

Review of Operations

“IME’s longwall roof support carriers are highly efficient, safe and convenient for carrying roof supports. They are very good for long distance transportation underground and on the surface” - Mr He,

Vice Director of the Equipment Management Centre of Shendong Coal Company (a Shenhua Group company)

Diesel Equipment

Industrea’s Diesel Equipment manufacturing businesses, P.J. Berriman (PJB) and Industrea Mining Equipment (IME) based in the Hunter Valley, are focused on the underground mining industry.

PJB designs, manufactures, repairs, overhauls and modifies specialised mining vehicles and explosion protection electrical equipment, while IME designs, manufactures, services and supports heavy flame-proof and explosion-proof underground coal mining vehicles.

Industrea diesel products are sold across Australia, and are generating a growing pipeline of orders from China, India, South Africa and Europe.

IME’s state-of-the-art longwall roof support carriers boast world-leading

carrying capacity and productivity and safety capabilities unmatched by other global producers. This product superiority and China’s aim to boost annual coal output 30% to more than 3.3 billion tonnes by 2015, underwrote sustained demand for IME produced longwall carriers throughout 2009, with sales, servicing and support of this highly specialised equipment undertaken in China by Industrea subsidiary, Wadam Industries.

The size and complexity of the longwall roof support carriers manufactured by Industrea have set a benchmark in underground coal mining, and are delivering decided productivity and efficiency gains in some of the world’s largest longwall operations in China. During the year Industrea secured a contract with Shenhua Energy Group to supply six 80t roof support carriers and one 130t Shearer Carrier. This equipment represented a break through in global design and manufacturing capability



by Industrea, given that they are the world's largest flame-proof carriers.

These achievements have been closely monitored by other major mining groups from around the world, and we are confident of replicating our success in China in other new markets abroad.

As reported earlier in this report, the production capacity of IME was tripled with the consolidation and relocation of separate servicing and manufacturing operations into a new and larger premises in Thornton, New South Wales.

The new, streamlined 5,700 square metre facility will ensure IME production capacity meets the anticipated continued strong



domestic and international demand for its range of mine safety and productivity equipment.

With the new premises also closer to the centre of the Hunter Valley and its expanding coal industry clients, IME is now better positioned to capitalise on opportunities arising from the forecast doubling of the region's coal exports by 2017.

Mining Services

Huddy's Mining Services, acquired by Industrea in February 2008, is a market leader in the provision of integrated open cut contract mining services, equipment hire and civil contracting services.

The business primarily provides whole of mine, fully integrated contracting services including earth moving equipment and equipment operators, open cut mining and haul services, drill and blast services and mine planning and supervision. Employing approximately 100 permanent and contract staff, Huddy's also maintains one of the newest specialist fleets of vehicles and machinery in Australia.

The acquisition of Huddy's has already delivered decided benefits, with the business significantly diversifying Industrea's earnings base and providing a major stream of reliable and recurring monthly revenue.

When acquired, Huddy's had maintained an historic focus on the North Queensland market, being the dominant provider of mining services in the Mt Isa region. It was evident that the business yielded potential for additional unrealised growth, through applying its track record and expertise to new geographic markets. At the time of acquisition, a diversification strategy for Huddy's designed to exploit synergies with the wider Industrea group, was mapped out to ensure this growth could be realised.

As reported in January 2009, effective from February 2009, Xstrata's plc's Mt Isa Mines terminated its contract with Huddy's for the Handlebar Hill Mine at Mt Isa due to a rapid downturn in market conditions.

The application of the diversification strategy for Huddy's has to date met all pre-set objectives, with new and expanding markets established outside its traditional base of Mt Isa, including the Bowen Basin and Hunter Valley coal sectors. These new contracts have significantly compensated for the setback resulting from the Handlebar Hill termination.

Under new contracts secured during the year to 30 June 2009, Huddy's extended its reach into the Hunter Valley through a contract with Rio Tinto Coal to hire equipment and provide support services to the Mt Thorley Warkworth Mine, and won its third new commission in the Bowen Basin, for Rio Tinto Coal's Blair Athol mine.

In July 2009, Huddy's accelerated its push into new mining services markets by winning a \$30 million per annum contract with Cockatoo Coal.

Under the latest whole of mine contract, which runs for 18 months with an 18 month extension, Huddy's will supply a Senior Site Executive, equipment, operators, maintenance, service and support and drilling and blasting services to the Baralba Coal Mine which produces 300,000 tonnes per annum. Utilising Huddy's expertise, Cockatoo Coal is looking to more than double the mine's capacity over the next 24 months to 720,000 tonnes per annum. If successfully extended, this contract over its full life can potentially deliver Industrea in excess of \$100 million in revenue.

A number of the new contracts secured by Huddy's in 2009, including the one for Cockatoo Coal, were subject to intense competition. The business's size and proven operating model enables it to cost effectively tender for projects ideally suited to leading "Tier 2" contractors.

As a result of the new contracts won, by year end the fleet utilisation rate for Huddy's had climbed to 78%.

The forward outlook for Huddy's remains strong, with additional new business opportunities expected to be driven by growing predictions of a recovery in global



“The Cockatoo Coal win by Huddy’s has a major impact, leading to our upgrading FY 2010 estimates for adjusted NPAT by 23.5%” - Ord Minnett



commodity markets and the continued trend towards outsourcing in 2010. By leveraging off the underlying infrastructure base now in place in the Bowen Basin and Hunter Valley, including the new New South Wales depot established in 2009, we are confident of winning additional recurring work and new contracts in both these markets in 2010.

Technology Division

Industrea's wholly owned technology businesses include Advanced Mining Technologies (AMT), Microelectronic Technologies and GPS Online Solutions.

The businesses specialise in the design, manufacture and marketing of highly specialised safety enhancement equipment for the underground coal and open cut mining sectors. Products include equipment for underground coal directional drilling and coal seam degasification, as well as collision avoidance equipment and systems for open cut mining operations.

Buoyed by the Chinese Government's drive to lift safety standards in the country's underground coal mines, sales of Industrea's specialist safety enhancing equipment swelled in this market in 2009 with contracts signed for underground directional drilling and gas drainage equipment with Shanxi Asian American Daning Co and Jincheng Anthracite Mining Group.

In a landmark transaction finalised in January 2009, Industrea secured its first sales into the lucrative South African market with a US\$9.5 million contract signed with BHP Billiton Energy Coal South Africa to install CAS-CAM/RF collision avoidance technology at three mine sites.

This contract was followed in May 2009 with another signed with BHP Billiton Mitsubishi Alliance (BMA) to supply the CAS-CAM/RF collision avoidance system at the Gregory Crinum Mine in Australia.

Industrea's AMT developed CAS-CAM/RF system is now widely lauded as "best of breed" internationally as evidenced by

sales to BHP Billiton and other leading global mining groups including Anglo American, Vale and Shenhua Energy Company. The system is currently in use at mine sites across Australia, South Africa, Chile, Indonesia and China.

International Division

Industrea's International Division comprises Industrea Wadam (Beijing) Mining Equipment Technical Services Co Ltd (Industrea Wadam) and the Australia based Wadam Industries Pty Ltd.

The businesses are primarily involved in the distribution, sales, services, spares and support of Industrea manufactured and selected third party "best of breed" underground mining equipment into China.

Industrea Wadam enjoyed exponential growth in 2009, buoyed by China's rapidly expanding underground coal mining sector, and a government led drive to lift safety and productivity in Chinese mines.

Among Industrea's milestone contracts with Chinese customers in 2009, was a \$20 million order to supply the world's largest flame-proof longwall roof support carriers to Shenhua Energy Company, for application in one of the world's largest mine longwalls. These carriers, all manufactured by Industrea in Australia, represent a revolutionary advance in underground coal mining equipment.

The new equipment allows for 7.3 metre coal seams to be mined in a single pass, representing significant cost and safety advantages for Shenhua Energy Company which is looking to produce 30 million tonnes of coal a year from its Shendong Mine.

Among the other \$50 million in Chinese contracts won to 30 June 2009 were:

- \$10.1M Shenhua Energy Company (longwall equipment)
- \$25M Shendong Coal Company (Shenhua Group) (longwall equipment)
- \$2.5M Inner Mongolia Mengtai Buliangou Coal Industry Co Ltd
- \$5.3M Shenhua Ningmei Material Company (longwall equipment)

- \$2.5M to Datong Coal Mine Group Company (longwall equipment)
- \$6.2M to Mongolia Yitai Coal Group (longwall equipment)
- \$2M Shanxi Asian American Daning Co (underground directional drilling and gas drainage equipment)
- \$2.5M Jincheng Group (directional drilling and gas drainage system - AMT)

The strong sales momentum established in FY 2009, has continued into the start of the new financial year, with an additional \$33.1 million in orders already secured via new contracts with the Jincheng and Shanxi Mining Groups and other Chinese thermal coal customers for longwall roof support carriers and methane gas drainage systems.

As outlined earlier, the infrastructure and capabilities of our Beijing-based Industrea Wadam business were boosted to ensure we not only continue to win new business from this highly lucrative market, but also consolidate and sustain our current customers' loyalty to underwrite recurring revenue streams.

In June 2009, Industrea Wadam achieved the important milestone of being registered as a Wholly Foreign Owned Enterprise in China. New office premises have been leased in Beijing and the existing Chinese senior management capability, led by Dale McNamara and Jinping Zhang, has been augmented through the appointment of a new Operations Manager and Chief Accountant.

As a result Industrea Wadam is now resourced to not only drive new product sales, but meet the training, maintenance, spare parts and support needs of our rapidly growing Chinese client base.

In August 2009, a new Industrea regional office was opened in Santiago, Chile to unlock what is expected to be growing opportunities in the Latin American mining market. This office which replaces a previous agency agreement, is trading as Advanced Mining Technologies Chile. The new operation will be responsible for all Industrea new product sales, service, spare parts and warranties for the region.