical product they will continue to push far and wide to lock up resource through long term contracts, developing mutually beneficial relationships with producing countries and owning reserves.

Fourth, producing countries are recognizing what they have and are extracting more favorable terms from companies and countries that want access to their resources. This is already very clear in the oil industry where the power today rests with the national oil companies (NOCs). Exploration, development and production technology reside in service companies and the major oil companies have been training foreign nationals for years. As a result, what's the value add that the International Oil Companies (IOC) bring to the table?



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Money? Hardly. It is a big strategic issue for the IOCs. The critical skills in mining still reside in the industry, not contractors, but the value of the reserves are getting more and more attention. It is an easy target for governments pressed for cash and looking to reinforce the national or local identity. The companies are making lots of money, the connection between the product and the public good is not clear to society and the community sees the reserves as 'theirs' (what mother nature gave them). They often say "Why do we need you? ". The result is a push for a greater share of the economics going to the producing country either through higher royalties or a share of the ownership or both. All of these things are going to make it more expensive to produce the resource.

Fifth, companies, particularly the major mining companies recognise the need to run a sustainable business where the constituencies are better off by the relationship. Gone are the days when mining companies can create social and environmental damage in the name of economic profit. The world is a smaller place and bad news travels rapidly. In addition, NGOs keep governments and companies honest. This trend will slow down development (appropriately so) and lead to higher prices.

Finally, in the next decade the industry structure will fragment. What I mean by this is that the market share held by the largest players in any individual commodity will drop.



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Historically, across industries, during periods of economic downturns concentration increases as financial pressures require cost management, reduced capital expenditures and the inevitable efficiency based merger and acquisition activity. In the mining business this was certainly the case. When Rio bought North and Vale bought Caemi and Ferteco, the concentration in the seaborne iron ore market was such that three players controlled 75% of the market. When BHPB bought WMC, Phelps Dodge was acquired by Freeport, Anglo purchase Exxon's mining assets in Chile and the strong growth at Escondida the top 5 copper producers controlled over 40% of the production. In the nickel industry BHPB's purchase of WMC, Vale's purchase of INCO and Xstrata's acquisition of Falconbridge increased the concentration of the top 5 companies from 45% to 62%. Relegated to the history books are companies like Phelps Dodge, Cyprus, AMAX, Kennecott, Anaconda, WMC, CRA, Noranda, Falconbridge, Homestake, North and countless others. But in growing markets companies are under less cost pressure, capital is readily available and new supply enters the market. That has happened as companies like Kazakmys, ENRC and Vedanta, companies people had not heard of six years ago have come to markets and now have multi-billion dollar valuations. In addition, new resources are being developed as prices are incentivizing resource development in Mongolia, sub-Saharan Africa and Latin America. And SOE's and downstream industry players are investing in the raw material to guarantee their supply and cost. Eventually this will



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bring more product to the market controlled by players other than the large producers. In the long run this will negatively impact the returns of all the players.

In summary, it has been an amazing ten years that has seen the industry move from desperate circumstances to being a darling of the investment community. And essentially no one predicted it. The next ten years will also have its surprises, but I think the long term trends are visible. We'll see strong demand, but greater supply that will come at a higher cost. There will be an increased number of players and they won't just be the traditional mining companies.

So, although I expect the demand and the price for resources to continue to increase it does not necessarily mean that there will be huge windfall for resource companies or that the values of these companies will continue to grow at the pace they have over the last ten years. As a result, industry returns will be less exciting due to higher capital and operating costs. The surprise rebound of the last ten years came after a period of significant cost cutting and minimal new supply. This meant that price moved significantly and margins were high. The industry and customers will not be caught 'flat-footed' over the next ten years.

Regardless, resources are necessary to bring 'good things to life' and will be an exciting and interesting area in the years ahead.



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Thank you for your attention this evening. Good luck with the development of the Oriental Mining Club and I am now happy to take some of your questions.