**SPEECH TO THE MELBOURNE MINING CLUB**
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**MMG CHIEF EXECUTIVE OFFICER**
**MR JERRY JIAO**

WE MINE FOR PROGRESS MMG

**Introduction**

## 1. Welcome

Greetings everyone and thank you for the warm welcome.

I would like to acknowledge the distinguished guests including MMC patron Sir Arvi Parbo, Mr Jian Zhao, the Chinese Consul-General to Melbourne and Mr Xiaojia Wang, Counsellor, ladies and gentlemen.

I'd also like to extend a special welcome to former MMG CEO Andrew Michelmore who joins us today.

Minmetals and MMG have been well supported by the Melbourne Mining club with presentations in Shanghai, London and Melbourne.

I am privileged to join former CEO Andrew Michelmore and former China Minmetals Chairman Mr Zhou Zhongshu as a presenter.

They are very large shoes for me to fill – I will do my best.

## 2. Safety share

Zero fatalities is possible for MMG and for the industry and we all share an obligation to ensure we make this a reality.

There is a tradition in our industry that we also have at MMG and one that I have adopted very quickly as a new CEO – the safety share.

We start every meeting with a discussion of this – our first value.

Today I will do the same.

I'd like to express my deep regrets to the family, friends and workmates of Hilario Castro – an experienced truck driver at our Las Bambas mine in Peru – who tragically lost his life in an accident at site last week.

We as an industry share an obligation to ensure our employees go home safely at the end of each day.

I will now turn to the rest of my presentation.

## 3. Right time

I'd like to begin by speaking of our industry – the mining and metals sector.

I am deeply proud of mining and metals and the contribution they make to better lives.

I have seen my home country China lift over 600 million people out of poverty in around forty years based on the power of metals in development.

That development was fed by the mines, smelters, refineries and fabricators across our industry.

We have all played a part in this growth.

However, we have a challenge.

Increasingly, the society that relies more and more heavily on these metals, is losing support for the activity that creates them.

We can shrug our shoulders.

I'd prefer we increased our efforts to win back that trust.

But I'll retain to that later in my speech.

Firstly, I want to start with optimism – and there is very good reason.

Recent price recovery across most commodities, particularly those mid-cycle metals – copper and zinc - has lifted the gloom from our sector.

China is a significant contributor to this price recovery.

As the Chinese economy continues to shift toward domestic consumption, the Government is deliberately managing the economy to sustain stable growth.

What both Chinese leadership and our industry are looking for is healthy and sustainable prices that promote rational long term investment.

Not the investment booms and price busts that describe our past.

We now face a new improving cycle and I am optimistic for demand.

I worry very much, however, about where the supply will come from.

There continue to be a number of structural changes that are limiting our ability as an industry to meet growing demand.

The ability to access new resource development – in particular the challenges of political and social risk – is generating a fundamental shift in the economics.

New projects have never been harder to fund and develop.

And mine disruptions are now – unfortunately – a bigger part of our industry challenge.

Even if we look at China alone, projections suggest we need a new Las Bambas every year – and continued stable delivery from current mines.

This is not possible on current projections.

In zinc, a much smaller market, that tightness is even more acute.

These long term challenges are now finding their way into long term prices.

It is a great time to be bringing new zinc supply to the market.

A word of caution however.

Our industry has for many years been guided by a growth model that encourages investment when earnings are expanding.

This would be OK if that investment flowed directly through to a supply response.

However, that is not the case.

Our industry typically commits capital and project resources at the top of the cycle, where they are most expensive and most constrained.

Budgets and schedules run over and shareholder capital is wasted.

The opposite is true.

When the cycle turns, exploration is cut, project expenditures cease and capital is written off - at just the time when spare capacity is available.

This situation promotes boom and bust conditions at the expense of long term shareholder value.

The impacts on our industry reputation, our employees, our communities and our major customers are very real.

This cyclical capital inefficiency is a fundamental question of sustainability for our industry.

Indeed, industry analysts suggest that the world's largest miners have written off about 90% of the value of mergers and acquisitions completed since 2007, for a total US$85bn of capital destruction.

There is a need for disciplined cost management and capital allocation through the cycle.

On behalf of our shareholders and, in particular, to maintain a strong and robust customer base, this is something we must improve.

## 4. Right model

Why do I care so much?

Because I speak to you today, not just as a CEO of an Australia-headquartered mining company.

I also bring the experience from a career with one of China's largest Government Owned Enterprises and its leading metals company.

Because with China consuming around 50% of the world's metals, and Minmetals China's largest metals player, I have built a view of this industry.

China's copper demand is 50% of world demand with the power industry consuming over half of that copper – set to continue to grow.

I often say, to better understand our industry you had better understand China.

We spent many years looking for the right opportunity to create MMG.

When I presented to OZ Minerals and Andrew Michelmore in a restaurant in Beijing in 2009, we began the cautious but purposeful creation of MMG.

I became part of the MMG team from the start as a Board member of MMG since its creation and Chairman of MMG before becoming CEO.

A belief in local and experienced management and support from a long term 'through the cycle' investor in China Minmetals, is at the heart of MMG's success.

Our unique structure enables us to invest counter-cyclically and deliver projects early in the cycle.

Our assets – Rosebery and Dugald River in Australia, Kinsevere in the Democratic Republic of the Congo, Sepon in Laos and Las Bambas in Peru – are the heart of our business.

Las Bambas is the largest new copper project commissioned this decade.

There was nothing easy about the project.

Construction was 50% complete, behind schedule and we were its third owner since construction commenced.

It had a cost plus construction contract, it was a remote site with major changes to scope, logistics and community.

The community living on the mine site had not moved to the completed - but empty - purpose built town.

Construction was occurring amongst the roads, school and farms of the Fuerabamba community.

When MMG acquired Las Bambas, we had no experience in Latin America.

But we had trust in our model of international mining expertise and retention of strong local management.

We also had the support of long term Joint Venture investors to see us through.

The result is outstanding.

We delivered ahead of time and budget with a world leading ramp up.

We produced over 330kt in first 12 months and aiming toward 450kt this year.

Importantly, we commenced production at Las Bambas during a challenging time for many global copper miners.

We expanded at a time of industry contraction.

We invested at a time others were withdrawing from project development risks.

We put huge trust in the leadership of MMG, the people of Las Bambas, the local communities and the Government of Peru.

We have so far been rewarded with an outstanding project and I am greatly indebted to all who have played their part.

We have also now repeated this approach in zinc with construction of Dugald River reaching completion and looking ahead to our Izok Corridor Project in Canada, which offers further opportunities.

The development of Dugald River, near Cloncurry in Queensland's North West minerals province is a very different project – with the same rationale as Las Bambas.

We committed to this project at a time of low zinc prices and a poor investment environment.

We have an approach in China which is always try your best while planning for the worst.

When Andrew came to Beijing to seek final approval for Dugald River, we saw the opportunity but still spent a full day with the Board discussing how we could cope with the worst.

We made the decision to proceed.

When we approached western banks – they were less than enthusiastic.

But again, we drew on our own faith in the commodity price outlook and bought along partnerships banks - in this case China Development Bank and the Bank of China.

The result?

The production of first concentrate at Dugald River this year – earlier than scheduled – is perfectly timed, coming to market a time of tightening zinc supply and rising prices.

We also saved significant cost on the project.

We accessed "A" team contactors and competitive prices in a construction and investment downturn.

This is as we predicted but few believed the story – let alone invested against the belief.

Funding support, market understanding and long term view from China was critical to this decision.

Our crystal ball for MMG and China is not more accurate than others but it is smaller.

As a result, I believe we can see the whole of the story – risk and opportunity from all sides – rather than seeing only a part of the ball.

This view can also provide a major benefit to minority shareholders.

These investors are able to invest alongside a major shareholder that has underwritten the balance sheet for this counter cyclical investment.

## 5. Right industry

The questions that you might ask is how we have done this when others have not?

This is all possible because we have the confidence of – and in – China

China is a country much analysed but often very much misunderstood.

Many analysts look for simple explanations when the answers are usually very complex.

While China has an ability to exert central control over macroeconomic factors, its commercial sector is diverse, innovative and very willing to take risks – to invest.

China is transforming its domestic economy through innovation, accelerating development of emerging industries and re-imagining traditional industries.

Quality of life is a huge driver of this.

The crackdowns on environmental emissions and corruption are about redressing imbalances.

Harmony and collective belief in our nation is an important part of our development.

Where new industries are developing, China is a fast adopter and a willing investor.

Based on China's dominance in solar panel manufacture, I have little doubt that electric vehicles will take off in China well ahead of the rest of the world.

Maintaining employment, housing and economic growth are far more than economic factors in China, they are the fundamental building blocks of our society.

On an international level, China has always been a nation that has embraced trade.

The one belt, one road initiative is China returning to its trade-related international policy role.

And China is reforming its government business sector at the same time.

Like most developed countries, State Owned Corporations play a big role in national development.

That was equally true for the telecommunications, energy, infrastructure and transport sectors in Australia.

When development turns toward domestic economic strength, those state industries transform to commercialisation and new international opportunities.

This is now happening in China.

The macroeconomic outlook is now above short term expectation, consumption of base metals is strong.

Stable and sensible growth is expected in 2017 – a target of 6.5% GDP growth for the full year, exports increased by 15% when compared to 2016.

As a nation, China is now the most significant source of Foreign Direct Investment into emerging mining regions including Africa and Latin America.

China's model is shifting towards sustainability, international competitiveness and a returns focus.

China still needs the reliable resources to support this growth – particularly in the commodities in which China is short domestically.

There is sharper focus on 'green light' investments and 'green light' commodities supported by the Government.

China Minmetals Corporation and MMG are at the forefront of this change.

Minmetals has been selected as a pilot program for SOE reform – the only one in the metals sector.

This is in part due to the success of the MMG investment model and the delivery of Las Bambas and Dugald River – demonstration that China can deliver and operate world scale international mining projects – and deliver value.

This has now positioned MMG as a preferred vehicle for foreign direct investment into international resource investment in 'China short' commodities.

## 6. Growing together

To return to my opening comments, the question for us as an industry is whether we will change our growth and investment model?

We are now at a different point in the commodities cycle.

Demand will likely be more sustainable, prices and cycles less dramatic.

We are now in the second cycle following the super cycle, base metals demand focused, and value not volume driven.

New regions for investment are likely to be the one belt – one road countries and the 'south of the Equator' regions such as Africa and Latin America.

These regions are relatively under-explored but they need infrastructure, courage and a long term view.

Effectively managing political and social risk will be critical.

In this, Australia has a unique advantage – in the Southern hemisphere but with the democratic stability and well-understood geology.

We are proud to be opening Australia's newest mine this year. We hope this is not our last.

We need to find the 'Right growth' and do it differently – sensitive to our shareholders, and with an eye to the mutual success of our customers.

We also need to win back our legitimacy as an industry.

We are deeply proud as miners of our contribution to economic growth and human development.

And in my role and career, I clearly see what metals and mining mean to local, regional and national development.

We need to stand up better for the benefits of metals and I support the efforts of the ICMM and national mining bodies to take this story to the community.

MMG is committed to being an active supporter of our sector and to delivering the opportunities that a long term, major customer view delivers.

We know that we cannot do this alone and I thank you all for listening to me today.

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