

DELIVERING A COMPANY

OWEN HEGARTY

MELBOURNE MINING CLUB

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INTRODUCTION

- Thank you to the MC and thanks to the MMC for the opportunity to speak today in this auspicious forum to an auspicious audience.
- Congratulations to the MMC, its founding and present members for providing these excellent gatherings, for raising the public profile of our industry, in Melbourne – still one of the world’s important mining industry centres. Well done.
- I feel somewhat humble in the footsteps of some excellent speeches and some excellent speech makers; and largely from the very large “end of town”. So my perspective will be from the smaller “end of town” and what it takes to grow from junior to mid-cap and to reach beyond. What are the key success factors.
- But also it is worth emphasising that conditions now are virtually ideal for growth in our industry generally speaking. There are “oodles of opportunities” out there so we can all afford to be more “upbeat” in our outlook.

YEAR OF THE MONKEY

And what better spiritual backdrop, what better “karma” for growth and opportunity than the Chinese zodiac year of the Monkey. Welcome to the year of the Riverboat Gambler – the Irrepressible Monkey.

The Monkey represents cunning and guile, razor sharp intelligence, wit and a keen sense of humour.

Those who enjoy risk and novelty thrive in Monkey years, those who prefer predictability and convention wince.

Business booms under this year's optimistic and cunning influence. It is a year of enterprise, expansion and opportunity.

But we can't leave our fortune to the divine alone, the spirits won't save us completely; there's serious work to be done, monkey or not!

So what does it take to grow a business – largely against the odds? There are probably 200 key success factors (and good luck will be there amongst them) but we've distilled it down to three main things that we hold dear.

1. PEOPLE

First and foremost you need outstanding people, teamwork and a “can do” culture.

Easy to say, difficult to achieve. We are blessed at the OX with an outstanding group of people at Board, management and operating levels. They are experienced, work hard and work well together. I am very proud of them and would do anything for them. Not only our own people but we are also blessed with quality supporters, shareholders, brokers, consultants, advisors, engineers and friends generally – and we thank them all for that.

For cultural inspiration, for a “can do” cultural model, we scoured the annals of corporate experience – starting with John Paul Getty's secret to success and riches – “get up early, work hard, find oil”. And there are countless others.

But for inspiration, for motivation, for the Oxculture, we turned our back on the corporates and turned to Melbourne's very own magnificent motivational icon, Ron Barassi. Ron has been a strong supporter of the Ox and we thank him for that.

We have adopted three powerful chapters from the RDB secrets to success.

First and foremost those qualities that Ron was and remains famous for – fierce (even ferocious) determination, persistence, perseverance, perspiration, never-ever-ever give up attitude and raw courage in the face of adversity. When you line up the odds and barriers against us when we were acquiring and developing Sepon initially it was a formidable task to say the least – little known country with no record, remote location, little infrastructure, Rio Tinto stepping back, 10-20 year low metal prices, investor void, suite of corporate and country collapses and the odd round of poor publicity. But we persisted because we knew the prize was worth it. The Lao Government at all levels were equally determined to see us succeed and we thank them for that. Of all the developments I've been involved in in Asia from Indonesia through China, this project in terms of schedule, logistics and regulation has gone best of all – and a key factor has been strong Government support, cooperation and encouragement. As you would expect them to be – since Sepon is a flagship development, the biggest foreign investment yet and already making significant impact on all macroeconomic indicators. Laos is viewed very differently now as an investment host, than it was 3 years ago.

Similarly, John Quinn at Fosterville, Rob Devereaux at Cracow, Mike Diemar at Chatree, Josh Pitt at Thunderbox, Doug Berger at Bendigo and Robert Friedland are good examples among many from our industry of dogged persistence leading to creating very substantial value for all stakeholders.

Secondly, we have tried to adopt the Ron Barassi quality of Innovation : never be afraid of change and never be afraid to change. Remember all of those inviolate, uncontestable rules of the game – no short passing on the back line, no hand-ball on

the back-line, kick it long, don't turn back into danger, never change clubs. Barass turned the game almost on its head, innovated, invented – and today's fast, running, twice-as-exciting game is just a fabulous spectacle. (Ron, of course, will deny complete credit for modern football – but must accept some.) So too our industry has an excellent record of innovation, invention and change – we're a bit old-fashioned and some of us are a bit old, but it's never too late to innovate.

Thirdly, we can be indebted to Barass for his motivational prowess for getting the best out of people. He trained them, he worked with them, he gave them new skills, he encouraged them, he made them feel important, vital to the team – he instilled them with that RDB passionate commitment.

We were lucky enough to have Ron up on site at Sepon about a year ago. We had a small dinner for several hundred of our Lao employees – Ron agreed to provide an inspirational address, because we had to pour 1st gold in 6 weeks and we had 26 weeks work to do! We think something must have been lost in the interpretation – because everybody fell about laughing for the rest of the night! But we did pour 1st gold on time.

So Ron thank-you for your contribution to the Oxculture: and our industry and our companies would be well served I believe to keep borrowing pages from the RDB success story: of perspiration, innovation and inspiration.

2. QUALITY ASSETS

So that's the people factor.

Our second key ingredient for success, we believe, is quality assets. Again, easy to say and a bit obvious, but hard to find and often it's tempting to compromise – to try to make a silk purse from a sow's ear; and there's plenty of merchant bankers around (with great respect) who will try to talk you into mutton dressed up as lamb. To us deals are like buses – if you miss one, there'll be another one along shortly.

At Sepon we have quality – high grade, at surface, low cost, long life, oodles of upside, secure and stable title and supportive Governments and community. It doesn't get a lot better. You don't have to have all of these but most of them would be handy. We think that the Prominent Hill mineralization also has quality potential – high grades, long life – and we're working with Derek Carter and the rest of the team at Minotaur to realize that potential as fast as we can.

And what better quality commodities to be in than gold and copper. They are both beautiful metals and likely to be in strong demand forever, they can tend to come together in orebodies, they are somewhat countercyclical, and you don't have to be a major or a giant to be highly competitive and highly rewarding for your shareholders in copper and gold.

The outlook for gold is excellent – it's both a currency and a commodity, it can never fail. Both the financials and the fundamentals favour gold, so we are subscribers to the Pierre Lassonde theory of \$450/oz plus sooner rather than later. In fact havoc is possible – to quote our gold bug friends at Swiss Asia Capital in Singapore “the [terrible!] problem for the gold and silver markets is that these markets remain far too small to absorb any significant influx of funds without driving the price of precious metals and precious metal equities higher. The annual market for silver is only around \$2.5 billion and for gold it is around \$25 billion. The market cap of the entire world's gold and silver mining equities is less than \$100 billion. In contrast to these small figures the world equity market is around \$25 trillion and world bond markets are over \$40 trillion. Over \$2 trillion trades each day in the currency markets. Put simply, the paper market dwarfs the bullion markets and there is simply no way that the bullion and precious metals equities market are capable of absorbing even a fraction of this money without prices heading to the moon.”

The outlook for copper is even better. The copper price has come from 70¢ to 118¢ today i.e. +60% increase in just over 12 months and we're only at the beginning of the cycle.

Demand is as strong as we've seen it: fueled by China mainly, but the rest of the world is chipping in too. Supply has been weakened by years of lower prices, a lack of investment in exploration, new developments, expansions and even maintaining existing operating capacity.

Chinese consumption of copper is forecast to double between 2002 and 2007: and there is very little new capacity being added around the world. We at the OX are doing our best to help the world through this problem – we won't be withholding supply, we won't be building a stockpile, we'll be bringing on the magnificent Khanong Copper Project next year and we're already putting our foot on the accelerator to define and discover further copper resources at Sepon, other parts of Laos, at Prominent Hill and wherever there are quality opportunities.

In terms of outlook for copper and metals generally – to quote Swiss Asia Capital again – “the weakening dollar and the resource demands of China's enormous population are two incredibly powerful fundamentals that will blow the top off commodity prices and give us the most powerful bull market of the last 100 years.”

3. DELIVERY

Finally, our third key factor for growth is a commitment to delivery. Nothing builds credibility like delivery.

Again – nothing in our industry is simple or easy – if it was, we'd be doing something else. In the highly competitive junior end of the market you spend a lot of time and energy telling your story over and over, knocking on doors, wearing out shoe leather, getting a lot of knock-backs, trying to differentiate yourself; and in the process give yourself some challenging targets.

But if you keep hitting the target, keep doing everything you say you are going to do, more or less on time, on budget on quality, then clearly you will continue to gather

support, build credibility and grow a reputation for delivery. And you have to keep talking to the market and telling them all the time you're delivering. Often we think we are but you can never do enough.

For example, according to a recent Price Waterhouse Coopers Report, "Digging Deeper" – more than 50% of mining companies believe they proactively maintain contact with the investment community, yet only 10% of analysts say they do. It is a critical area and one we have to keep working on when you are trying to grow your company...you can't do it alone!.

6. CONCLUSION

So in conclusion, can I summarise all of that with just two things. Firstly, the drive from unrecognized struggling junior to at least recognition (MMC berth in itself quality recognition!) and decent scale market cap and strong institutional support is neither simple nor easy, but it's eminently possible and do-able: if we can, anybody can! You need People, you need Passion and you need Performance.

And secondly we are at a truly defining time in our industry. We have the spirit going for us in the year of the Monkey; and we have the fundamentals going for us in the markets of the world. There are oodles of opportunities out there: The Mighty OX will be like RDB going hard at the ball as always. Good luck to everyone else. Thank you very much.