The Blenheim Report

Numbers & Strategy

Mining Services

October 2013

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Our work falls into three areas: Top Level Executive Search, Non-Executive Search and Advisory.

- We only partner with one to two companies per sector to ensure our clients receive sector expertise and complete market coverage.
- We do not have Conflicts of Interest or Off Limits restrictions as a result of our partnering model.
- We support our clients long term planning capability with Strategic Succession Planning.
- We provide an end to end international search process, including Assessment and a 90 day On Boarding Programme.
- We provide international reach and superior candidates due to our rigorous research methodology and confidential recommendations from key industry leaders. This includes our commitment to enhancing the gender diversity of our candidate pool.
- We provide a fixed fee of which the final 25% is only payable if our client assesses that expectations have been exceeded.
- We have “no limitations” in the pursuit of excellence.

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MINING SERVICES DIVERSE																	
Company	REVENUE FY 2013	REVENUE FY 2012/ Calender 2012	REVENUE Calender 2011	EBITDA FY 2013	EBITDA FY 2012	EBITDA MARG 2013 %	EBITDA MARG 2012 %	EBIT FY 2013	EBIT Margin 2013 2012 %	NPAT FY 2013/ Calender 2012	NPAT FY 2012/ Calendar 2011	NPAT Margin 2013 %	NPAT Margin 2012 %	ROA FY13/ 2012	ROA FY12/ 2011	Return funds employed 2013[6]	Return funds employed[6] 2012[6]
Downer Group	9,132,400	8,524,600		665,100	593,700	7.3	7	370,300	4.1	215,400	195,300	2.4	2.3	5.1	4.8	18.2	17.7
Downer Infra St	5,243,000	4,636,000						230,300	4.4							25.6	18.6
Downer Mining	2,552,000	2,461,000						174,200	6.8							20.3	22.1
Downer Rail	1,336,000	1,284,000						59,000	4.4							12.5	17.8
Leighton Group		23,127,000	21,844,500	1,829,700	781,400	7.9	3.6	773,200	3	450,100	-285,500	1.9	n/a	4	n/a		
Leighton Contractors Division		7,136,000						290,000	4.1					10.5			
Thiess		7,237,000						299,000	4.1					17.2			
John Holland		4,546,000						34,000	0.7					3.3			
Leighton Asia, India & Offshore		2,629,000						170,000	6.5					9.7			
Habtoor Leighton Group		445,000						-67,000	n/a					n/a			
Leighton Commercial & Residential		558,000						-26,000	n/a					n/a			
Transfield Services Group	3,451,500	3,143,400		207,300	218,800	6	7	99,909	2.9	62,500[1]	106,000[1]	1.8	3.4	3.8	4.4		
ANZ Segment	2,667,100	2,413,900		143,400	114,500	5.4	4.7	104,290	3.9					25[5]	13.4[5]		
Easternwell Energy	232,200	243,300		51,000	73,100	21.9	33.3	18,911	8.1					3.1[5]	5.9[5]		

MINING SERVICES DIVERSE

Company	REVENUE FY 2013	REVENUE FY 2012/ Calender 2012	REVENUE Calender 2011	EBITDA FY 2013	EBITDA FY 2012	EBITDA MARG 2013 %	EBITDA MARG 2012 %	EBIT FY 2013	EBIT Margin 2013 2012 %	NPAT FY 2013/ Calender 2012	NPAT FY 2012/ Calendar 2011	NPAT Margin 2013 %	NPAT Margin 2012 %	ROA FY13/ 2012	ROA FY12/ 2011	Return funds employed 2013[6]	Return funds employed[6] 2012[6]
Americas	496,100	434,800		16,700	25,000	3.4	5.7	1,196	0.2					0.5[2]	0.7[2]		
UGL Group	4,247,000	4,803,000		226,000	465,000			154,700	3.6	92,100	168,300	2.2	3.5	1.4			
UGL DTZ Division	1,933,000	1,603,200						113,400	5.9								
UGL Engineering	1,835,100	2,618,400						62,500	3.4								
UGL Operations & Maintenance	489,400	596,500						19,100	3.9								
Worley Group	7,627,000	7,362,600		629,000	633,000			527,000	6.9	322,100	353,200	4.2	4.8				
Worley Hydrocarbon segment	5,344,000	4,994,000						634,000	11.9								
Worley Minerals, Metals & Chemicals segment	938,000	895,000						136,000	14.5								
Worley Infrastructure Environment segment	784,000	871,000						86,000	11								
Worley Power segment	561,000	581,000						49,000	8.8								

Notes

[1] NPAT is pre impairments & amortisation

[2] Return on Capital Employed. This is the measure Downer uses in their 2013 results presentation 2013, page 9. ROFE= underlying EBIT divided by average funds employed (AFE). AFE = average opening and closing net debt plus equity.

MINING SERVICES

Company	REVENUE FY 2013	REVENUE FY 2012	EBITDA FY 2013	EBITDA FY 2012	EBITDA MARGIN 2013 %	EBITDA MARGIN 2012 %	EBIT FY 2013	EBIT Margin 2013	NPAT FY 2013/ Calender 2012	NPAT FY 2012/ Calendar 2011	NPAT Margin 2013 %	NPAT Margin 2012 %	ROA FY13 %	ROA FY12 %
Clough	1,509,800	1,005,400	91,099	37,688	6	3.7			73,900	35,100	4.9	3.5	10.8	6.9
Clough Engineering	514,600	353,900	72,900	49,192	14.2	13.9								
Clough Projects	843,700	548,800	57,600	34,508	6.8	6.3								
Commissioning & Asset Support	121,800	80,000	11,100	5,264	9.1	6.6								
MACA	475.9	334,900	116,300	86,300	24.4	25.8	76,900	16.1	49,500	37,700	10.4	11.3	13.3	16.7
Macmahon	1,173,400	880,100	67,500	167,800	5.8	19.1	84,500	7.2	43,600	36,700	3.7	4.2	4.6	3.7
NRW Holdings	1,374,000	1,358,000	168,300	195,900	12.2	14.4	119,400	8.7	74,100	97,100	5.4	7.2	9.1	11.5
NRW Civil Contracting	860,600	731,700	92,034,000[3]	81,639,000									18.0[4]	17
NRW Mining Services	404,500	542,200	17,938,000	63,957,000									2.6	7.6
NRW Drill & Blast	150,500	113,100	16,819,000	18,744,000									18.2	27.4
NRW Fabrication & Repair	41,800	46,600	3,308,000	4,610,000									4.5	6.6
WDS GROUP	351,950	351,360	28,120	32,330	8	9.2	13,026	3.7	8,250	8,560	2.3	2.4	3.5	3.6
WDS ENERGY DIVISION	233,870	166,770	22,310	14,320	9.5	8.6			15,680[5]	5,860[8]	6.7	3.5		
WDS MINING DIVISION	118.67	192.96	8,960	19,840	7.6	10.3			0,750[5]	12,370[8]	0.6	6.4		

Notes

[3] Profit before tax but after depreciation.

[4] ROA recalculated by Blenheim, based on annual report figures, to make numbers relatively comparable across segments.

[5] Segment profits for FY13 and FY12 are from annual report, and do not exactly match stated profit/loss numbers elsewhere. They are before unallocated expenses, net finance costs and income tax. Numbers do give good indication of relative performance of each respective segment.

DOWNER MINING (part of Downer EDI Ltd (ASX:DOW))

Market cap: $1.77bn (DOW)| **Revenue:** $9.1bn (DOW) | **Employees:** 4,500 + | **Operations:** Australia, NZ, PNG, South America, Sthn Africa | **Head office:** Brisbane

The Downer Mining division is one of Australia's leading diversified mining contractors, with more than 50 sites in Australia, New Zealand, Papua New Guinea, South America and Southern Africa. Services, supporting coal and metalliferous mining clients, include:

- Open cut (OC) & underground (UG) mining
- Blasting services via subsidiary Downer Blasting Services (DBS) (including explosives manufacture and supply)
- Exploration drilling
- Crushing
- Tyre management via subsidiaries Otraco International and Rimtec
- Mobile plant maintenance
- Mine planning and design
- Construction of mine-related infrastructure
- ReGen – rehabilitation and mine closure services
- Low-emissions mining solutions
- Indigenous training and development

FY13 Results for Downer Mining http://www.downergroup.com/Documents/Investors/Financial-Reports/201213/Full-Year-Results/Downer-Annual-Report-2013.pdf:
- EBIT up 0.4% to $174.2m (37% of group EBIT)
- Revenue up 3.7% to $2.6bn (28% of group total revenue)
- Largest projects as at 30 June 2013: Christmas Creek, Fortescue; Goonyella Riverside, Daunia & Blackwater mines, BMA; Boggabri, Idemitsu; Karara, Karara Iron Ore Project; and Meandu, TEC Coal (wholly owned subsidiary of Stanwell Corporation Ltd)
- Other key customers include AngloGold Ashanti, Ok Tedi Mining, Solid Energy, EnergyAustralia (formerly TRU Energy) and Wesfarmers Resources.
- Outlook: work-in-hand $5.6bn

MINING OPERATIONS

Project	Client	Resource	Services Provided	Contract Value	Contract Period	Location	State/ Ctry
Argyle	Rio Tinto	Diamond	OC Mining	-	2004-2013	East Kimberley	WA
Boggabri	Idemitsu	Coal	OC Mining: • Blasting services • Mine planning • Load & haul	$900m	2006-2016	Gunnedah Basin	NSW

Christmas Creek	Fortescue	Iron Ore	OC Mining: • Load & haul • Drill & blast • Design, manufacture, installation & maintenance of mine infrastructure • Civil works for Christmas Creek 2	$3bn	Oct2010-2016	East Pilbara	WA
Commodore	InterGen JV *	Coal	OC Mining	-	2001-2014	Surat Basin	QLD
Cracow	Newcrest (70%) / Evolution Mining (30%)	Gold	UG Mining	-	Development & Production	Cracow	QLD
George Fisher	Xstrata	Zinc	UG Mining	-	Development	Mt Isa	QLD
Goonyella-Riverside Blackwater Daunia	BMA	Coal	OC Mining: • Load & haul pre-strip material • Drill & blast	$2bn	2008-2015 2012-2015 2012-2014	Bowen Basin	QLD
Highway Reward	Thalanga	Copper	UG Mining	-	Development	Charters Towers	QLD
Karara	Gindalbie/AnSteel (50:50)	Iron Ore	OC Mining • Establishment of mine infrastructure • Drill & blast • Load & haul	$570m	Feb2012-2018	Mid West	WA
Meandu	Tarong Energy	Coal	OC Mining: • Mine management, planning, drilling, overburden removal, coal mining/processing, rehabilitation & plant maintenance	$600-$800m	Jan 2013-2018	South Burnett	QLD

Paraburdoo	Rio Tinto	Iron Ore	OC Mining		2008-2013	Pilbara	WA
Renison	Metals X/Yunnan Tin Group (50:50)	Copper, Tin	UG Mining		Development & Production	Tasmania	TAS
Yallourn	EnergyAustralia / RTL Mining Alliance	Coal	OC Mining		2002-2015	Latrobe Valley	VIC
Stockton	Solid Energy New Zealand	Coal	OC Mining		2009-2014	Buller Coalfield	NZ
Sunrise Dam	AngloGold Ashanti	Gold	OC Mining		1998-Life of Mine	Laverton	WA
Various			Exploration Drilling		Since 2003	Various	PNG

*JV partners: InterGen Australia (53.69%), Marubeni Corporation (30%), GEC (6.31%), EIF Group (5%), Tohoku Electric Power Company (5%), Franco-Nevada Corporation (Royalty)

Strategy

Downer established a new comprehensive program in 2010, called ‘Fit 4 Business’. This program was initiated as a comprehensive five year cost savings program with a target of $250m in efficiency and cost savings across the group. Downer announced in August 2013 that it had achieved this target in three years instead of the previous five year target. Fit 4 Business has now been extended to target an additional $250m in gross benefits in the 2014 and 2015 financial years.

However, there were other elements to the turn-around strategy initiated by new CEO Grant Fenn in 2010.

The core elements of Downer’s company strategy is outlined in its 2013 Annual Report (page 19).

- Seeking organic growth through focusing on serving existing customers better across multiple products and service offerings of the Company;
- Paying down debt to improve gearing, reduce risk and enhance the Company’s capability to withstand threats and take advantage of opportunities;
- Obtaining better utilisation of assets and improved margins through simplifying and driving efficiency;
- Identifying opportunities to manage the Downer portfolio that deliver long-term shareholder value; and
- Being able to adapt to the changing economic and competitive environment to ensure Downer delivers shareholder value.

The execution of the strategy has been a success and the company is delivering solid growth across all its divisions, enhanced returns on capital and improved profit margins. The company has also persevered with the troubled and loss-making Waratah train contract and is on track to deliver the last train as agreed with the Government in mid 2014. The company has restructured its balance sheet, reduced debt and improved its financial risk profile significantly, through extension of its debt duration.

This has been possible through improved trust in banking relationships according to recent public statements made by ex-Deputy CFO Richard Richards. For the full interview see the link below.

http://www.charteredaccountants.com.au/News-Media/Charter/Charter-articles/Member-profiles/2013-08-Richard-Richards.aspx

Grant Fenn and the Board have displayed significant discipline in the execution of the strategy, and have focussed on ensuring the company delivered on its guidance numbers. It is reasonable to say the approach is now delivering results, with the market gaining confidence as management continues to over deliver. In November 2012 Grant Fenn ruled out a near term acquisition of Transfield Services or another contractor in the near term, stating that Downer will 'stick to its knitting'. Reflecting the positive results from the step-by-step execution of the strategy FitchRatings upgraded Downer's long-term rating and senior unsecured rating to BBB, with a Stable outlook in June 2013.

Fitch provided detailed background information explaining its analysis and conclusion.

There were three major considerations: firstly Downer's improved financial risk profile; secondly earnings diversification; and thirdly the company's higher risk and return discipline around the vetting of project bids. We forecast the company's adjusted net debt to EBITDAR leverage ratio will edge down to 2.3x over the next couple of years from 2.5x in the financial year ended June 2012.

Unlike other engineering contractors that have issued a raft of profit warnings in the recent past Downer's order book has minimal exposure to design procurement and construction (DPC) activities in the resources sector. This point is crucial. Media attention continues to highlight how the mining sector is being negatively impacted by falling commodity prices and the pull-back in resource capex. However, Downer's exposure to the sector is mainly in the form of mining maintenance services - such as drilling, blasting, load and haul of overburden, and fleet maintenance. These are all contracted on the basis of a schedule of rates which allows for variations based on the volumes of work performed.

In its discussion of the positives supporting Downer's business model, Fitch also highlight the strategic change in Downer's risk management framework initiated 3 years ago, following the huge losses booked on the Waratah project. Downer's Board now screens all bids larger than AUD250 million. This level of oversight reduces the agency risk associated with revenue based incentive structures that spur the employees of the operating sectors. Fitch also highlights that project delivery governance has improved under the new Management, with the Audit Committee and the Board of Directors having direct visibility of the delivery of individual projects.
For further details please see the two FitchRatings press releases from June 2013.

http://www.downergroup.com/Documents/Investors/Announcement-Docs/2013/20130618-Media-Release_Fitch-Upgrades-Australias-Downer-to-BBB-Outlook-Stable.pdf
http://tools.morningstar.be/be/stockreport/default.aspx?tab=3&vw=story&SecurityToken=0P00007O0M%5D3%5D0%5DE0WWE$$ALL&Id=0P00007O0M&ClientFund=0&CurrencyId=EUR&story=301661323155365

Blenheim observations

Downer is into it fourth year of a comprehensive corporate turn-around and business process re-engineering. Indicating the depth and granular view of its strategy, Downer is introducing Lean manufacturing and Kaizen in its rail manufacturing plants at the end of 2013. These are very robust lean manufacturing and quality circle initiatives that have not received much attention outside Japan in the past ten years. It indicates to us, that Downer is executing its Fit 4 Business strategy in an increasingly sophisticated manner.

Relative to some of its competitors within the peer group, Downer now has two and perhaps up to three years head start in strategy and efficiency reviews. Margins for Downer are improving, consistent across all Downer business segments and are trending upwards. Downer uses return on funds employed as its key measure of efficiency, and this measure is also demonstrating high efficiency across all segments, though Rail is showing the ongoing challenges from the Waratah project. The ratios are available from Blenheim's proprietary report – The numbers (October 2013).

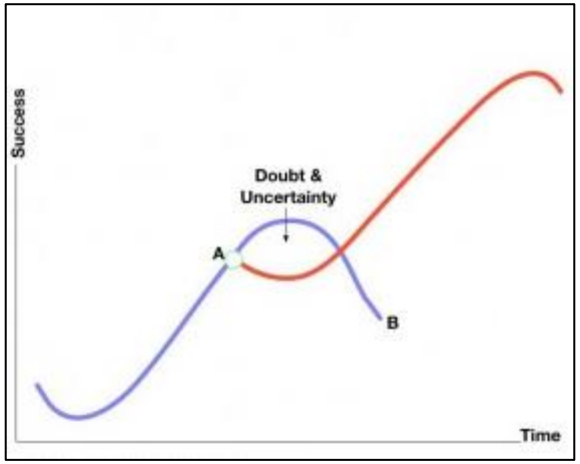
Whilst Downer embarked on its current Fit 4 Business strategy review out of necessity three years ago, following large losses caused primarily by the Waratah train project, it is interesting to notice that Downer seems to now have integrated the Fit 4 Business programme as an ongoing business strategy.

Another way of thinking about Downer's current position relative to its competitors is to see it in the context of Charles Handy's Sigmoid curve. We see Downer as being on the blue curve.

According to Handy, the best time to start a new 'curve' is before you reach the peak of your existing one! That way, you will be starting something new when you still have the resources, and the spirit, to take it to new heights. In contrast, most people think of doing something new only when they have reached the bottom of what they are presently involved in.

Background to the Sigmoid curve:

Successful industries are constantly re-inventing themselves, even when things are going well. Charles Handy used the concept of the Sigmoid Curve to make the case for significant ongoing change. The sigmoid, or S-shaped, curve charts the trajectory of every successful human system. There is always a first period of experimentation and learning which is followed by a time of growth and development. Ultimately, however, every curve turns downward. The only thing that varies is the length and duration of each part of the curve.



Reference: Chapter Three in Charles Handy (1995) The Empty Raincoat - Making Sense of the Future Random House Australia ISBN 0 09 930125 3

Today, the speed of every curve seems to be increasing. To keep on growing, the successful industry, organisation and individual, must develop a second curve out of the first. The new curve, however, must start before the first one peaks, at Point A, when all the evidence is that there is no need for change.

Most organisations do not change until they get frightened, at Point B. This is often too late. By then the leaders have lost credibility, resources are depleted and the energy for creative thinking is low. Forty per cent of the Fortune 500 companies of seven years ago no longer exist as independent entities.

Change at Point A, however, results in a period of great confusion, represented by the shaded area in the drawing. At this time there are two contrasting and often competing cultures. The old ways, products and people must continue their efforts to maintain the first curve's momentum.

At the same time, however, the industry must experiment with new ways and new ideas; and not all of them work. The challenge of the second curve is to find a way to start that curve while still building upon the success, learning and maturity gained from the first curve. When standing at Point A, one is presented with two confusing and opposing vistas. When one looks back along the sigmoid curve, they see success, growth and satisfaction. But at Point A, one can also look the other direction and see over the horizon of the curve and see the fall towards Point B. The opportunity is to openly look at what Point B tells you, to see the trends that can lead from A to B, but then to use this information to design a pathway from the current Point A, to the Point A on the next sigmoid curve - a pathway of uninterrupted success.

blenheim partners

no limitations

ABN 21 160 009 236

Level 5, 17-19 Bridge Street, Sydney NSW Australia

p +61 2 9253 0950

w blenheimpartners.com