

# AN INSIGHT INTO SUPPLY AND EXPAND WITH PEABODY ENERGY

Peabody Energy is actively pursuing growth plans with a view to being a long-term participant in the Australian coal industry. In doing this, the company are relying on their suppliers to grow with the company and support them down the line.



## PROFILE

Peabody Energy is the world's largest private sector pure coal company. With products that fuel more than 10% of America's electricity supply and 2% of global demand, the company is well positioned to meet growth from electricity generators and steelmakers worldwide.

The Australian operations are managed by Peabody Pacific Pty Ltd, a subsidiary of Peabody Energy, which employs more than 1000 people. A further 2500 people are employed under six major mining contracts.

Peabody Energy considers Australia to be a premier location for coal mine development and investment. After returning to Australia in 2002 with the acquisition of Wilkie Creek mine and Horse Creek coal resource in Queensland's Surat Basin, Peabody is aiming to become a permanent fixture in the Australian coal industry. With nine mines located in Queensland and New South Wales – as well as active coal trading in all major Australian coal regions through Peabody Coaltrade – Peabody is well on its way to achieving its goal.

Peabody aims to develop and manage safe, efficient, low-cost, world-class coal mining operations that provide customers with quality products, reliable supply and superior service.

Peabody's relationship marketing approach reflects the company's ability to partner with its clients in their long-term supply chain planning processes.

Peabody is well aware of the importance of a strong supply chain for goods and services, inclusive of high performing suppliers in the coal sector. As such, Peabody actively seeks supply partners who provide the best total-cost of-ownership solutions with respect to performance, quality, price, service and delivery.

Lance Throneberry, General Manager of Supply Chain at Peabody, comments; "Suppliers and their related performance are critical to Peabody achieving its near and long-term operating goals and objectives. If you look at our cost of goods sold, over 50% is attributable to third-party spend. This includes a range of goods and services including commodities, capital equipment/ machines, parts, components, major and minor contracted services and temporary labour.

"A strong chain of supply is vital for Peabody to achieve consistent and predictable operating results – now and into the future."

In regards to Peabody's long-term plans, aligning themselves with reliable and efficient supply partners is of optimal

importance, as the quality of Peabody's external partners directly impacts the company's productivity and end results.

"From a strategic perspective, it's critical that we collaborate with our key suppliers with respect to our planning process. It's important that we are in sync, relative to our capital and operating demands for equipment, commodities, services and other areas of supply – in order to deliver planned results," explains Lance.

"This requirement to collaborate has been amplified as the mining and metals industry has experienced an extended period of extreme growth, which required a high degree of interaction with our supply base with respect to demand forecasting and production planning. The extreme growth has now stalled and times are more volatile. However, this does not obviate the

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Lance believes that collaboration, transparency and communication with their supply partners will ensure efficient supply chain management and at the same time, enable mutual objectives to be achieved.

"We have periodic management meetings with our key suppliers to keep

the relationship on track."

"Like most companies we have some good relationships and some that need improvement. The good relationships we have are characterised by collaboration and our mutual aim in making sure both parties are as transparent as possible with respect to demand management and production capability," Lance comments.

On-going reliable delivery of goods and services is fundamental to Peabody's ability to achieve its operational targets.

"In some cases we rely heavily on our suppliers – specifically in times of crisis or in times of economic uncertainty. Joint problem solving, flexibility and communication with our suppliers is needed in these situations, to ensure that we are achieving our respective goals," says Lance.

From a strategic supply chain perspective, Lance views Peabody's suppliers in distinctive segments that include capital projects, original equipment manufacturers (inclusive of parts and services), strategic commodities and core mine site services. "These segments all have a slightly different relationship and interaction approach," he says.

Lance also mentioned that capital projects, inclusive of equipment, are longest in lead time, which requires a high degree of collaboration with Peabody's supply base.

"We need to constantly update our long-term needs vis-à-vis current market dynamics, in order to get into the production queue. Strategic commodities such as fuel, lubricants, explosives and roof control require a more near-term, granular level of demand planning which must be shared with our suppliers to meet our production requirements. Each segment requires a slightly different approach, however, there is a common theme, and it is collaboration," he says.

In relation to cost control, Peabody has restricted itself to working with only high-performance suppliers which are crucial for reliable and predictable results. The company requires a supply base that is capable of executing to the basics, which translates into operating results and ultimately financial results.

Peabody requires quality goods and services from its supply partners in order to efficiently operate its existing mines as well as to expand, build and operate new and existing mines. Working hand-in-hand with its supply base gives Peabody the means to achieve its goal of making its mark within the Australian coal industry. ☺



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