

SPECIAL PROFILE BHP Billiton Iron Ore

Production holds firm in turbulent times

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IT has been a rocky 12 months for the global mining industry.

Natural disasters, a high Australian dollar and a falling iron ore price hit many companies hard. Several juniors fell by the wayside.

Even BHP Billiton – the world's largest mining company – took some heavy hits.

In its December 2012 half year results, released in February, the company announced a 38 per cent fall in earnings before interest and tax, down to US\$9.8 billion.

The company cited “substantially lower commodity prices, a weak US dollar and inflation” for offsetting stronger volumes and cost savings.

“Commodity prices were particularly volatile in the December 2012 half year, consistent with the prevailing level of uncertainty in the global economy, although a number of markets strengthened towards the end of the period as sentiment improved and economic growth accelerated,” BHP stated.

“The iron ore market was affected by this change in sentiment and prices responded following a deep inventory cycle within China that temporarily disrupted the supply demand balance.”

BHP in the Pilbara

As a premier global iron ore producer, BHP Billiton Iron Ore naturally has a significant stake in one of the most prolific iron ore regions of the world – the WA Pilbara.

WA is responsible for virtually all of Australia's iron ore exports and BHP is the second largest operator in the region behind Rio Tinto.

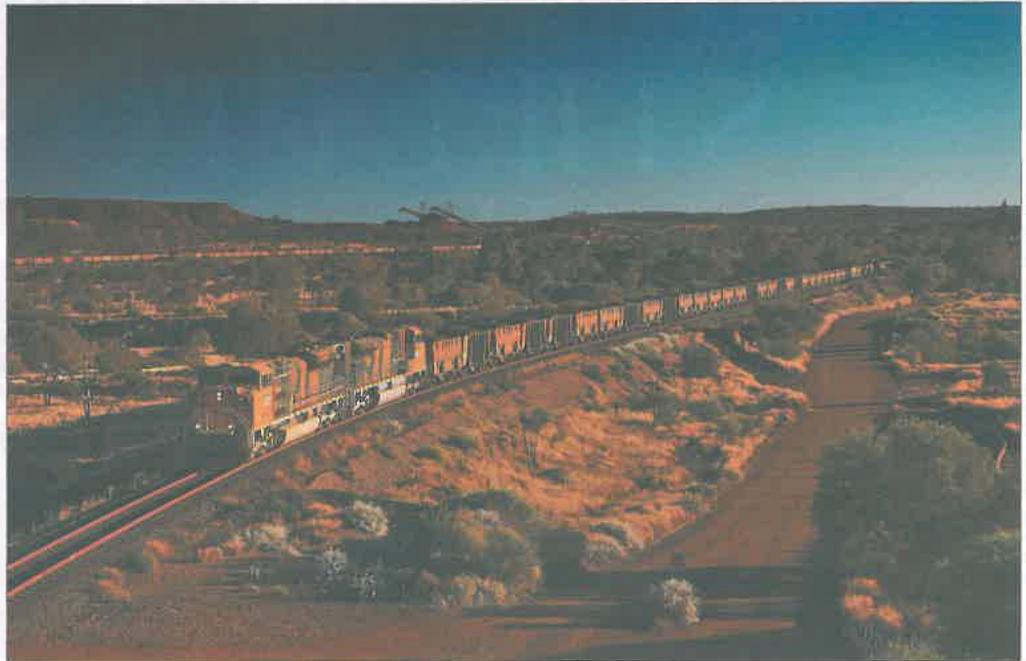
BHP employs more than 8000 people across the region with many based in the town of Newman.

The company's state operations are known collectively as WA Iron Ore (WAI0) – of which it has an 85 per cent stake – and include seven main sites: Mt Whaleback, Ore Body 18, Ore Body 24, Jimblebar, Area C, Yandi and Yarrie. All the sites are serviced by more than 1000km of rail, stock yards and two separate port facilities in Port Hedland.

To accommodate the increasing demand on power supply, BHP is in the process of building the Yarnima Power Station.

The new combined cycle gas turbine station will cost US\$597 million and deliver 190 megawatts to replace the existing Newman Power Station.

A company statement said the Yarnima Power Station would power all existing operations and provide a platform for further mine development by utilising state-of-the-art technology which would minimise gas usage



BHP Billiton Iron Ore's mine sites are serviced by more than 1000km of rail, stock yards and two separate port facilities in Port Hedland

while reducing carbon emissions.

Mt Whaleback and Jimblebar

Discovered in 1957, the Mt Whaleback mine is the biggest single-pit open cut mine in the world at more than 5km long and 1.5km wide.

Newman was founded to accommodate the discovery of iron ore in the region and the Mount Newman railway, links the town to Port Hedland.

The Mount Newman joint venture includes the Mt Whaleback orebody and other satellite mines in the region including Orebodies 18, 24 and 30.

Other investors include Mitsui Iron and Itochu Minerals with 10 per cent and 5 per cent interest respectively.

While currently producing 14 million tonnes per annum via a two-stage crushing circuit, the Jimblebar mine is being upgraded to increase its production potential.

In June, BHP sold a 15 per cent stake to Itochu and Mitsui for US\$800 million and US\$700 million respectively, further strengthening the relationship between the companies.

BHP Iron Ore president Jimmy Wilson said the deal would align interests across the WAI0 supply chain and drive

simplicity and flexibility.

“We are pleased to extend our successful, longstanding joint venture relationship with Itochu and Mitsui,” he said.

“The new Jimblebar mine will have initial production capacity of 35mtpa with future expansion possible.

“Once fully operational this will bring WAI0 supply chain capacity to 220mtpa.”

In the 12 months to March, the Mount Newman and Jimblebar joint ventures produced 37.589 million tonnes compared with 38.194mt in the previous year.

Yandi, Yarrie and Area C

The Yandi joint venture lies 90km northwest of Newman and is serviced by the Goldsworthy railway.

The mine continued its impressive increase in production with 43mt of ore mined in the year to March: up from 39.941mt the previous year.

The Yarrie and Area C mines are part of the Mount Goldsworthy joint venture and produced a total 33mt – a slight increase on production from 2012.

All the WAI0 mines are open pit and are expected to remain in production for at least 20 years.

WAI0 expansion

As part of the long-term expansion of the supply network, BHP is expanding the port facilities at an estimated cost of US\$1.9 billion.

The (WAI0) Port Hedland Inner Harbour Expansion project was devised as the best way to expand production in the long term.

The development will include two additional berths at the site and the construction of additional facilities.

In the December 2012 half year, the company increased focus on efficient expansion which resulted in a restructure at the Port Hedland inner harbour expansion site.

Mr Wilson said the project was part of a larger investment by BHP.

“Over the past 10 years, BHP Billiton has invested approximately US\$19 billion in growing its WAI0 business,” he said.

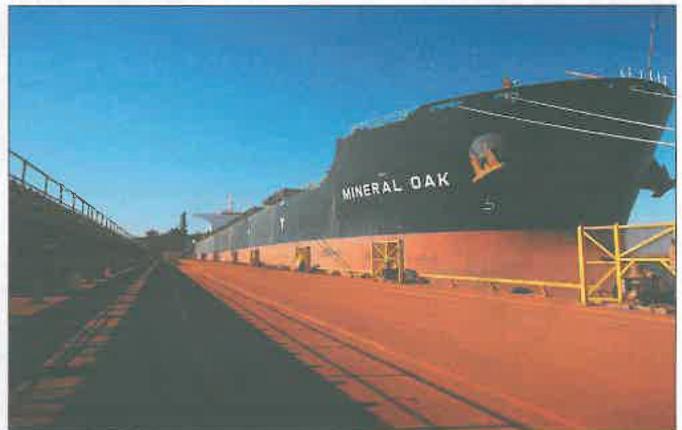
“What has become apparent through this process is that a number of the existing facilities have, or with minor modifications will have, the potential to deliver substantially more capacity than was assumed originally.”

After primary works were resumed, the

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BHP Billiton has invested US\$19 billion in growing its Wai0 operations



BHP Billiton is second largest iron ore operator in WA

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project achieved first production during the December 2012 quarter, as ore was received by the recently installed fifth car dumper at Finucane Island.

"Debottlenecking and optimisation projects across the WAIO supply chain are currently being evaluated and have the potential to underpin significant growth well beyond recently expanded port capacity of 220mtpa (100 per cent basis)," the company stated.

The restructure resulted in impairment charges of US\$618 million before tax and other costs of US\$37 million after tax.

BHP said its decision to continue increasing its Pilbara operating capabilities prior to full ramp-up was more than offset by volume-related efficiencies achieved across the business.

"In addition, price linked costs declined by US\$287 million during the period, although this was partially offset by a US\$98 million increase in fuel and energy input costs," the company stated.

Changes to the Australian resources rent taxes resulted in BHP having to do a US\$150 million revaluation of deferred tax balances.

Activity in 2013

Despite delivering a 12th consecutive half year production and sales record, and the company remaining on track to grow 5 per cent in the 2013 financial year, it was not enough to save chief executive Marius Kloppers from losing his job.

Analyst David Lennox said the sacking did not come as a surprise.

"In 2006, the company earned \$13.6 billion. In 2013, analysts estimate earnings will be \$13.8 billion and, despite the fact there has been no net growth in profits, investors have contributed massive amounts of additional equity – from \$32 billion in 2006 to \$64 billion in 2012 and debt has risen from \$12.9 billion to \$27.6 billion," he said.

"In other words, BHP is significantly less profitable than it was in 2006."

Andrew Mackenzie moved into the top job in May and WAIO has continued to post positive production results.

Despite temporary disruptions from a cyclone, WAIO achieved record production in the nine-month period ending March 2013 – with production guidance of 183mt remaining unchanged for the financial year.

For the June 2013 quarter the company is confident it would have hit 200mt.

BHP formally opened its Integrated Remote Operations Centre (IROC) in Perth in early July.

The facility is loaded with technology, including a mine fleet management system, train control and fixed plant control systems for mine and port operations, and CCTV and radio systems to communicate with remote sites.

Mr Wilson was delighted to open the facility, which is more than 1000km from the Pilbara.

"This is a milestone in technology and innovation for iron ore and centralises control of our Pilbara-based mine, fixed plant, train and port operations in one location," he said.

"For the first time we can see our total supply chain, in real-time and in one place, enabling us to proactively make the right decisions for the whole business."

The facility would be monitored by about 70 staff, making some mine site jobs redundant.

While the outlook for the region seems to have stabilised, WA Premier Colin Barnett warned companies to not expect the same level of growth as past years.

"The days of simply producing more iron ore and then just getting it absorbed into a market with a rapidly growing China have changed," Mr Barnett said.

"By the end of the decade, China's steel industry will have reached a stable level of production."

"With China's steel production forecast to reach about 780mt this calendar year, up from 720mt in 2012, there is some growth left."

"But the days of heady growth figures, I think, are gone," he said.



Mount Whaleback mine is 6km west of Newman



BHP Billiton's Integrated Operations Centre in action

Top energy provider to power McArthur River mine

A leading power solutions provider across Australia and New Zealand, MPower is pleased to announce a working partnership with civil, structural, mechanical, piping, electrical and instrumentation contractor EC&M, to design and supply reliable power solutions for the McArthur River power station.

MPower will design and supply a range of battery chargers and UPS systems for the power station, generating enough energy to power the entire mine and its facilities.

"MPower has a profound presence within the mining, resource and utility industry," said MPower projects managing director Anthony Csillag.

"Projects like McArthur River Power

Station consolidate our long established involvement in supplying dependable power to this sector."

The power station lies within McArthur River mine, off the Gulf of Carpentaria in the Northern Territory.

Glencore Xstrata owns and operates the McArthur River mine, and recently invested \$360 million to expand the mine and its facilities.

McArthur River mine is one of Australia's largest zinc mines, supplying 70 per cent of global demand for a high grade bulk zinc-lead-silver concentrate.

MPower is proud to provide practical, dependable solutions to an extraordinary project, such as McArthur River Power Station, and is dedicated to delivering power generation in various capabilities.



The McArthur River mine site