

February 6, 2014

**Melbourne Mining Club Luncheon Address - Mr Zhang Jijing
(Chairman, CITIC Pacific Mining; President, CITIC Pacific Limited)**

Good afternoon and thank you Paul for such a warm welcome. What a great turnout today and thank you to the Melbourne Mining Club for such an excellent event.

I want to start by acknowledging the traditional owners on whose land we meet today. This is more than a passing courtesy. At the Sino Iron Project in the Pilbara, we have a strong working relationship with the area's traditional owners. Their support is critical to the success of our project. I'd also like to acknowledge Sir Arvi Parbo and Melbourne Mining Club Chairman Richard Morrow. Sir Arvi is obviously well known to many of you in the room. He is also a good friend of CITIC.

It's good to be in Melbourne. I love this city. These days I split most of my time between Hong Kong and Perth, where CITIC Pacific Mining has its headquarters. But Melbourne holds a special place in my heart, having spent 16 years here. Probably not quite long enough for to be considered a local...and definitely not long enough to understand the rules of football. But all the same I made some good friends and try to get back here whenever possible.

Melbourne is a long way from where our Sino Iron is located in the Pilbara region of Western Australia. But the social, economic and geopolitical impact of the project is felt right across this country, as well as China. Sino Iron is the biggest investment by a Chinese company in the resources sector outside China – ever; it's the largest magnetite project in Australia; and it is creating a new industry and

operational practices for the sector in Western Australia. This all adds up to mean that we get more than our fair share of headlines. They usually focus on one of three things – cost; timeframe; or Clive Palmer.

Today, we're going to delve a little deeper than these headlines. I want you to leave here with a better understanding of Sino Iron project – why CITIC is here in Australia; why this project is unique; what we have achieved; the challenges we've faced; lessons we've learnt; and, of course, the future.

First, a little background. The developer and operator of Sino Iron is CITIC Pacific Mining. Its parent company, CITIC Pacific, is listed on the Hong Kong Stock Exchange. In 2012, CITIC Pacific had a net asset value over US\$13 billion and revenue of US\$12 billion. We employ about 35,000 staff in Hong Kong, China and Australia and are 58%-owned by CITIC Group, which is the largest conglomerate company in China. We're a diversified company with a focus on special steel, mainland property development, and, as you well know, iron ore in the Pilbara.

We're often described as "newcomers" to the Australian resources sector. In terms of developing Australia's magnetite iron ore industry, there is some truth to this – though we prefer the term "pioneers".

But what is sometime forgotten is that the Chinese have a rich mining heritage in Australia. Back in 1861, there were more than 35,000 Chinese working on the goldfields in Victoria and New South Wales. History tells us that conditions were tough and prejudice was everywhere. But these strangers in a strange land were hard workers.

They managed to make a living by meticulously going over the workings, which had been abandoned by western miners.

Fast-forward 150 years, and I can see parallels between the approach of the original Chinese miners and what we are doing at Sino Iron today – unlocking value from a low-grade iron ore resource, long considered worthless by the local industry. WA's Pilbara has vast reserves of low-grade magnetite iron ore. But until now, the focus of the big players has been the high-grade, dig-it-up and ship-it-out hematite.

Just south of Karratha, along the coast is Cape Preston. And a short distance away is a very large magnetite iron ore deposit. At this point, you should know that CITIC Pacific is the largest special steel producer in China with an annual capacity of 9 million tonnes. Our two steel plants consumed about 10 million tonnes of iron ore in 2012 - about 53% of which came from this country. Our steel plants are strategically located on the Yangtze River which means that our iron ore products can be transported right to their doorsteps.

The concentrate Sino Iron is producing is of high quality with low alumina and phosphorous content. This is ideal for pellet-making, which many of you know is then used in steel manufacturing. So Sino Iron will help create an integrated mine-to-mill supply chain. I'm sure you can see where this is all going.

So what are we mining and what have we built?

Initially we are mining 2 billion tonnes of magnetite ore and we then exercised an option for another billion tonnes, giving us a mine life of

more than 30 years. At full capacity, with all lines running, we will be able to produce 24 million tonnes of premium concentrate annually.

But most of you here know a lot about mining. You probably know that taking this low grade ore and turning it into a high quality concentrate is no easy task.

This is what the mining, processing and port areas looked like when the project began – a completely blank canvas. In fact, one of our directors was flown in during the early days. When the helicopter landed, the pilot wasn't sure if he'd arrived at the right place. There was nothing except vast areas of red earth!

And this is what the site looks like now. It's certainly exciting to see a mine, processing facilities; port and associated infrastructure emerge from the Pilbara dirt.

This is our mine pit. It will eventually be 5.5km long and 3km wide. Our 360 tonne trucks made by Caterpillar are the biggest on the market. Ore is loaded onto one of the four in-pit crushers – each about the height of a seven-story building. The ore is primary crushed to about the size of a house brick, before being conveyed to the processing area for grinding and magnetic separation. This is where the magic happens. Ultimately, Sino Iron will have 6 production lines with each having 2 grinding mills – once again, some of the largest on the planet.

We needed to build a host of infrastructure – not the least for power and water requirements.

We built a 450 megawatt gas fired combined cycle power plant, the first of its kind in the region and wouldn't look out of place in a big city power grid.

There is not enough fresh water at site, so we built a 51 gigalitre desalination plant. To give you an idea, this is the same size as the desal plant which supplies the Perth metropolitan area.

How do we get the concentrate to the port? We built a 30km pipeline. We pump the concentrate slurry down to the port, where it is then dewatered and stockpiled.

There was no port, so to get our product out, we built a new port, the first greenfield port in the Pilbara in 40 years. To overcome a shallow, rocky subsea environment, our solution to this was to barge the concentrate out to sea to a purpose-built transhipper for loading onto purpose-built 115,000 tonne bulk carriers. The use of transshipping is a first for the industry in WA. There is huge potential for the practice to be expanded across Australia. Back at the port, we built a 2.6km heavy duty breakwater - the heart of coastal operations.

On December 2, 2013 all these components – major engineering feats in themselves – came together for first shipment. It was a momentous occasion for a joint Australian-Chinese resources megaproject. Remember, we had 4,000 people on site at peak construction. This project started construction at the height of the boom and had pushed on through the depths of the global financial crisis.

We'd taken our place as Australia's newest iron ore producer and exporter. We'd helped create a new downstream processing industry, with major economic benefits. For the life-of-mine, local content investment will be close to 70 per cent. The revenue to government will register in the billions of dollars. Despite all the dire headlines

and predictions that the project would never get up, we are now off and running.

Clearly to get all this done, we spent quite a bit of money. It is no secret that the cost of building and operating a magnetite project is higher than that of a hematite one. When our media friends write about us, they often use “cost overrun” or “cost blowout”. The fact of the matter is that in the last few years, increased steel production in China and other emerging countries led to sharp rise in the price of iron ore. This in turn significantly increased the construction costs in mining projects in Australia, as well as a result of factors such as labour shortages, a very strong Australian dollar and higher costs of equipment and construction materials. We are certainly not alone in having to face higher costs. As reported, some projects had to be delayed, capacity reduced or, worse, cancelled. When Sino Iron was originally conceived, the amount of work, time and capital required to get it into production was not realistically estimated and assessed. It is fair to say that to build a similar project today, it would cost just as much if not more. There is a flipside of course which tends to be overlooked. Let’s not forget that when the initial investment decision was made, the iron ore price was around \$60 a tonne. Today, it is double that, boding well for our future.

Looking at the current economics of this project, we’re now confronted by a great irony. This is because, despite cash starting to flow in as we are now shipping product, a whole host of costs are about to shift from the balance sheet to the income statement - impacting our bottom line as depreciation begins and interest expenses can no longer be capitalized. In simple terms, our P&L will suffer in the short term. The only remedy is to scale up production. This will not happen immediately, but is obviously our plan. This is

why we've invested in some of the largest haul trucks, loaders and in-pit crushers, and supporting infrastructure in the world. The name of the game has always been getting the economies of scale. The virtue of patience is well known in Chinese society, but not so much among western media. Although I understand there's a famous AFL coach here in Melbourne with a good knowledge of Chinese proverbs - *that the ox is slow, but the earth is patient* is one of his favorite sayings. I like the sound of this guy, Mick Malthouse. We should give him a job.

The world has not stood still while we built this project. But the determination of our team to see it through has remained a constant feature. Certainly, when I joined the project in 2009, that same passion and drive from the early days was still clearly evident. We set a goal, stayed focused on priorities and never lost sight of better days ahead, recognising the long-term value this mine will bring to our company, and the new industry it would bring to Australia. Obviously not everything has gone our way. Does it ever? Without a question, we have learnt some very valuable lessons- lessons which will make us a stronger company in the longer term.

Let me share with you some of our takeaways. And at the same time, set the record straight on a couple of matters.

We begin by observing that you can never have too much local knowledge.

In terms of a standalone mining development, Australia was a completely new approval and regulatory environment for CITIC. To some degree, expectations on how this would play out for a

greenfield project such as ours did not match reality. The results were by no means terminal, however it did take us some time to adjust. To give you just one example, in the early days our main contractor MCC had an expectation of being able to utilise a greater amount of Chinese labour. For a host of reasons, this did not happen. We learn and move on. Of course, other things were beyond our control, such as the macroeconomic conditions of the time.

And just as you can never have too much local knowledge, on a related theme, you can never do too much risk management. In fact, it underpins our “licence” if you like, to operate here in Australia. At the operational level, a strong approach to risk management can also ultimately be the difference between a safe and a hazardous working environment.

Let me give you an example. You possibly know that fibrous material – or asbestos – is a common, naturally occurring mineral in many parts of the Pilbara, including at mine sites such as ours. In the past, there have been claims in the media from unnamed sources that its presence would prevent us from processing the magnetite ore into concentrate. Clearly, this has proven false. But regardless, fibrous minerals do pose a potential health risk that demands comprehensive management.

For example, we’ve introduced a filtration system for our vehicles, which removes and prevents airborne dust and fibre from entering the cabin. If positive pressure drops – which might indicate a leak to atmosphere – an audible alarm will sound in the vehicle. As a result, operators no longer need to wear masks within vehicles working in higher-risk areas. The innovation contributed to Sino winning an industry health and safety award.

I'd now like to share another great learning from the project - choose your counterparties very carefully.

Our legal disputes with Mineralogy are well publicised, though with varying degrees of accuracy. Clearly there are differing views by the parties and many of these matters still need to be determined.

Usually, commercial disputes – unfortunately not uncommon on major projects - can be resolved away from the public spotlight. This will always be our preferred path. It's fair to say though that there are some larger-than-life characters involved here and perhaps this was an unrealistic expectation. Regardless, on all these matters we've maintained a respectful, consistent position, which has been in the interests of the project, the company and our shareholders.

Let's get a couple of things straight, starting with the fact that CITIC has already paid Mineralogy more than \$400 million for the right to mine and develop the project. We have also started paying Mineralogy royalties in relation to Royalty A. Any claim that we haven't paid our fair share in accordance with agreements is just plain rubbish. I hasten to add that the royalty payments so far are nowhere near the \$500 million a year, as was publicly claimed a few months ago. Royalty B – the second royalty stream - remains in dispute because the industry benchmarks under which it was supposed to be calculated simply no longer exist. This was not a scenario foreseen in our original agreements. Regardless, it needs to be resolved.

Secondly, we have always complied with the laws of the land. In fact, we welcome the intervention and protection of the Australian

judicial system when necessary. Having invested so much developing the mine, port and associated infrastructure, we only want to ensure our export activities are not hindered as we move into production.

During the past year, there have been several attempts by Mineralogy to have the project suspended or terminated. Thankfully, all have failed before the courts.

The takeout here is to ensure that your relationship with commercial counterparties is strong and respectful, so that when the unexpected occurs, you can sit down, have a mature conversation and find a way through it.

Finally, and ending with a positive lesson, we've learnt that with respect and cultural understanding, great things can be achieved.

Thirty years ago, who would have thought that Australian and Chinese workers would be coming together with such common purpose. Obviously the Australian workers have great local knowledge and experience in mining, construction and operation, while the Chinese bring experience and expertise in the area of magnetite processing. We've been delighted by the bonds that have formed at site, and also our growing relationship with external stakeholders.

These relationships – which stretch from the local community all the way to the Prime Minister's office - are all built on the firm understanding that this project is delivering mutual benefits. It's also based on us being a responsible developer and operator. This is why we strive for the health, safety and environmental standards that meet and often exceed those of our local peers. I'm pleased to

report that in the past financial year, our site was again fatality-free. We want to keep it that way.

So where to from here?

Well, this is going to be a very long story. And we have only written the first chapter.

Since the December 2 event, we're now in regular shipment.

In the coming year, our focus is all about improving production line stability, reliability and efficiency, and paving the way for the remaining lines, applying the lessons learnt so far.

In the meantime, we look to the strategic value that has already been achieved – the value of vertical integration; the value of an ever-improving skills base; and the value of global operating experience. The last point is very important, as CITIC Pacific evolves as an international player, which must adhere to the highest standards if we are to succeed.

And here in Australia, we look forward to a long and mutually rewarding relationship with the Australian community. We know that in the years to come, Sino Iron and our significant investment will be cited as the catalyst for stronger economic and cultural ties between our two great countries.

Let the friendship continue to blossom.

Thank you very much.

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