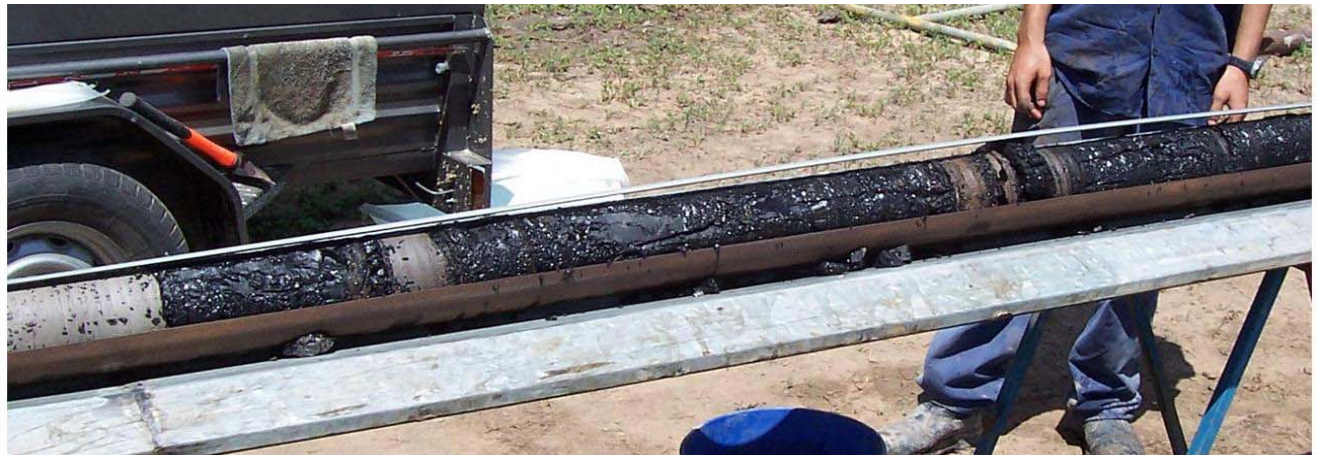


GLENCORE XC DRILLING CONTRACT CONTRACTING STRATEGY



The Client



Xstrata (Glencore) is the world's largest exporter of seaborne thermal coal used to generate electricity and one of the largest producers of coal used to make steel and other industrial applications.

The Project

- On each of its coal mining sites in Queensland, Xstrata was undertaking a program of exploration drilling to firm up existing resources and to identify new ones
- Xstrata Coal engaged Flagstaff to review their drilling performance and current contract operations and then develop a new contracting model which would...
- Drive efficiencies into their exploration drilling contracts
- Reduce management of contractors
- Incentivize contractors to optimise production without loss of quality or safety
- Deal with the contingent liability of drill holes which had not been capped and made safe
- Reduce drilling cost per m
- Be usable across a panel of contractors state-wide and potentially nationally
- Place on the contractor the same very high bar Xstrata sets for itself in safety and environmental performance



The Challenge

- Prior to 2012, the coal industry in Queensland enjoyed an unprecedented surge in demand
- Not only were drillers required for existing mines, the demand for them in exploration and mine development was equally high. This had led to the situation of the mining companies competing for the services of Drillers
- Across the industry this rapid growth in demand led to inefficiencies at an operational level and a contingent liability of drill holes which had not been capped off and left in a way that satisfied environmental and legislative requirement
- Any change to the existing contracting model had to be acceptable to the different operating parts of Xstrata and incentivise the Drilling Contractors to provide a high level of service at the lowest possible cost

The Outcome

- Flagstaff worked with the different sections of Xstrata to clarify all the issues, develop solutions, workshop these solutions and draft the outline of a new form of contract
- Flagstaff then workshopped with some drilling contractors to test the model
- Flagstaff produced a new contract acceptable to Xstrata and the Drilling Contractors
- Put control of all of the services in the hands of the drilling contractor with payment as part of their \$/m rate, incentivising them to be efficient in undertaking the full scope of works including the clearing of, earthworks for, and rehabilitation of, drill pads, the management of down-hole logging and the plugging of completed holes
- Allowed for cessation of works in order for contractors to deal with safety and environmental events of their own making
- Allowed for retention of a good percentage of a contractor payment for a completed hole until it was passed as completed. This incentivises them to complete all holes and not leave a contingent clean-up liability to the owner
- Incentivised the contractor to join with Xstrata to seek areas for improvement

'experience makes a difference'