

"TURNING IDEAS INTO GOLD BARS"



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INTRODUCTION

The invitation to speak today was in the form of a single sentence instruction:

"How does your company run and how do you communicate from top to bottom?"

It looks like I'll have to let you into our little secret. The team at Croesus know what works for us but we've never talked about it with others - least of all presented it at a conference such as this. In fact we tend to avoid the jargon normally associated with Best Practice or T.Q.M., however in our own way, each of our staff are 100% loyal to our company's aim to maintain and strengthen our commercial success.

Just how we achieve this at Croesus is the subject of this presentation today, but first a little history.

My dear old grandfather arrived in Kalgoorlie, as a mining engineer 100 years ago. Do you think he would have chuckled if someone suggested to him that a hundred years later we would just be starting to understand Kalgoorlie's geological mysteries?

Well, here we are 100 years later and Croesus Mining is fortunate to be part of a generation now realising the true potential of Kalgoorlie's Goldfields.

This provides us with a very fertile field in which to sow the seeds we can obtain from the World's Best Practice in Mining & Processing.

With each new mineral deposit being discovered, old theories are being exploded. Each new deposit has a personality of its own, leading to some belated pioneering theories of where to drill next, and how to reduce internal costs so that we can win the war against constantly increasing external costs.

What we have now and what the old timers didn't have is a huge database of geological input spanning several gold booms and a couple of nickel booms.

My only interest in history is to pick up the points that may help us for our future. This is what we are doing in our company which is something of a David, in the David to Goliath range of mining companies in Australia.

As a humbling thought; of the 115,164 tonnes of gold that the world's mines have produced throughout history, four tonnes have been produced by Croesus Mining. That's equivalent to .003% of the total world's gold production.

In the past financial year we achieved a dividend yield of 5%. To put this into perspective, that's over twice the dividend yield of BHP, Australia's largest Company.

As we are somewhat less known than BHP, let me spend a few moments giving some particulars of our company's background.

CROESUS; THE KING

Croesus Mining NL was named after Croesus, King of Lydia, now Western Turkey, between 560-546BC. He was noted for his great wealth and also for the fact that he was the first ruler ever to mint gold coins.

There is one aspect of King Croesus that I would like to mention as it has relevance to today's audience :

- He had some good survival strategies, but he overlooked a few small details.

As a means of survival through good and bad times he formed many joint ventures with neighbouring countries in much the same way as we currently joint venture our mining properties. It reduces risk and gives us tremendous leverage.

By doing deals with many of these partners he raised Lydia to the peak of its power, conquering Greek coastal cities and extending his empire to the Halys River in Central Asia Minor.

Here is one of the stories of how he ultimately met his end. He and some joint venture partners were waging war against a neighbouring King, right near one of the corner pegs between nations. The record has it that there was a huge fire right near the corner peg and at the last minute, one of his joint venture partners pulled out of the deal and joined forces with another.

They quickly ran a spear through Croesus, who then fell on the fire; and that's how they invented *shish-kebabs!*

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Another more scholarly version is that around 546 BC. a young Persian corporate marauder, who later became known as Cyrus the Great was having a great deal of success with his corporate take-overs because he had developed the technique of allowing conquered people to keep their jobs and their own corporate identity.

This technique was noted by King Croesus in Lydia who took it as a sign that the time had come to add a few more tenements to his own Kingdom.

He sent to the Oracle at Delphi for advice on how to proceed and was informed that if he attacked he would destroy a great empire. The Oracle had given a typically enigmatic message, as it later turned out.

Croesus' first battle on open ground with Cyrus the Great did not go well for him and Croesus retired to his homeland for the winter, as was customary.

On his way home Croesus alerted the Egyptians, the Babylonians and the Spartans that come spring they would all march together and destroy this "up-start" named Cyrus.

Cyrus wasn't in the mood to wait for spring. As Croesus' army was beginning to disband for the season, the Persians marched up to the gates of Sardis, the capital of Lydia.

Although Croesus' defenders were always ready for attack, Cyrus tricked them as he had a secret weapon.

Instead of riding to the attack on horseback his soldiers were mounted on camels, the sight and smell of which spooked the more traditional mounts of the Lydian cavalry and the defending army was driven back into the city.

Sardis was widely regarded as the most impregnable city in the world at that time because of its location at the top of the steep hill and Cyrus thought he had been beaten. Then, after more than two weeks of the siege an odd accident gave Cyrus the key to the city. Watching a point near where the hill was steepest and least protected (because it was considered unclimbable) one of the Persian soldiers was surprised to notice a sentry on the wall lose his hard-hat over the side and, rather than go to the quarter-master for a new one, he scrambled down the hill to retrieve it. This revealed the presence of a secret pathway. Following this route the next morning, before light, the Persians entered the city in single file, killed Croesus, and claimed his legendary treasures. The "Great Empire" the Oracle had referred to had been Croesus' own.

His relevance to this Best Practice Conference is that King Croesus' large corporate empire eventually crumbled because he had not practiced Total Quality Control. Insufficient investment had been made in training every single member of his staff, demonstrating that the best survival strategies can come unstuck because of lack of attention to one tiny detail.

Now let's quickly skip over 2,541 years of history to Croesus the gold producer.

(diagram 1).

CROESUS; THE COMPANY

1. Croesus became a listed public company nine years ago. We produced our first gold bar nine months later.
2. We have operated ten mines and paid three dividends to our shareholders.
3. We currently have 26 active exploration properties in Western Australia, 19 of which are joint ventured to major companies. They are spending A\$15 million of their money to earn varying interests.

Our own annual exploration budget of A\$3M is focussed on lower risk production centres to provide ore for our Hannan South Treatment plant where we have just completed our fourth expansion phase. Production has increased from 160,000tpa in 1987 to the current capacity of 600,000tpa.

4. Croesus is currently producing gold at the rate of 40,000oz pa, with plans to expand to 60,000oz in the short term.

5. We have available cash of \$10M, no long-term debt, and a finance facility of another A\$10M is available to achieve our expansion and acquisition plans.
6. We are doing this with an extremely flat management structure, and a staff of 35, supported by 150 specialised contractors.
7. Our exploration team is currently winning the friendly race against our production team. Our total gold resource has increased in each of the last nine quarters:

(diagram 2).

8. The current "House of Croesus" now consists of some solid building blocks, supporting the operational unit:

(diagram 3).

9. This is leading us into an expanded future with good opportunities from new production, and corporate activities:

(diagram 4).

10. This graphical representation is of our nine years in business as Croesus Mining, and projected future on our known ore reserves. Superimposed are other possible production sources on which we are optimistically working.

(diagram 5).

Point on the graph is where we ran into the "brick wall" of the cyanide price quadrupling, due to a world-wide shortage, in 1988. This combined with a falling gold price, had the effect of immediately converting all our reserves back to resources. Larger companies were protected with long-term cyanide purchasing contracts, and gold forward sales contracts. This may be an example of how vulnerable the smaller companies can be in today's rapidly changing market place.

This was the period when our staff voluntarily accepted a three year wage freeze. This may be one of the main reasons I'm here today.

The early years of the graph show the traumatic period when we alternated between good but short-lived mines, then reverted to exploring and toll-milling for others. The toll-milling experience was an education in itself as it forced us to compete with many larger mills.

Newcrest at one stage even looked at hiring our mill for a year. They did a detailed study, and in declining its use, provided us with a schedule of items of change, that from their extensive experience elsewhere, would be necessary, to reduce our costs.

We were greatly appreciative of this valuable input. By incorporating their suggestions we were able to increase our throughput by 15%.

This is typical of the good working relationships we have developed with so many larger companies and we have received tremendous input from them in every aspect of our operation. One benefit of a small company is that you are never too proud to accept good advice. Another is the ability to incorporate those new ideas and get them into your system, often up and running on the same day.

OPERATIONS AND COMMUNICATIONS

As mentioned earlier, the one and only, single sentence instruction I received regarding today's topic was :

"How does your company run and how do you communicate from top to bottom?"

We should cover that ground before becoming more adventurous.

The answer is easy for the first part of the question "How does the Company run?"

"It runs as a team".

For the second part "How do you communicate from top to bottom?". That's difficult as our management structure is too flat for us to have a top and a bottom, so the answer is;

"We communicate sideways; and continuously".

Probably the most effective communication we have is the weekly drinks session, under the spreading palm tree, at the rear of our office, when we down tools every Friday afternoon.

This is where Directors mix with staff, field hands, mill workers and contractors all on a first name basis.

This is where a lot of issues are resolved and ideas developed.

Now, having dealt with the given topic, let's just compare notes from here on, to see if small and large companies have much in common and to see if smaller companies really do have more fun and personal staff satisfaction than larger companies.

I suspect that large companies can't match the creativity of highly motivated small companies.

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Croesus, so far, has not been blessed with any large, long-life, high-grade ore bodies that are very forgiving. Our ten mines operated in the past nine years generally have been of very short life, the shortest being three months. Our current longer-life Binduli ore system is consistent but it is relatively low-grade and will be profitable provided we remain at all times in the lower-cost quartile.

Pareto's 80/20 rule has helped keep our costs down. It has changed our thinking away from what is "quick and easy" and allowed us to concentrate on "what is significant and impactful".

Pareto the Italian Economist only became famous when he discovered that 80% of Italy's wealth was in the hands of 20% of the population. He subsequently found that this rule applies to most activities in the business world. For example, 20% of what is usually in the average manager's "in-basket" is important and 80% is not.

Most top managers share one common characteristic above all :

- They know how to keep focussed on the top priorities.

We make every endeavour to stay focussed on those things over which we have some control. Whilst we are aware of the other issues and watch them closely, we don't allocate much time to them.

Shortly I will deal with a list covering;

1. Our actions over the things we do control.
2. Our concerns about things over which we have no direct control.

COMPETING FOR SUCCESS AND SURVIVAL IS TOO IMPORTANT

FOR US TO USE "BUZZ WORDS"

Whilst we try not to use the words Total Quality Management or Continuous Improvement or Core Competency, it's not that we don't believe in them, it's just that by adopting industry jargon you sometimes shorten the shelf-life of these fine concepts. We want these principles to stay with us longer than the buzz words, so if I talk about efficiency instead of TQM or skills instead of core competencies it is not with any diminished passion.

I don't think that the small companies have a choice of choosing between "Best Practice" or "Worst Practice", because we don't get second chances. There is never enough fat on our bones to hide any disasters.

Whatever this "Best Practice" learning process is called and whether you are large or small, it still provides the best comprehensive strategy to reach the ultimate organisational goal:

To achieve and maintain a competitive advantage, however increasingly changing and demanding the economic circumstances may be.

Circumstances can make a company successful for a given period of time. When time erodes these circumstances, success fades away. We have seen this happen to companies and we have seen this happen to countries.

The quality of management is judged by its encompassing view of all problems, its deep understanding that all elements; human, technological and financial, must be integrated to ensure competitiveness and lasting success.

Being one of the highly competitive companies to have listed over the past 10 years, Kalgoorlie based, where none have failed, provides us with plenty of incentive to succeed. Failure in Kalgoorlie would be the ultimate disgrace. That may be a negative motivator and it reminds me of the old South American lady I saw interviewed on TV. She was a sugar cane cutter and had raised her family alone. She was asked what single thing had been most influential on her life, she answered blandly "Poverty". Poverty, or the threat of poverty, is the best teacher. It teaches you to look beyond the obvious to find solutions. Twenty percent of the world's population attends the "Poverty School" which takes us to the wider view and leads me to suggest that the concept of corporate good citizenship revolves around a fundamental notion;

An organisation's primary and essential responsibility is to be successful.

Every company has certain critical business issues and skills which, if compromised, can potentially jeopardise the very existence of the company. Without continuous management attention to those issues, investors' capital can be depleted as well as the human costs of loss of employment and financial damage to the many people with whom we have formed close relationships.

If it is true that a good corporate citizen's first obligation is to be a successful enterprise, it is equally true that the company will not be successful unless it stays attuned to change. Development of a strategic "early warning" is therefore essential on both fronts.

Because employees provide early alerts to impending change and are the most effective drivers of change, companies do well to follow their lead in a whole range of activities, right through to philanthropic contributions. By providing matching funds, companies support the causes and programs of greatest interest to employees. The corporation's link to its employees is thus strengthened in meaningful and personal ways.

Geologists and mining engineers talk about "listening to the rocks". We do that, but we also listen to our staff.

(diagram 6).

Focussing on Values - Legend

1. Recognition of opportunities
2. Deal-making (joint ventures)
4. Public image
5. Profit making/max return for shareholders/cost control/healthy balance sheet
6. Medium/Long term strategy
7. Sound technical, operational & administrative base
8. Knowing all employees on a first name basis/getting along with suppliers, etc.
9. Self improvement programs (i.e. seminars, short courses, etc)
10. Safety/safe work practices
11. Maintenance/Trouble shooting
- 12.. Problem solving/lateral thinking
15. Increasing Ore Reserves/Exploration Technical success
17. Profitable Ore Mining & Treatment

22. Efficient work practices

24. Learning from our mistakes/Learning from other's mistakes

Other responses included

- Loyalty
- Rational decision making,
- More communication between management and hands-on employees

This link between a company and its staff may even be more important for smaller companies, as without the economies of scale, their teamwork becomes significantly more important.

Perhaps it's the accent on teamwork which makes it more fun and in many ways more exciting to work for a smaller company.

Although teamwork seems to come easier to Australians in sport rather than in business, once learned, is never forgotten.

Companies perform much better with teamwork.

WHAT MAKES A GOOD COMPANY?

They say a good mine makes a good company, but I think that may be an over-simplification.

A good mine is more likely to happen to a company that is already in training to be

a good company.

Part of the satisfaction of being in a management team is the constant search for new knowledge, continuous improvement, eliminating waste and a passionate commitment to getting it right the first time. Perhaps some processes are just too complicated to do it right the first time. In those cases, what is needed is a way to check for errors and make corrections quickly.

We spend a lot of time on the various processes because that is something over which we do have control.

Another one of the joys is when all the team members are constantly feeding us new ideas. We study how the best companies operate, and I'm certainly doing that at this conference. We beg, borrow and steal ideas from many sources but it is important that we improve on these ideas as there is not much fun in simply following.

GRAB-BAG OF ITEMS, LARGE AND SMALL THAT

WE HAVE WITHIN OUR CONTROL.

- **The Scoreboard**

One thing I have noticed in some large mining companies is that there still appears to be a great number of unexplained layers of management between the Board and the operators.

This has the effect of stifling communications and for a team to be effective they must always be able to see the "scoreboard". I sense that some companies don't have a visible scoreboard.

We have adopted a scoreboard idea from that very successful business enterprise, West Australian Newspapers (no comment on their editorial content) where they have on daily display, the critical information that requires "The West" to achieve its objectives.

Their main sign is displayed at the front of the "West's" printing plant. All production staff are aware of the times that have to be met in respect to the information and it is widely referred to during the day's discussions:

THE WEST AUSTRALIAN

Country (Finish time) **Waste** (% for night)

Metro (Finish time) **Agents** (% delivered on time)

Copies - 1am (No. produced)

Running Message Share Price (today's price)

(diagram 7).

We have modified this to suit our purpose and now have a weekly communication sheet on display at each of our operations:



WEEKLY "SCOREBOARD"

Exploration (Location & Method)

Mining (Actual & Budget)

Processing (Actual & Budget)

Admin (Special items)

A\$ Gold Price :

Share Price :

(diagram 8).

- **Teamwork**

One of the interesting things about running a company is the diverse sources of wisdom and inspiration on which we can call.

I personally enjoy receiving management input from sources ranging from the Harvard Business Review, to the Girlie Bars of Wanchai, Hong Kong and even every daily service provider.

Whatever business they are in, you can either sense the spirit of teamwork, or its absence. The team members are either all on the same side or they are not. Let me give you an example of the best and the worst.

Not many of you would have visited the Girlie Bars of the Wanchai area on Hong Kong island, but I was recently drawn there as part of my management studies.

Now they are all essentially the same. The same decor, same music, same over-priced drinks, so all they can compete with is friendliness and service.

I found one that excels and it is called the *An An Club* on Fenwick Street. I was impressed at the strong working relationship and respect that each of the girls exhibited, toward each other, equally as much as toward the clients.

I thought to myself. There is a master management guru at work behind all this tinselled exterior. I must meet that guru and study their methods.

I asked to see the boss and they brought out Mama -San Linda and introduced me to her in a style that indicated their deep respect for her.

I found that she was not a great scholar and I found that she wasn't young, as a matter of fact, Mama Linda will be 79 years old on June 18th, but in talking to her I learned of her background and her total commitment to transfer all her wisdom to these young girls she has assembled around her. She guides them on matters of general conduct and ethics and she fetches and carries for them. She does everything and anything that makes them more effective and efficient.

As a result, the *An An Club* attracts a totally different clientele because they sense that there is something special happening there, even if they don't know what's causing it.

There is a lot we can learn from this simple old lady; in developing the spirit of teamwork.

Those girls were all proud to be on that team and they had earned their sense of security.

Now moving closer to home for an example of the other extreme.

This happened to me the other day when I was getting on the plane at Perth airport. As is usual I had just put a few last minute dictation tapes and files in an Ansett Pack for despatch to my office and when checking in, handed it to the young lady behind the counter, with the request, "Would you please pass this through the system for despatch to Kalgoorlie?".

She noticed me taking a note of her name from her Ansett badge and in answering her question I said that I always noted the name of the person to whom I handed Ansett Packs, whether it be a taxi-driver or a member of Ansett's staff. "This may assist in tracing any bag that goes astray". With this she freaked out and stated quite adamantly that "I take absolutely no responsibility for this bag".

Of course I looked at her standing there with her Ansett uniform, her Ansett scarf and her Ansett badge and apologised by saying "I'm terribly sorry, I thought you were a member of the Ansett team and I presume that you are being paid to accept some responsibility".

It may not have occurred to Miss B., that with her salary comes a matching responsibility. She didn't even want to be on the team.

Companies perform much better with teamwork. If they haven't got it; all the technology in the world can't save them.

Now to answer your possible question of whether we run Croesus like a Girlie Bar or an Airline, I went back through some staff seminar notes from June 1989 and I found that we operate our company more like a Jazz Band.

Let me quote from my 1989 seminar notes to our staff;

The Jazz Band Analogy

"Exploration and mining have a natural rhythm, hence the analogy with jazz.

What we are doing is like playing in a band. Music means different things to different people, but most importantly, deep down inside you, you know when it sounds good, when it all comes out 'right'.

We have an audience. The concerned audience, being 5,000 shareholders, and the casual audience cheer when we play a good note and boo when we foul-up.

Each individual member of the band is a star in their own right, but generally we are useless unless we are all playing in the same key and better still when we are playing the same tune.

Soloists are good value but they need the rhythm section, the same way that geologists need mining engineers and vice versa, and without the administration and accounting laying the firm foundation of chords, the geologists and engineers wouldn't be able to play the melody.

We must know when to start, harmonise, blend and stop. As band leader I'm useless without every one of you in this band, just as each of you are totally interdependent on each other.

You are all star performers and as band leader, I care about each of you, what you eat, what you think, what you read (remember you ultimately become what you eat, think and read).

I care about Croesus and its further development so that it can accommodate your career plans and challenges.

I'm limited in what I can do about it and realistic enough to know that like a band leader I should limit myself to selecting the tunes and the key that matches our range of skills. The tapping foot is setting the vision for the company (with input from fellow directors and yourselves) reviewing budget limits and then giving you the freedom to set your own whip-cracking pace to go forth and produce the goods".

Strangely enough, three years later a book was published by Max De Pree called "Leadership Jazz", where he managed to put it together in a much more concise form:

"A jazz band is an expression of servant leadership. The leader of a jazz band has the beautiful opportunity to draw the best out of the other musicians. We have much to learn from jazz-band leaders, for jazz, like leadership, combines the unpredictability of the future with the gifts of individuals".

- **Flatter Than Flat Personnel Structure**

Driving the company are five technically competent people whose average age is around 33.

Each is totally responsible for their sphere of the operation. This includes the General Manager and he and I both do a fair degree of fetching and carrying, again to increase the effectiveness of the team.

We minimise the team's involvement with the form-filling bureaucracy as I've seen how this tends to take over if permitted.

Large companies put on additional staff to deal with all the census and statistical returns and related non-productive documentation, but in small business you've got to make a clear decision about either;

- filling in all the forms and going broke, or
- remaining focussed on your objectives, and prospering.

We want to keep our people at the productive end of the action. In many ways I think of them as a team of gladiators or Olympic athletes in training, and they know that 1995 is the main event.

Each of our 35 team members including clerical people, field hands and mill workers know that they are responsible for generating A\$700,000 per person, of export earning income for Australia each year. Their self-esteem protects them from any bureaucrats' effects to slow them down.

Here are our staff's responses to my question on how they feel about our "flat management structure";

- "Enjoy the ability to discuss problems and to decide on solutions, without the political point scoring or 'one-upmanship' antics that plague many companies when people don't have enough constructive work to do".
- "It enhances our ability to recognise time-wasters and time-wasting activities".

- "It has developed confidence and trust in team members to use their judgement and skills in the best interests of Croesus".

In my mind the major benefit is that they all learn to be decisive. In a flattened hierarchy, it is important that more decisions are made, by more people, and that they are made quickly and assertively.

It also helps me in my role as bandleader/coach/manager as it has been said;

"the successful manager is someone who ends up redundant".

- **Goals**

For the first week of every year I lock myself away and write a review of my previous year's goals and assemble those for the coming year.

My personal goals for Croesus are much more detailed than the official Croesus Corporate Goals.

This draft is distributed to our five member management team for their comments. Pretty dangerous stuff, baring your soul like this, but having done this now for a few years I wouldn't want it any other way.

A fresh look at the same old challenges can be rewarding.

For one challenge that had been plaguing us for a few years, the suggestion from one staff member was that we simply "get rid of that property" rather than keep trying to find a mine on it.

We did. We sold the property to a company that was to list last year. Unfortunately the market turned against them and they didn't list; so now we have the challenge back again!

The point I'm really making is that your staff can help you with your goals, probably more effectively than you can help them with theirs.

- **Getting There Faster and Cheaper**

Another aspect over which we have control is the speed at which we do things. Time is now of the essence and in this sense the technological age has created a revolution.

I remember working with a greatly respected senior geologist about 13 years ago.

When we were offered an exploration property he refused to actually visit the property for at least a month. This gave him time to assemble, in very precise fashion, all previous Mines Department records and data he pulled in from various sources.

It was always a pleasure inspecting the property with him as he would by then have developed a great appreciation of what was over each new rise and could give me a running commentary of those who had worked the property previously and the results of their work.

That was fine 15 years ago but would be a totally unacceptable time-frame now.

Good Properties no longer wait!

The good news is that by using modern methods we have reduced that month down to one day and I have no doubt will be further refined and reduced down to one hour.

On the subject of speed, I'm told that Croesus Mining holds the record for the fastest approval for two open pit operations.

Our "Notice of Intent" for the Ben Hur and Blackfoot Pits were submitted on December 19 and written approval received less than one month later, on January 17 1995. This includes the Christmas break and is evidence of our excellent working relationship with our Mines Department.

These are the sort of transformational changes that we are learning to cope with.

Not only is it important for a company to get to the future first, it must get there for less.

- **Employment Policy**

Constant change now being regarded as normal, is having a great influence on our employment policy.

Most people love progress, but they hate change. This certainly restricts the number of people who will progress very far in mining companies designed for the future, but enhances the prospects of those who can meet the challenge.

The productivity pattern for businesses to survive into the next Century, five years away, will see many companies employ half as many people, pay them double and produce three times the output.

This $\frac{1}{2} + 2 + 3$ formula (half as many people being paid twice as much and producing three times as much), is why we only employ people who are in some way, better or smarter than we are.

If Croesus doesn't have the best people, it will hurt everybody in the organisation.

We have also been asking ourselves simple questions, like what business are we in? We are not in the mining business; that's a description of what we do. *We are in the business of turning ideas into gold bars economically.*

We run a business and like any business if we don't know who our clients are, we cannot succeed.

How many people working for mining companies know who their clients or customers are?

I went to a seminar some time ago where the seminar leader selected individual delegates and asked them exactly who their clients were?

A senior official from the Tax Department wasn't sure, but he thought that his client might be the Federal Treasurer.

When asked if the actual taxpayers could be his clients he replied "No, they are our suppliers".

A guy from Telecom was asked the same question and I found his reply interesting. They had only recently discovered that people who use telephones are their clients, and he was a bit upset that Telecom's advertisements are now promising service and that their clients are now insisting on service standards to match the adverts.

I am glad I wasn't asked who our clients are, because I needed more time to think it through.

Are our clients the people out there who wear gold jewellery, or the manufacturers of jewellery or our shareholders?

None of the above, but we are responsible to our shareholders and we discharge our responsibilities to our shareholders by serving our clients well.

Who are our clients?

Our clients are the people with whom good dealings bring on repeat business and this was brought home to me recently when North Exploration (Geopeko) paid Croesus the honour of saying at a seminar, that their dealings with us are always so good that they unhesitatingly do business with us again and again.

Our clients are the people who phone us. That's why our Company Secretary gets upset when the phone rings more than three times without being answered.

Building client relationships is important to Croesus because we never know what further opportunities this will open up for us.

I don't mean that we have to be pliable push-overs, because that will not earn anyone's respect. To be successful is about being tough but fair.

Just because we are a mining company doesn't mean that we don't have clients. *By clearly identifying our clients and treating them accordingly we will put ourselves ten paces ahead of other mining companies who don't even know that they have clients.*

- **Technical Training**

It's sometimes hard for us to separate motivational training, philosophy and technical training.

When you are talking about "*the philosophy of exploration*", or replacing the term "*ore deposits*" with "*ore systems*", or "*tearing down mental models to make way for new ones*", your focus is on the broad learning front, which defies narrow labels.

We do, however, hit the technical training very hard.

Our policy is to keep so much training pressure on our staff that it in turn, keeps the pressure on management. I mean that we have to continually expand the company, to keep our staff's career path turning upwards. That way we all win.

The technical training takes many forms, ranging from the popular one day courses, through to the week-long in-house technical seminars run by acknowledged experts in their field, through to the longer running AMIRA (Australian Minerals Industry Research Association Limited) projects on both mineral exploration and gold processing technology.

It is interesting to note that Croesus is sometimes the only smaller company participating in many of these projects. With respect to Computers and Information Technology we have found that being a company "without guidance from above" has forced us to independently push ourselves into the 21st Century.

This is an exciting journey and I'm so excited about the sheer possibilities of these opportunities that I can hardly sleep at night.

I saw from the front page of the March 19 edition of "Hong Kong Standard" that the Chinese dissident movement has moved beyond the reach of the mainland Government by launching itself on a global scale into the Internet communications network.

(diagram 9.)

Dissidents are using the Internet to voice criticism of the mainland Government and get information on economics, on politics and human rights into and out of China.

The potential for the Internet to topple political dictators gives me great hope; for our own country!

This reminds me of the excellent mast-head slogan that appears on every edition of "The Economist" magazine;

to take part in "a severe contest between intelligence, which presses forward; and an unworthy, timid ignorance obstructing our progress".

- **Risk Management By Forward Selling of Gold**

We run an active forward-selling program with around 60% of our reserves forward sold at A\$588.

I never cease to be amazed at this wonderful commodity that lends itself to forward-selling.

If the spot price runs up above our forward figure and we roll the contracts over for another year, the penalty for such late delivery; is simply that the price goes up.

Surely there can't be any other commodity where you are rewarded with a price increase as a penalty for late delivery?

- **Dividend Policy**

Profit split equally between :

- Shareholder Dividend
- Additional Exploration
- Cash Reserves.

(diagram 10).

- **Code of Conduct**

In our search for an appropriate code of conduct we perused many of the unintelligible documents that so many of the larger companies have produced at great expense, and at great boredom to those who try to understand what they say.

The code we have adopted is borrowed from Nordstrom (an American company). It requires more responsibility from each of us in the form of a clearly transmitted "corporate code by example", to be demonstrated by those who have been with the company long enough to soak it up.

This "code of conduct" is one that is easy to memorise;

"Use your own good judgement in all situations.
There are no additional rules".

(diagram 11).

- **Environmental Policy**

Always Remember That Other People Live Here Too!

(diagram 12).

- **Improving the Quality of Input from Suppliers and Consultants**

We have found that these relationships must be more than a simple cost-cutting exercise and we thank Western Mining for bringing to Australia, Professor Peter Richardson, and making him available to assist smaller companies formulate a cost-reduction strategy and develop a "lean and keen" culture.

We also watch and compare organisations such as Telecom and Cathay Pacific where they approach a similar problem with a totally different philosophy.

Several years ago, Telecom tried to repaint every phone booth in Australia, with their new logo, all in the same week, at horrific expense.

Cathay Pacific, on the other hand are introducing their new logo on a basis, as explained by their Managing Director; "We're not spending one extra dollar on repainting aircraft. As they come around for their standard repainting, which takes place every four years, we'll switch to the new livery. Similarly, stationery and other business materials, especially internal invoices and letterheads, will be replaced on an attrition basis, to reduce costs. To keep implementation of the corporate identify manageable, Cathay is saving the introduction of new flight attendant's uniforms for the airline's 50th anniversary in 1996".

The good news is that there have been some changes at Telecom and it's starting to show.

An idea we have adopted from ICI is a "Supplier of the Year Award", which is presented at our company's Birthday party each year.

This has brought us into active dialogue with so many of our suppliers who, although they give reasonable service, had never been invited to excel in helping us assist our corporate objectives. From this, we have received an astonishing flow of input on features and ranges of additional services that had never been offered to us before. Many more suppliers are joining with us as partners in achieving our objectives, and of course it follows; their own objectives too.

The following is a standard letter being despatched to all our suppliers as an encouragement for them to excel:

SUPPLIER OF THE YEAR AWARD

You may or may not know that each July we present a "Supplier of the Year Award" to a particular supplier/contractor/consultant who has provided outstanding service and contributed to our performance.

It has drawn our attention to the varying levels of service we receive and in many cases opened up a productive dialogue to explore the provision of higher levels of service.

Your firm has given excellent but unobtrusive service in the nearly nine years since we listed, and the purpose of this letter is simply to ask you if you have any ideas on how you could be of more service, perhaps by communicating, either in writing or perhaps meeting us personally, passing on particulars of any forthcoming changes in the way you will be providing future services.

- **Staying In Front**

As a result of some exploration and mining techniques that we have developed, one of the things we do well, is discover and operate mines on lake country. The Ben Hur and Blackfoot pits we will soon be commencing will be our sixth and seventh such "wet" pits. From our current Centurion Pit at Binduli, although it looks dry, 10 water bores are continuously pumping 1,850 cubic metres of water per day.

By identifying the things that we do well, and then removing all obstacles, we allow our team to "execute like crazy".

If this is what we have become good at, we will stay in front by doing more of it.

All we need to do is reduce the amount of time between conceiving an idea and actually delivering or executing it.

OUR CONCERNS ABOUT THINGS OVER WHICH WE

HAVE NO DIRECT CONTROL

- **The Things We Can't Leave To The Big Companies**

Whilst the smaller companies can, and do benefit from riding on the coat-tails of some of the actions of the larger companies, one thing is becoming certain and that is that we can't rely on big companies to capably defend our industry from the *anti-industrial* battalions.

These *anti-activists* come from the bureaucracy, the unions, the media, the soft-educationalists and the dark greens.

There has been no more destructive force in our society than these people and their hangers-on. Let's look at what they have cost Australia so far. An entire uranium mining and processing industry; an oil field off North Eastern Australia; at least one world class paper mill; a huge gold and platinum mine; a large portion of the mineral sand industry; a silica sand industry; practically the entire forestry and associated industries; at least two large and significant tourist developments and as well, many associated business activities which Australians could have owned and worked. Literally countless billions of dollars worth of real productivity and the resulting improved living standards for Australians, have gone down the drain. Plus of course, those unknown opportunities that can now never be started by Australians because many opportunities are stillborn, killed off because of the *anti activity* of the dark greens.

Amongst the core activists of the environmentalist movement, on the one hand, there appears to be a deep sense of alienation from the modern world and its intellectual foundations. Amongst the general public, on the other, is a pervasive feeling of doubt and unease. Confidence in science has been replaced with mistrust.

I mention the soft-educationalists as they are failing to educate new generations on how to defend the very Western Civilisation that gives us the progress and codes for living that we enjoy today.

By casting doubt on this Western Tradition they are also casting doubt on the key institutions and principles it has inspired;

Limited, constitutional government; private property and free markets; equal justice before the law; traditional morality; and commitment to truth and excellence.

After the heroic struggle of those who have come before us, to create this land of freedom, we are in danger of becoming emasculated shadows of our former selves, without sufficient reserves of character, strength or virtue to live independent of government handouts. How far have we come from our pioneers' pursuit of the heroic and the ideal? How far have we come from our own heroic roots?

The "leaders" of our larger companies know all this, so why do they choose to surrender?

- *Political correctness*, this arrogant assault on plain, forthright communication is seen by them to be an insurmountable barrier which prevents them from speaking their mind.
- Large companies are mesmerised by a perceived need to have a strong relationship with the government and the bureaucracy because so much of what they do, depends on Federal Government approvals.
- It is easier for the larger companies to move overseas in response to Australia making land access harder for mining companies. Other countries are making land access easier.
- They feel they have left any action too late, as they should have been countering the views expressed by the extreme anti-industrial groups, a decade or two ago. The mining industry was then as it is now, more intent on doing what it thought it did best; exploring, mining and processing.
- They have left it too late to understand that, in politics, there is no such thing as an automatic rejection of what does not make sense, and that arguments with no scientific credence, but substantial emotional power, can achieve political currency and force, to the stage where they develop sufficient momentum to become formal government policy, and subsequently become enshrined in the law, which, as we have seen lately, comes to effect the mining industry.

All this can be described as "the gutlessness of big business", and may explain the small to medium sized companies drifting away from the larger industry representative bodies such as the Chambers of Mines, toward the smaller, harder hitting, organisations such as AMEC (the Association for Mining and Exploration Companies).

Will big business forever remain subservient to government and related pressure groups?

What is the chance of this situation changing?

With an outbreak of courage it just might happen. Courage is contagious, but where are the heroes?

Let me mention just three :

- Charles Copeman, the former MD of Robe River Iron Ore, pioneered industrial work reforms. We have all benefited from this but how much support did he receive from his peer group?
- Hugh Morgan, Western Mining's MD has clearly explained the philosophy lurking behind these *anti-industry* groups. He has made this information available to us all but how many captains of industry have passed it on, picked it up and run with it?
- Dick Warburton, Chairman of Du Pont and prominent member of the Business Council of Australia, recently had the courage to draw attention to Canberra's "politics of hate", where the Prime Minister is felt to silence influential critics in the business community by sending them clear signals that "If you don't agree with me, I'll not only hate you, but I'll destroy you"

History will judge people like these three outstanding business leaders by their heroic actions, and they will be remembered long after their tepid contemporaries are forgotten.

Their example should inspire more of our country's industrial "leaders" to get up off their knees and lead.

- **On a More Positive Note**

Professor André Morkel of the University of WA's Graduate School of Management, concluded his excellent paper "Strategies in the Mining Industry"

by saying

"Mining is not only selling ores to developed countries. The skills in mining and support industries provide a wealth of opportunities for Australian companies to operate profitably in international markets, not only in mining. Australian companies have been for many years, doing exactly that; but in many cases their achievements have received far less attention from the media and Government than say the problems of our manufacturing industry. Perhaps it is time for Australian policy makers to shift from primarily lamenting about our national weaknesses and worrying about threats from overseas companies, and recognise that we can also build strategies for Australia on our strengths, such as in the mining industry, and follow up on the many opportunities for these world class competencies in international markets".

CONCLUSION

Croesus Mining NL may be a small company but that only means we don't have some of your economies of scale. *It also means that "Best Practice" is even more important to us than it is to you.*

We are continually improving our operations from top to bottom, driven by a rational sense of survival and achievement. We probably also have more fun and control over what we do than many of you in the larger companies.

It is working for us. Our corporate slogan is "Growth Through Persistence" which is just another way of saying that we aim to be winners. A winner is simply

someone who recognises his talents, works his butt off to develop them into skills, and uses these skills to accomplish his goals.

In conclusion, let me enthusiastically describe Croesus in three ways :-

- 1.** A fully integrated explorer, miner, producer. We are in there "boots and all" from discovery right through to pouring the gold bars.
- 2.** A low cost producer with total production costs of A\$310 per ounce. Because of our brutal accounting write-off policies, our cash costs don't vary greatly from our total costs. This is an all-up cost and it includes the total pre-strip and 20% of our admin costs.
- 3.** An efficient explorer with current cost, of generating resources, of under A\$6.00 per ounce.

Our exploration is generating additional ounces for us faster than we can currently mill them, hence our on-going task of continually expanding our milling facilities.

Ladies and gentlemen, to finish :

We've got the cash

- We've got the ground
- We've got the team
- We enthusiastically endorse Best Practice in a form that works for us so we have stopped thinking of ourselves as a "small producer". We are now an "expanding producer," and enjoying every minute of it!

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