

**Market Report
on
Mining Services
in
Australia**



Overview of Mining Services in Australia

Introduction

Australia's abundant mineral resources, sophisticated mining equipment, technology and services industry, and proximity to the rapidly growing Asian markets, have made it a world leading mining nation with an investment pipeline of \$430 billion. In 2011, Australia's energy and mineral commodity export rose to a record A\$190 billion, a 15 per cent increase on the previous year signifying continued strong demand for minerals and commodities from China and other parts of Asia.

The scale of this industry has enabled it to develop sophisticated services ranging from mining software and equipment; scientific analysis; exploration assessment technology; mineral processing technology; environmental services; and health and safety services and equipment.

As a developed, modern economy, Australia offers overseas investors diverse business opportunities. The country is ideally positioned within Asia-Pacific, the fastest growing region in the world. Unprecedented demand for commodities from the region has driven high levels of investment in minerals exploration and development projects. Australia's competitive advantages in the mining sector are well established. This expanding market potential is backed up by Australia's highly developed infrastructure, skilled workforce and strong focus on R&D and innovation which make the country an ideal destination to establish operations.

The Mining Services industry's main activity is contract mining, which makes its performance highly dependent on trends in mining activity. Rising demand and high prices for minerals led to a mining boom over the past five years, thus increasing demand for mining services. Industry revenue is expected to grow at an annualised 6.8% over the five years through 2011-12. Revenue is expected to total about \$9.79 billion in 2011-12, up 12% from the previous year. Flooding in the major coal-mining areas of Queensland in early 2011 reduced mining activity in the second half of 2010-11, but industry revenue still expanded 8.3%. The industry accounts for 0.3% of total GDP and is expected to generate net profit before tax of \$997 million in 2011-12.

Mining industry investment is at historically high levels and accounted for around 40 per cent of new capital expenditure across all surveyed industries in the September quarter 2010. Surveyed plans in the mining industry for 2010-11 are for record investment of \$55 billion, some 57 per cent higher than the level in 2009-10. ABARES reports that in the minerals sector specifically, advanced projects (those either committed or under construction) totalled \$45.2 billion in the six months to October 2010, up from \$40.6 billion reported in April 2010 and an increase of 32 per cent since October 2007. Iron ore projects worth \$17.3 billion make up the largest share of advanced minerals projects. Advanced coal projects were worth \$5.3 billion.

All services in the sector relate to the domestic mining industries. As a result, domestic demand is equivalent to industry revenue. About 22,000 people are employed by the industry, which is expected to pay wages totalling \$2.38 billion in 2011-12. The industry consists of 112 establishments and 92 enterprises. Industry revenue is anticipated to grow at an annualised 9% over the next five years to total \$15.1 billion in 2016-17.

Key Statistics Snapshot: Mining Services in 2012

Revenue:

\$9.8bn

Profit:

\$999.1m

Businesses:

92

Annual Growth 2012-2017:

9.0%

Annual Growth 2007-2012:

6.8%

Industry Outlook

The industry is expected to continue to perform strongly over the next five years. Firming global growth will underpin rising demand for a range of minerals, providing the basis for growth in mining services. Particularly strong growth in iron ore production is anticipated, reflecting ongoing demand from the Chinese market and fuelling demand for contract mining in Western Australia. On the eastern seaboard, contract mining activity will be fuelled by an expansion in coal output capacity in both Queensland and New South Wales, as well as by growth in coal seam methane production. In contrast, some other areas of metallic mineral mining and non-metallic mineral mining are expected to expand more slowly.

Contract Mining and Industry Outlook

Outsourcing key mining functions

The work available to the mining services industry expands as mine owners contract out services previously performed in-house. The extent to which this occurs varies with prevailing market conditions; mining houses are more likely to pursue outsourcing during periods of buoyancy. The largest use of industry services is by the gold ore mining industry, followed by coal miners and base metal miners. When prices are high, the mining companies are more likely to use industry services to increase output.

Contract mining in Gold

Gold mining provided a strong impetus to the early growth of contract mining, and is expected to provide steady, ongoing work rather than large new projects in the next five years. New contracts in the gold ore mining industry will replace those that will expire due to reserve depletion or the reserve becoming uneconomic to mine. A move towards underground work is expected to continue, as the more easily mined (by open-cut methods) gold reserves are depleted. An increase in the gold price has led to renewed interest in the metal, and this is expected to translate into improved contract mining opportunities. The mining of other metallic minerals will provide some opportunities, although mine owners will focus closely on the cost of mining contractors as opposed to in-house operations.

Overall, the conditions faced by contract miners are expected to be favourable. Ongoing growth in demand for minerals from China will underpin continued development of mineral resources and provide opportunities for contract miners to expand their operations. Activity overseas is expected to provide a key growth area for the industry. Some firms already undertake contract mining work overseas, notably Leighton Holdings and Downer EDI. This trend is expected to strengthen during the next five years.

Industry Rationalisation

Industry rationalisation is expected to continue, as small and medium-size firms look for synergies and as large firms continue acquiring smaller operators. The scale of many contract mining operations will make it increasingly difficult for small firms to compete effectively. As a result, enterprise numbers in the industry are expected to grow an annualised rate of just 0.2% over the five years through 2016-17. While large projects are likely to be increasingly undertaken on a joint basis by contract miners, mergers between the largest operators in the industry are not anticipated.

Industry revenue is forecast to increase at an annualised 9.0% over the next five years to reach \$15.1 billion in 2016-17. Industry employment is also expected to grow, rising an annualised 5.8%. Despite the imposition of a carbon price on fuel used in mining operations, industry profit is expected to expand more strongly than revenue, as firms pass on the cost increases and pursue economies of scale and productivity gains. A major constraint on profit growth will be the watchful eye that the major mining houses cast over contract mining costs and the potential for them to either purchase parts of the business or bring operations back in-house.

Taxation

The Federal Government has introduced a tax on greenhouse gas emissions on 1 July 2012, with the tax rate starting rate of \$23 per tonne of CO₂ emitted. The price of carbon permits will increase by 2.5% over the following two years, before a market-based emissions trading scheme commences on 1 July 2015. Under the carbon pricing arrangements, contract miners will pay an effective carbon price on transport fuels used in mining operations. The government plans to impose the carbon tax on this type of fuel use by reducing the fuel tax credit currently available.

The Federal Government has also introduced a new resource rent tax on mining profits called the Mineral Resource Rent Tax (MRRT) from 1 July 2012. The MRRT will be applied to iron ore and coal projects at the rate of 30% after allowing for extraction costs, the recouping of capital investment and a return on capital equivalent to the long-term government bond rate plus 7.0%. Firms will be able to access a 25% extraction allowance, which reduces the effective MRRT rate to 22.5% and is intended to recognise the contribution made by the miner. The MRRT is not expected to have a significant effect on contract mining activity.

Products and Markets

Products and Services

The main service offered by the industry is contract mining, which generates all industry revenue. Contract mining ranges from the preparation of a mine site for the actual mining process to undertaking the entire mining operation for a specified period. Open-cut mining is expected to account for about three-quarters of Mining Services industry revenue, with underground operations providing the remaining 25%.

Supply Chain

Key Buying Industries

- Mining - The Mining Services industry provides inputs to the entire Mining division. Contract mining is particularly widespread in metallic mineral production. It is less widely used in the coal mining industries, due to union objections.

Key Selling Industries

- Machinery and Equipment - This industry supplies contract miners with their excavation and haulage equipment.
- Petroleum - This industry supplies contract miners with fuel.

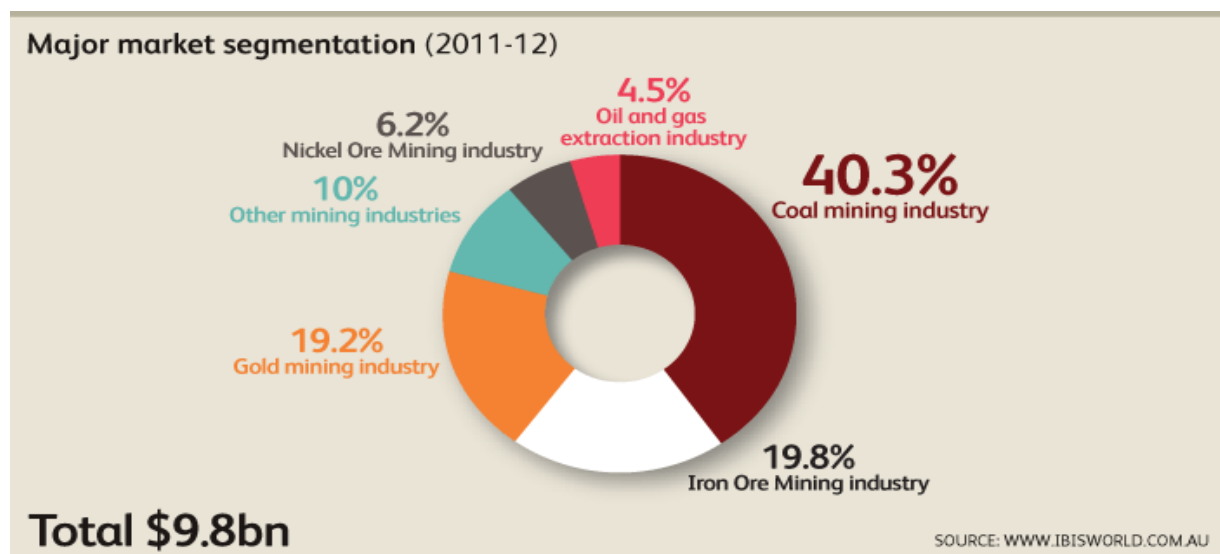
Demand Determinants

The demand for other mining services, particularly contract mining, depends on anticipated levels of mine production and shifts in mine-management preferences for outsourcing versus in-house production. The cost of outsourced mining versus in-house mining plays a key role in the decision-making process.

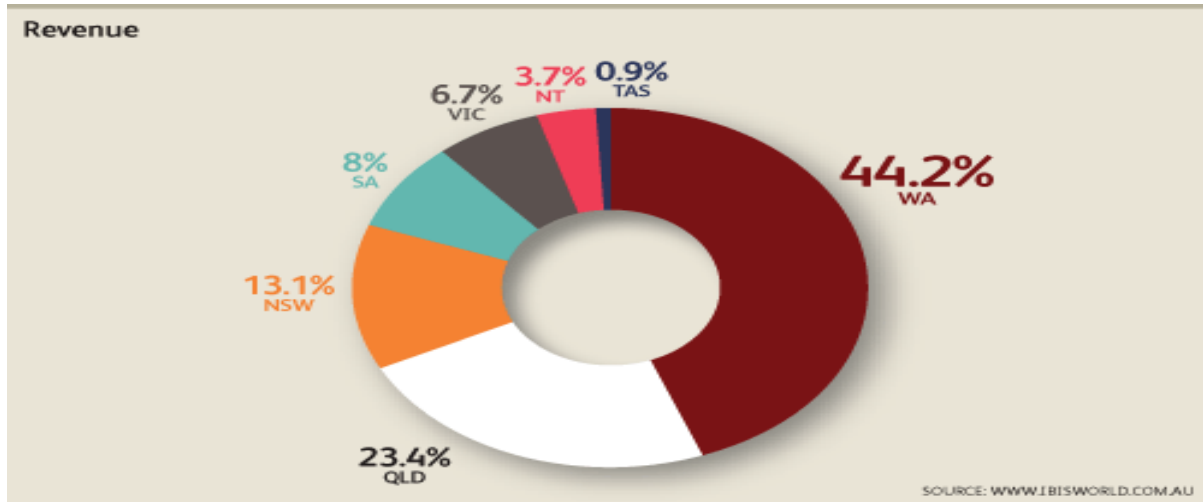
Other factors that play a role include the acceptance by mineworkers of outsourcing, and the duration of the anticipated mining operation. A short-term operation is more likely to make use of contract miners, as it is unlikely to be economic to purchase or even lease mining equipment.

Major Markets and Mining Locations

The industry's main customers are firms operating in metallic mining industries. Gold mining provided the basis for industry growth during the early and mid-1990s. Contract mining then expanded into other metallic mining and, despite initially strong resistance from the union movement, into the Black Coal Mining industry. Rapid growth in the volume of iron ore production provided contract miners with substantial expansion opportunities, but in 2011 BHP Billiton brought iron ore mining operations back in-house.



The geographic spread of the industry tends to reflect that of overall mining output, and hence is heavily weighted towards Western Australia and Queensland. Western Australia, with its large share of metallic mineral production, is by far the most important region for contract mining. Queensland and New South Wales have substantial coal and metallic mineral activity, and are growing in importance for contract miners.



Competitive Landscape

Market Share Concentration

Market share concentration in the industry is high. The three major industry participants account for about 85% of industry revenue. High concentration is a feature of the industry because participation is only economic at high levels of production. For example, equipment needs to be as fully utilised as possible. As a result, industry structure is characterised by a small number of large players. Concentration has increased due to the acquisition by Leighton Holdings of Henry Walker Eltin's contract mining business.

Key Success Factors

The most important success factors in the Mining Services industry are:

- **Access to highly skilled workforce:** To be successful in the industry, companies need access to skilled labour.
- **Successful industrial relations policy:** Maintaining harmonious industrial relations is crucial to contain costs and meet targets.
- **Economies of scope:** The ability to undertake work at a number of sites simultaneously provides a buffer against losing a contract at a particular site.
- **Securing large contracts:** Firms that are able to secure long-term contracts to mine large resource deposits ensure ongoing revenue and profit generation.

Cost Structure Benchmarks

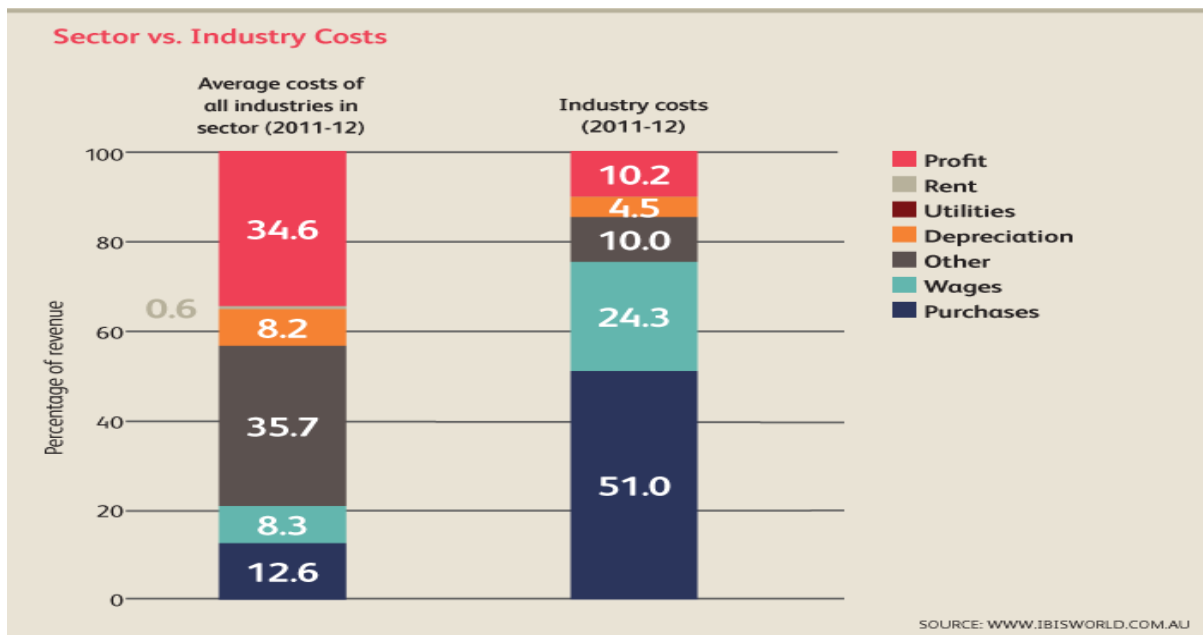
Wages - One of the largest cost items faced by the Mining Services industry is wages. Labour and skill shortages over the past few years have led to rapid growth in wages as

firms strive to attract more workers. Included in this cost are contractors, which make up 8.8% of industry revenue.

Material purchases - Another large cost faced by the industry is purchases, including fuel, chemicals, explosives and replacement parts for mining equipment. Fuel accounts for a steady 14.5% of revenue, as fuel prices have kept pace with revenue growth over the past five years. Repairs (6.5% of revenue) are also included in purchases. Repairs' share of revenue reflects the harsh operating environment in the Mining division; however, this cost has declined over the past five years.

Leasing and other costs - Accounting for 2.0% of revenue, leasing (which is included in the 'other' segment) is a small cost item, but rising financing costs have seen it remain fairly steady as a share of revenue. Other cash costs faced by the industry (including administration and marketing) are relatively small and have declined as a share of revenue.

Profit - The level of depreciation charges incurred by this industry has increased in line with rising capital spending, but depreciation has absorbed a fairly constant share of revenue. The industry's net profit before interest and tax is expected to be about 10.2% of revenue in 2011-12, up substantially from five years earlier.



Barriers to Entry

Barriers into the industry are considerable. In particular, a large amount of capital is required to establish an operation. Firms need to invest heavily in large-scale equipment. Work also tends to be won by firms offering not only a competitive price, but also with an established track record. The industry has substantial working capital requirements. Firms need to be able to fund activity until progress payments are made. In some cases (mainly mine development), firms may be required to lodge a bond with their customer. Firms also need to be globally competitive because mining is dominated by large multinational operators accustomed to dealing with a range of service providers across the globe.

Revenue Volatility

The industry has a high level of revenue volatility. Industry revenue is directly linked to mineral exploration and production activity, both of which respond strongly to shifts in commodity prices. The prices of mineral commodities also typically react rapidly to movements in the demand-supply balance. Until the global economic crisis dampened activity in 2008 and into 2009, strong growth in the demand for a range of minerals, particularly from rapidly industrialising countries such as China and India, had outstripped supply capacity worldwide, driving prices up. Prices did slump in response to the global economic crisis, but began reviving in the second quarter of 2009, as demand for commodities, especially from China, firmed. Overall, exploration for and output of minerals has expanded, new mines have been developed and mine expansions have been undertaken, paving the way for generally strong growth in industry revenue.

The growth in contract mining also reflects the continued outsourcing of elements of the mining process. This can range from the sinking of initial shafts all the way through to the entire mining operation. However, year-to-year shifts in industry performance largely reflect the volume of new work available, which depends on factors such as the demand for minerals from overseas and commodity price levels.

HOW TO DO BUSINESS IN AUSTRALIA?

Australia is an open economy with a liberal foreign investment outlook. The country has many international companies holding assets in the country and operating without much of a hindrance from the government. The regulatory body overseeing foreign investments in Australia is the Foreign Investment Review Board (FIRB). The monetary thresholds set out by the FIRB are as outlined below:

Non-US investors (as at 1 January 2012)	
\$5 million	developed non-residential commercial real estate, where the property is subject to heritage listing
\$53 million	developed non-residential commercial real estate, where the property is not subject to heritage listing
\$244 million*	<ul style="list-style-type: none">• an interest in an Australian business; or• an interest in an offshore company that holds Australian assets or conducts a business in Australia, and the Australian assets or businesses of the target company are valued above the threshold

* The threshold is indexed annually on 1 January.

The following acquisitions must be notified, irrespective of the value or the nationality of the investor:

- all vacant non-residential land;
- all residential real estate (some exemptions apply);
- all shares or units in Australian urban land corporations or trust estates; and
- all direct investments by foreign governments and their related entities, and proposals by them to establish new businesses in Australia or acquire interests in Australian urban land.

All other acquisitions (including shares or assets of an Australian business) should be notified if the target is valued at or above the applicable monetary threshold set by the Australia's Foreign Investment Policy or the Foreign Acquisitions and Takeovers Act 1975.

More detailed information on foreign investments can be accessed at FIRB: www.firb.gov.au

Company Registration:

A company can apply with the Australian Business Registrar to obtain the Australian Business Number (ABN) and all companies which are to be registered with ASIC (Australian Securities and Investment Commission) would get a Australian Company Number (ACN).

Further information about ABN can be obtained from: <https://abr.gov.au/>

Further information about ACN can be obtained from:

<http://www.asic.gov.au/asic/asic.nsf/byheadline/Australian+Company+Numbers?opendocument>

Further information on doing business in Australia is available at:

Claton Utz - http://www.claytonutz.com/docs/DBIA_English.pdf

Grant Thornton -

http://www.grantthornton.com.au/files/doing_business_in_australia.pdf

Government of Australia – www.business.gov.au

MARKET ACCESS POTENTIAL FOR INDIA

India is an emerging market with enormous mineralogical potential. Lack of detailed exploration programmes demonstrates high possibility of discovering new deposits and expanding reserves of existing mines. Private sector is to be the main source of investment in reconnaissance and exploration. Indian companies can therefore benefit through technology transfer agreements sourced from Australian companies.

In the last few years, India has largely focused on coal and iron ore mining in the country. There is big scope to strengthen cooperation in the area of coal technology, reduced emissions, rehabilitation of abandoned coal mines and extraction of deep seated coal resources and to facilitate investment in coal mining areas.

There is also a strong need to diversify and expand sectoral baskets. The mining industry in India is still in an incipient stage, despite the imperative of immediate development/up-gradation. The Australian mining industry has therefore much to offer. Currently, most of the mines under operation are the open cast mines as the country lacks technology and expertise required for underground mining. There is a need to attract foreign players in the form of joint ventures (JVs) or MDO agreements to develop other mineral resources, especially the underground mines. Securing the services of mining service companies can be very beneficial to mine owners, particularly in an environment with fluctuating metal prices, moving exchange rates and increasing mining costs, as the mine owner can choose a contract, which gives it the flexibility to shut the mine and the contract at a very short notice.

Australia, the hub of contract mining activities, is at a much advanced stage in the exploration of these minerals. While giving lucrative contract mining propositions to the mining service companies in Australia is a good way to proceed further in the Indian exploration sector, joint ventures may turn out to be more beneficial for India in the long term. Joint Ventures will not only equip Indian players with foreign technologies, especially in underground mining, but will also help Indian workers to learn about the operations of heavy mining equipment.

The mining industry in Australia is regulated by the government at the Federal and State levels whereby all policy frameworks for exploration and mining tenures are issued and administered. The commercial sale rights vest with the private sector. Australia being open to foreign investment allows opportunities for Indian companies to look at acquisition of mines in Australia.

TARGET AUDIENCE:

Orica India – <http://www.oricaminingservices.com/in/en>

SGS India – <http://www.sgsgroup.in/en-GB>

Ministry of Mines – www.mines.nic.in

EEPC - www.eepcindia.org/

Some Useful Links:

Minerals Council of Australia

www.minerals.org.au

Australia Mines Atlas

www.australiaminesatlas.gov.au

Australian Bureau of Agricultural and Resource Economics and Sciences

www.bree.gov.au

ALCOA Australia

www.alcoa.com/australia

Rio Tinto PLC

www.riotinto.com/index

BHP Billiton

www.bhpbilliton.com/

Hancock Prospecting

www.hancockprospecting.com.au/hope.html

Wesfarmers Resources Ltd

www.wesresources.com.au

Department of State Development, Western Australia

www.dsd.wa.gov.au

Australian Coal Association

www.australiancoal.com.au

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