
KEYNOTE ADDRESS

PEOPLE WITH PURPOSE

CREATING PROSPERITY AT THE CSA MINE

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INTRODUCTION

The CSA Mine has been an important part of the metalliferous mining industry in central western New South Wales for the last 40 years. Indeed, it is an icon of the community of Cobar (Fig. 1), some 10km distant, to the south of the mine and processing facilities.

Since its beginnings in 1871, the mine has had a colorful history, often beset by technical problems, experiencing intermittent industrial unrest during the 1970's, 80's and 90's, and subjected to a series of corporate changes which often prevented the operation from consistently achieving its full potential.

Despite all this, the operation has been an important contributor to the community of Cobar for many years, producing over 25 million tonnes of ore since 1965, and yielding \$1.5 billion of revenue over that period.

A watershed in the mine's history occurred in 1999, when Cobar Management Pty Ltd (CMPL) took control of the operation, following its closure by Ashanti Gold, in 1998.

A NEW BUSINESS MODEL

CMPL adopted a very different philosophy from that under which the mine operated until 1997.

For many years leading up to 1997, the mine had been producing over one million tonnes of ore annually, but at head grades consistently less than 3% copper (Cu). This reflected a 'tonnes mentality' very common in a number of mining companies, and reflected an acceptance of dilution as a natural consequence of large scale mechanized mining.

CMPL adopted a strategy which paid much closer attention to wall rock dilution and excavation stability, opting for a production rate of around 500,000 tonnes per annum, but at head grades of more than 5% Cu.

Hand in hand with this small tonnage philosophy, came a reduction in fixed costs, through a smaller equipment fleet, less people, but achieving metal output almost as high as that achieved with the higher ore production of previous years. The business model was based on utilizing existing plant infrastructure – very little new capital was required to restart the operation.

In addition, much good work was begun in the area of workplace culture. A new climate based on sustainability was created, with a focus on safety improvement, best practice environmental performance and a systems-based approach to doing business.

Contractors were employed initially to carry out the core mining and maintenance activities, followed by the ore processing area twelve months later. The use of contractors in the early stages of the operation's rebirth reflected the assessment of operational and business risks that existed at the time.

1999 and 2000 were good years with high metal output, high productivity and high metal prices.

But problems were looming.....

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TECHNICAL DIFFICULTIES

The last quarter of 2000 revealed the first signs that the CSA Mine would live up to its reputation of being 'difficult'.

A high grade stope failed late in the year, continued to cave, and set off a chain of events that resulted in a steadily declining performance over the next 12 months.

This circumstance arose from stress related ground activity not anticipated in the feasibility study for the new CSA.

The 2001 year saw the operation just achieve its budget in terms of ore output, but development, back filling and operating costs were unsatisfactory, due to the ongoing effects of the stope failure, and protracted attempts to recover from its consequences. The mine failed to make a profit or any positive cash flow in the last six months of that year.

By the end of 2001, the mine was out of ore, and things were looking grim. Cash reserves were dwindling and the employees on the site were justifiably concerned about their future.

OUR PURPOSE – FOUNDATIONS OF THE TURNAROUND

It was evident at the end of 2001 that something needed to be done, and quickly, if the operation was to survive. The milling operations were suspended in late December 2001, due to major ground collapses in the mine, and the consequent inability of the operation to supply mill feed. These collapses had occurred as a result of pushing the mining operation beyond its capacity to deliver.

A new management team was brought into the operation. The team was composed of very experienced industry professionals, some of whom had been involved in significant turnarounds at other operations.

Whilst the problems in the mine were urgent, it was agreed by the team that there was no need to panic. It was clear that 2002 would be a year of recovery and consolidation. Profitability was a desired outcome, but was not the main goal..... it was more important to re-establish the capability to produce revenue, meaning that the restoration of sustainable mine output was the main priority.

A strategy was quickly developed, based on getting the process inputs under control and doing the basics consistently well... good results would follow. The strategy was communicated to CMPL's parent company, a large Swiss-based commodities trader, in order to ensure their support for the tough times ahead. This financial support would prove to be crucial in getting the operation back on its feet.

The foundation of the new approach was a commitment to formal business planning which integrated –

- A clearly articulated Vision
- A fundamental set of underpinning Values
- A defined set of Critical Success Factors
- Stretching, but realistic Business Goals.

At the outset, it was realized that the success of this approach would depend heavily on –

- The quality of the leadership provided by the senior management team, superintendents and supervisors.
- The effectiveness of the communication of Vision, Values and Goals.
- The amount of engagement or buy-in that could be gained from the workforce.

In addition, it was important to understand the root causes of the problems which had occurred in 2000 and 2001.

The issues which contributed most to the operation's problems were –

- Inadequate planning
- Inability to place backfill
- Inadequate rock mechanics input to the operations
- Inappropriate organizational arrangements
- Poor definition and execution of strategy.

It was also clear that short term thinking had permeated all parts of the organization, resulting in a succession of expedient decisions which had served to exacerbate the problems facing the operation.

A step back was required. The commitment to a longer term strategy included a recognition that things may go backward before starting to go forward. While this was clear to the site based management, the communication of this concept to the distant parent organization was critical. They quickly accepted the philosophy behind the new strategy, and provided their full support to ensure that the long term vision for the business was given the best possible chance of being realized.

TAKING STOCK

The mining operation had been under enormous pressure during 2001 to deliver an ore quantity which was simply beyond its capability; indeed the mine plan for 2002 was envisaging even higher production than 2001. There was no evidence of a structured planning approach to achieve this, despite clear evidence that the mine's technical complexity was increasing in tandem with the envisaged production increase.

Clearly, the target was unrealistic. The mine plan was immediately revised from 700,000 tonnes per year of output to a more realistic 550,000 tonnes.

The organizational structure was overhauled, and divided into three functional areas – Mining Ore Processing and Site Services. Clear accountabilities for all facets of the operation were defined for the leaders in these areas.

Accountability for business decision making was vested in the hands of the CMPL management team, moving away from a "management by committee" approach which had been enshrined in some of the contractor arrangements until that time.

The importance of defining a long term vision for the operation was also recognized. Therefore, in parallel with addressing the immediate technical and operational issues, there was a very strong commitment to "in-mine" exploration drilling. This commitment was preserved in the face of a short term budget position that was very tight.

This was a very clear statement of confidence in the long term, and was fundamental to collecting vital information to assist in better planning processes.

OUR PEOPLE – GAINING ALIGNMENT

CMPL employs 200 people at the CSA Mine. Experience shows that properly selected people want to contribute to the success of a business... if they are given the chance.

Despite the problems besetting the operation, it was clear that the CSA Mine workforce was far from demoralized... they were concerned, but still showed a high level of enthusiasm for confronting and overcoming the challenges which lay ahead.

It became clear that leadership was going to be critical ... the energy of the employees would quickly dissipate if they were not aligned with the business objectives and properly involved with the plans to improve the performance of the operation. The recovery was to be leadership driven and people based.

A number of initiatives were implemented.

1. The management team quickly and clearly articulated its leadership philosophy, in the context of the newly developed vision. Management took responsibility for leading, and made a public commitment to the entire workforce, to provide a high standard of leadership at all times, and to hold itself accountable for the quality of that leadership.
2. The business plan was communicated across the site.
3. There was an immediate commitment to train all organizational leaders in "values based leadership". All leaders in the organization were required to commit to behaviors consistent with the Values – the effectiveness of this commitment was not left to chance.
4. The behaviors expected of everyone were clearly spelled out, in the context of the new organizational values.
5. The focus on achieving targets was clearly articulated. It was made clear that Vision, Values and Goals go together. In other words, Vision and Values are critical to ensuring that hard business targets are achieved.
6. There was immediate emphasis placed on housekeeping – getting the work environment right. A series of site clean-ups was held to get everyone's attention and to define the new standards. All employees participated in clean up of their work areas.
7. Improved work rosters were introduced to allow employees to balance fatigue, fitness and family. Rosters appropriate to fly-in, fly-out operations which had been previously implemented for all mine operations employees, were discarded immediately. The mill areas soon followed.
8. The management team made it clear that the site would move to a predominantly owner-operator status within a year, consistent with a philosophy of developing a highly effective relationship with its employees.
9. The equipment fleet in the mine was refinanced, enabling CMPL to take ownership of the fleet in 2003, at a fraction of the cost of a new fleet. This further reinforced the owner operator philosophy and reinforced the sense of confidence in the future.
10. Industry standards were introduced where there were obvious and significant benefits to the business. Examples include the introduction of backfill management standards and a JORC compliant resource statement.
11. Initiation of a Life of Mine concept study.

All of these initiatives provided the opportunity for management to demonstrate its credentials, to create a longer term perspective, to involve employees, create excitement about the possibilities and to promote confidence in the ability of everyone to contribute meaningfully to improving the business.

VISION, VALUES AND GOALS – PRODUCING RESULTS

Vision and Values provide a basis for distilling the philosophy of an organization into relatively simple words and statements. The judgement on the merits of that philosophy must be based on the assessment of the results achieved. That is why Vision and Values must be integrated with the attainment of the business objectives. If not, they are nothing more than "motherhood" concepts.

The results from the operation achieved over the last two years, speak for themselves –

- 70% improvement in safety as measured by Lost Time Injury Frequency Rate and Total Injury Frequency Rate.
- Best mine development performance by CMPL, in 2002 and again in 2003

- Highest ore tonnage milled by CMPL, in 2002 and 2003
- Best concentrate output achieved by CMPL, in 2003
- Second highest metal and concentrate production ever, in 2003.
- Concentrate sales 35% above long term (20 year) average, in 2003
- Return to monthly profits by June 2002.
- Return to annual profit in 2003.
- Significant cash generation in 2003, permitting self-funding of all capital expenditure.
- Significant repayment of long term debt achieved in 2003.

INVOLVED PEOPLE – CREATING A PROSPEROUS FUTURE TOGETHER

None of the achievements of the last two years would have been possible without employees who were prepared to commit themselves fully to the new business strategy.

There is a strong commitment, through observance of the organizational values, to

- working with common purpose,
- holding people accountable for their actions,
- acting with integrity,
- demonstrating respect by valuing everyone's contributions, and
- ensuring that plans are executed with a sense of urgency.

People enjoy working at the CSA Mine. All of the operational and corporate functions are carried out on site, with the result that accountability for running all aspects of the business remains on site. This has facilitated an atmosphere of getting things done, with relatively quick decision-making processes, and a philosophy of pushing responsibility to where it belongs in the organization.

People in the CSA organization have fulfilling and important jobs. Everyone knows that they make a difference.

MOVING FORWARD – THE BEST YET TO COME

The company is now looking ahead with renewed confidence. Medium term plans to 2010 are being developed, which will see the mine extended to a depth of 1.8km below the surface.

There is great confidence about the potential for further ore discoveries within the existing mine, and on the 700 square kilometers of exploration tenements granted to CMPL.

Far from being in its twilight years, there is a growing sense that the best years for the CSA Mine lie ahead.

The future is being built on people, working with purpose. Prosperity for the organization, its owners, employees and the communities in which it operates is now a reality.

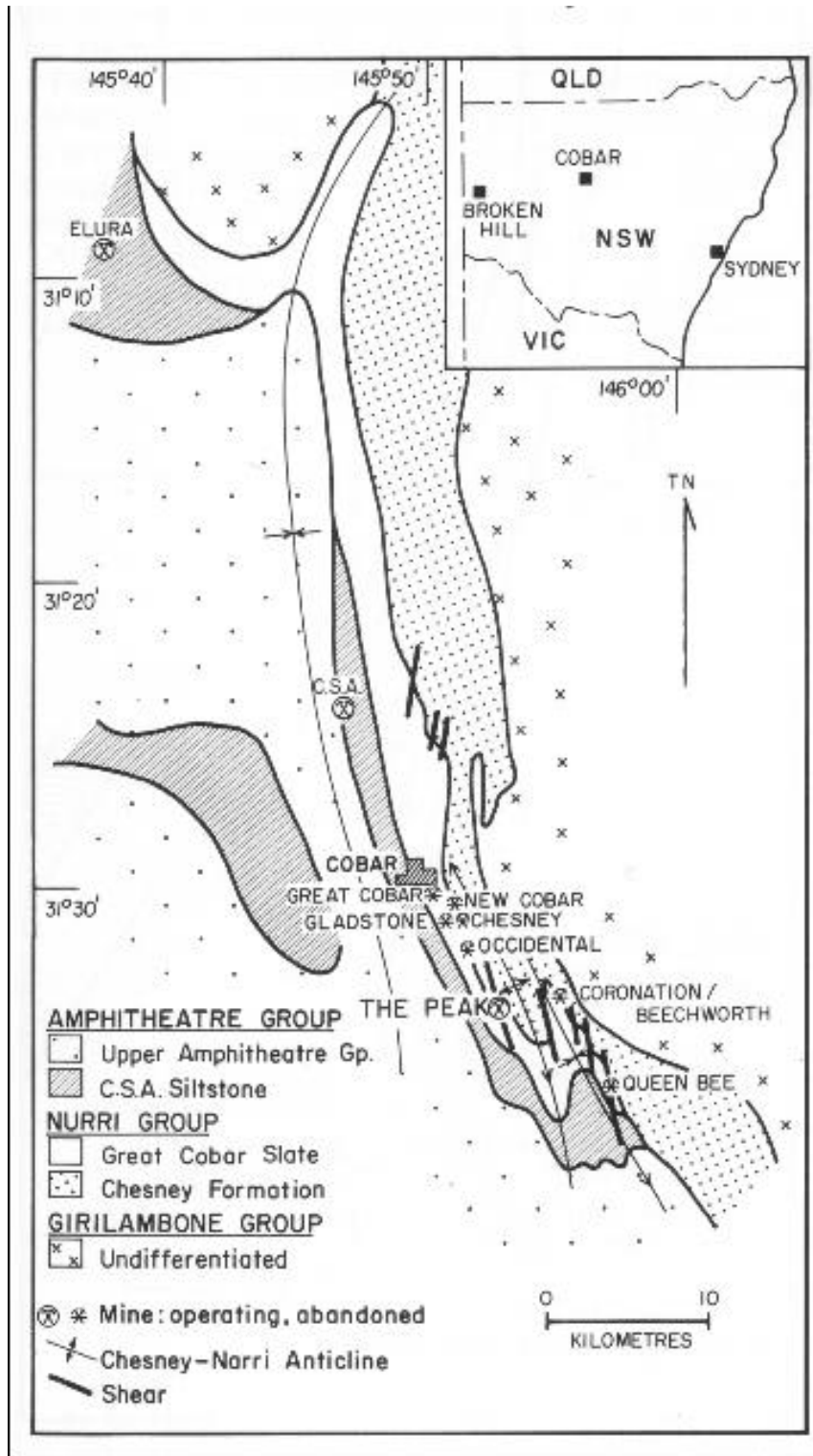


Fig 1 – Generalised geology of the Cobar area and location of the main ore deposits. [Source: Hinman, M.C. and Scott, A.K., 1990. The Peak gold deposit. Cobar, in *Geology of the Mineral Deposits of Australia and Papua New Guinea* (Ed. F.E. Hughes), pp. 1345-1351 (The Australian Institute of Mining and Metallurgy: Melbourne)]