



# Coal Investor Seminar

**28 October 2008**

**Ian Cockerill, CEO Anglo Coal**

# Introductory Remarks

Cynthia Carroll, CEO Anglo American Plc

# Balancing current market challenges while positioning for future profitable growth



## Near-term:

- Global financial crisis and economic slowdown significantly impacting demand and metal prices, with some trading at or below marginal cost
  
- Anglo is actively responding to mitigate the near-term financial impact:
  - Implementing new cost reduction programmes
  - Accelerating asset optimisation efforts
  - Reviewing and adjusting capital expenditure plans

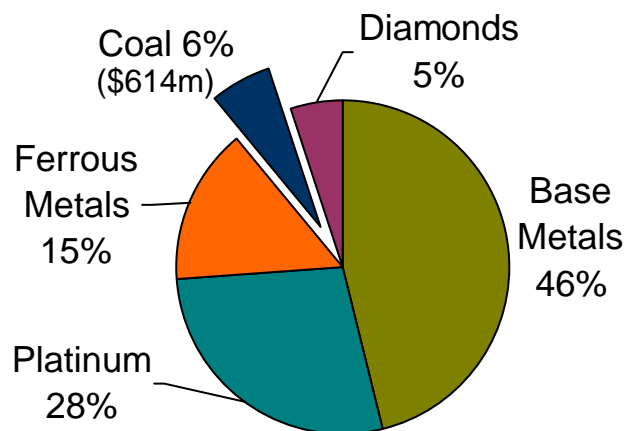
## Medium / Long-term:

- Strong fundamentals underpinned by secular urbanisation and industrialisation in BRIC countries combined with constrained supply create numerous opportunities for profitable growth

# Anglo Coal – an increasingly important contributor to Anglo American



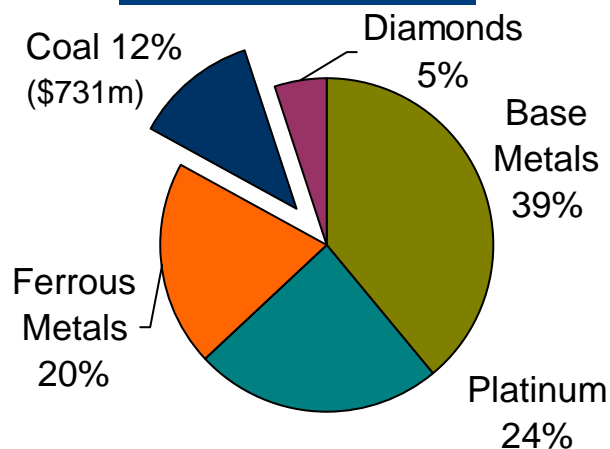
## Full Year 2007 Op Profit



- **A core portfolio business:** increasing contribution to group operating profit from improving operations and market strength

- **Pioneer of “Asset Optimisation” in Group:** benefits of systematic, structured approach having a material impact on performance

## H1 2008 Op Profit



- **A high priority growth platform:** Near-term focus on high-return, low risk brownfields and higher-value metallurgical coal expansions; Robust organic pipeline for longer-term

# Presentation Outline



## 1. Introduction

2. Coal Market Characterisation

3. Current Market Fundamentals

4. Anglo Coal Competitive Advantages


5. Longer Term Market Outlook

6. Conclusions and Q&A

# Introduction to the Anglo Coal Team



**Margaret Pickworth**  
HR



**Roger Wicks**  
Strategy



**Ian Botha**  
CFO



**Ian Cockerill**  
CEO



**Neil Dhar**  
Business Development



**Francois Jacques**  
Marketing



**Gareth Llewellyn**  
S&SD




**Alex Hathorn**  
Technical



**Seamus French**  
Australia



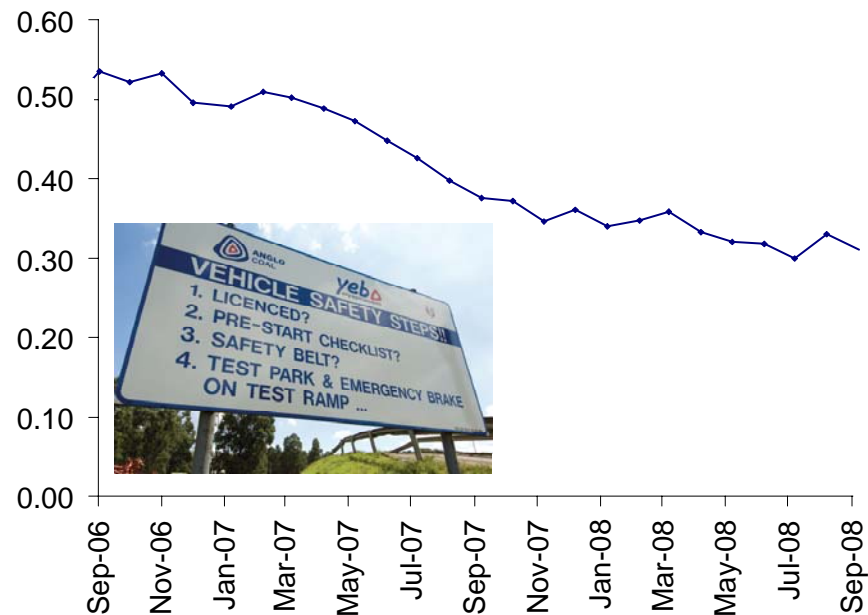
**Ben Magara**  
South Africa



**Craig Wiggill**  
Americas

# Safety and Sustainable Development Remain High Priority

## Safety LTIFR 12 months rolling



- Isibonelo Colliery – 12 months LTI free
- Moranbah North Mine Rescue Team – Australian national champions 3 years running

## Sustainable Development Highlights

- Water treatment – Emalahleni plant
- HIV/AIDS programme touches 80% of staff in South Africa



# Energy vs. Climate Change – Our Response

## Global Energy vs. Climate Change Debate



## Examples of Advocacy



## Examples of Action

Emissions reduction at Capcoal and Moranbah operations - methane capture and power production



Anglo/Johnson – Matthey Low Emissions Technology Project





# Overview of Key Themes



- Downward pressure - demand softening but logistics and forex offsets
- Lower, but positive growth in BIC regions
- Supply constraints still present but moderating
- Higher cost structures will preclude a return to historic cyclical lows
- Anglo Coal positioned for continued performance delivery
  - Geographically diverse supply base - Thermal and Met
  - Well established customer relationships
  - Operations improved with substantial asset optimisation underway
  - Majority of new project capex spent with operations ramping up
- Robust pipeline - organic growth options (brownfields & greenfields) - provides significant long-term profit growth potential

**18 operations, 5 countries, 100Mt of production, 2.3Bt of reserves, 8% share of the export market**

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1. Introduction

**2. Coal Market Characterisation**

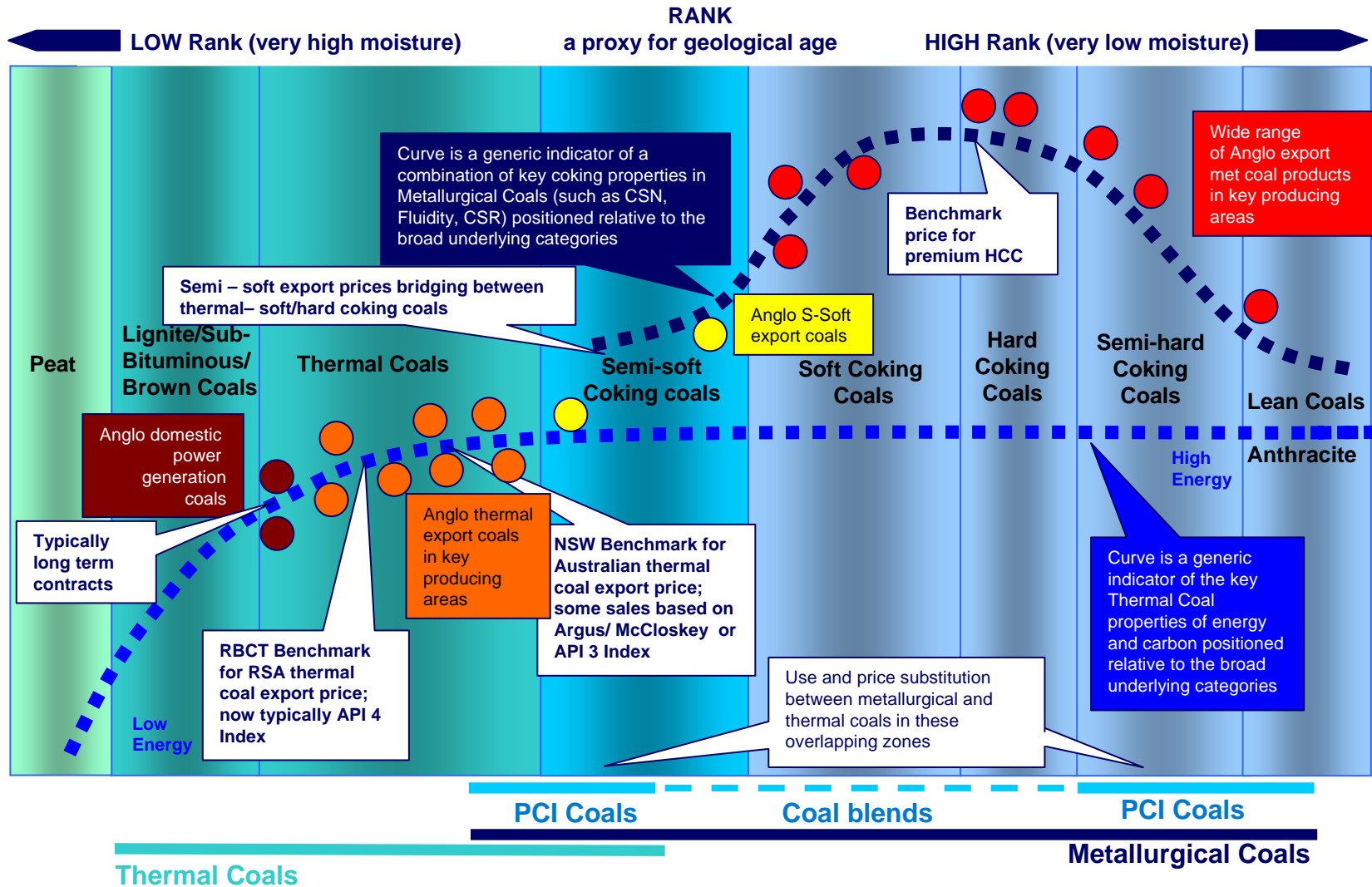
3. Current Market Fundamentals

4. Anglo Coal Competitive Advantages

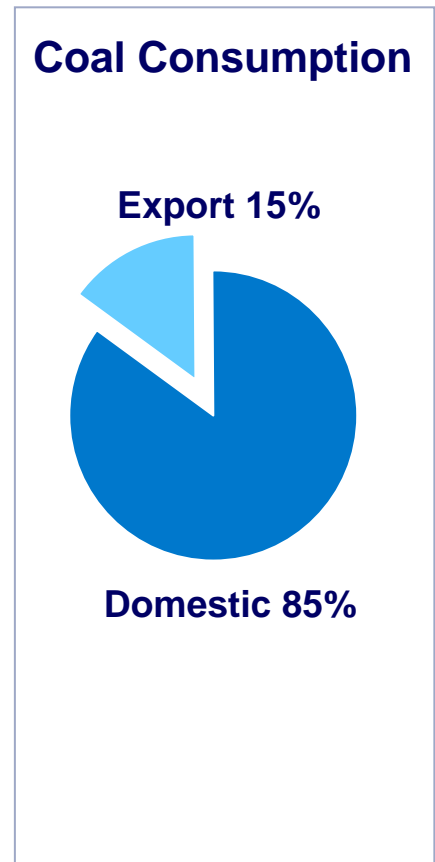
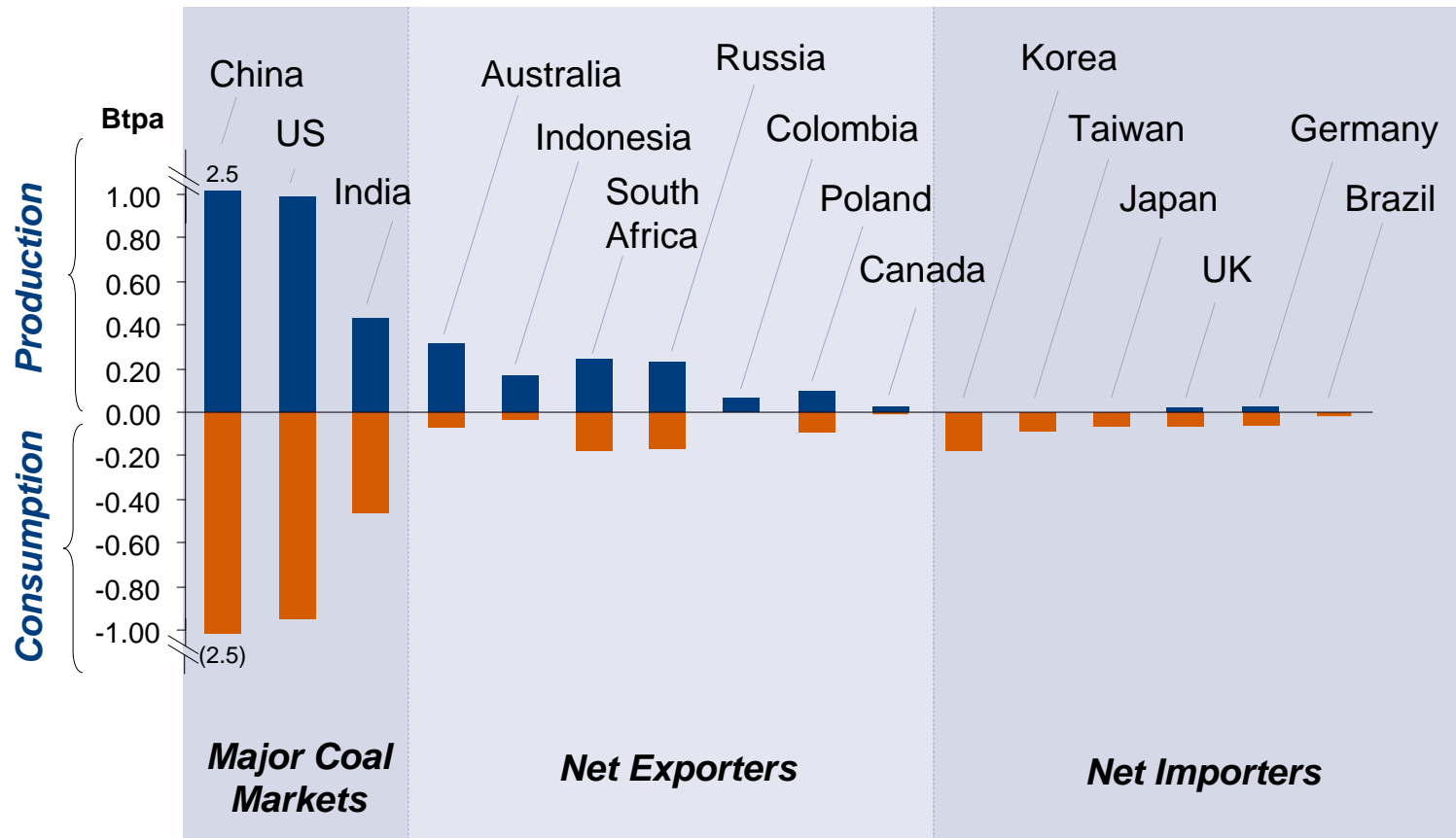
5. Longer Term Market Outlook

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# Complex Multi-Product Market



# Coal Production and Consumption is Geographically Diverse



Source: 2006 data from IEA Coal Information, CRU 2007 & BJ 2007

# Mix of Contract Types and Pricing Frameworks



## Prices

## Prices

**JFY 07/08:**  
HCC US\$ 96/mt  
Therm. US\$ 68/mt

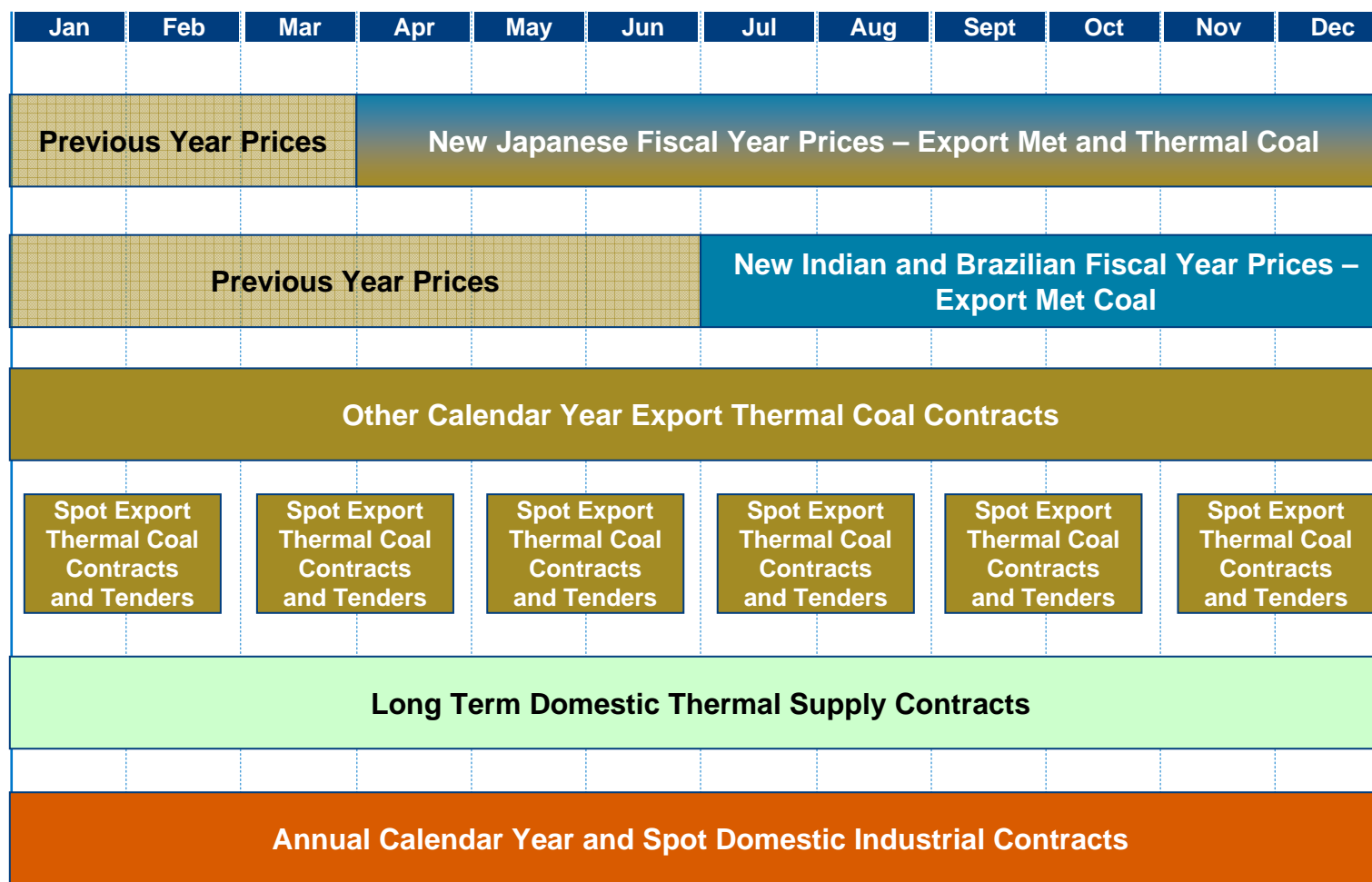
**JFY 08/09:**  
HCC US\$ 300/mt  
Therm. US\$ 125/mt

**Ind. FY 07/08**  
HCC US\$ 96/mt

**Ind. FY 08/09**  
HCC US\$ 300/mt

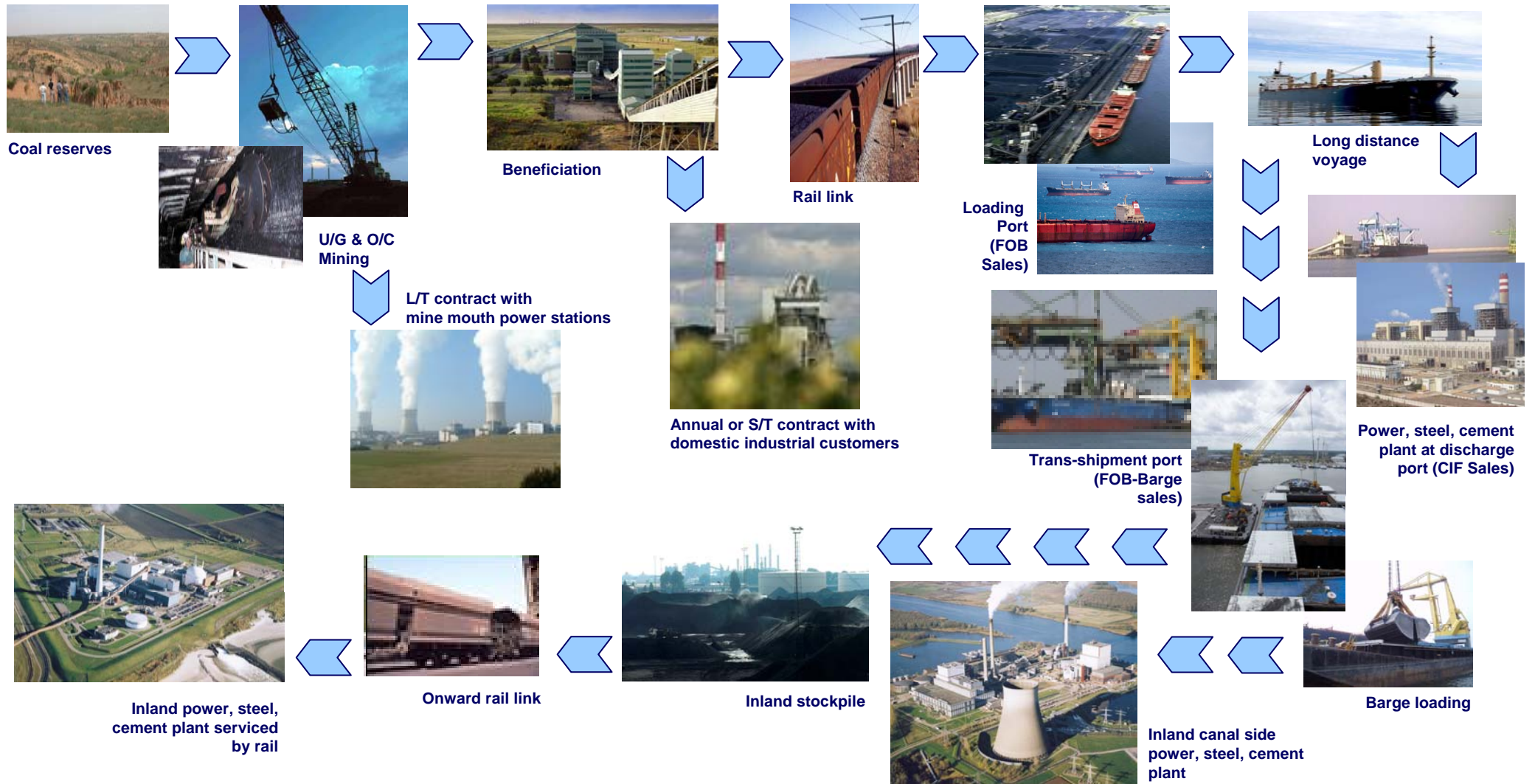
**Jan. 07**  
API4 US\$ 50/mt

**Jan. 08**  
API4 US\$ 100/mt



<20% of tonnage marketed directly by Anglo Coal sold on spot

# Logistics a Key Component of the Supply Chain



# Presentation Outline

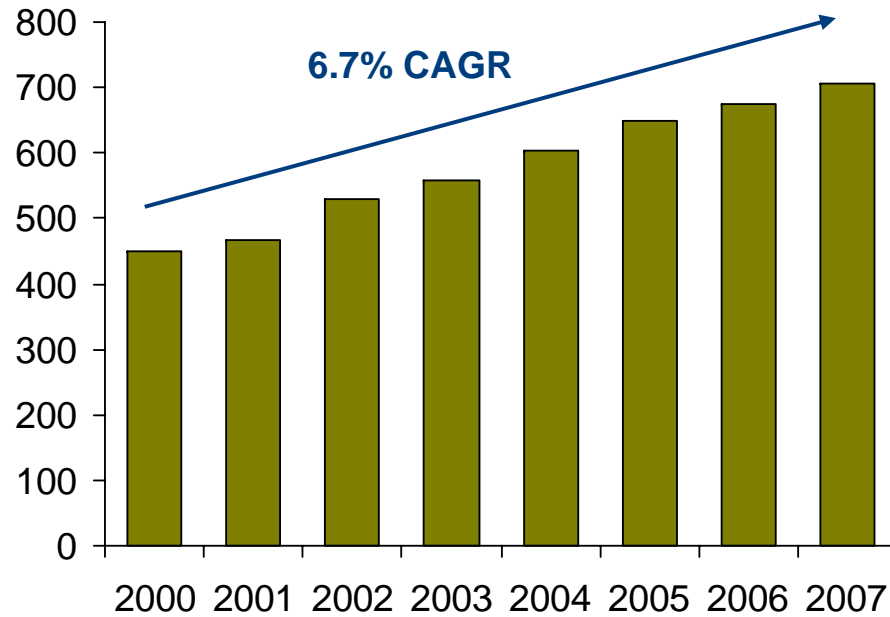


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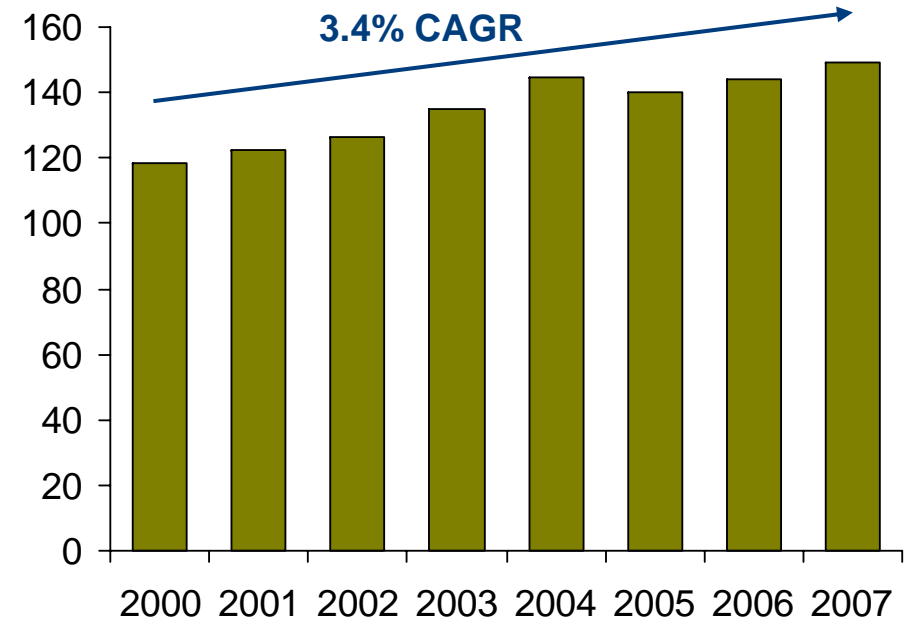
# Sustained Recent Demand Growth



### Export Thermal Coal Demand (Mt)



### Premium Hard Coking Coal Demand (Mt)



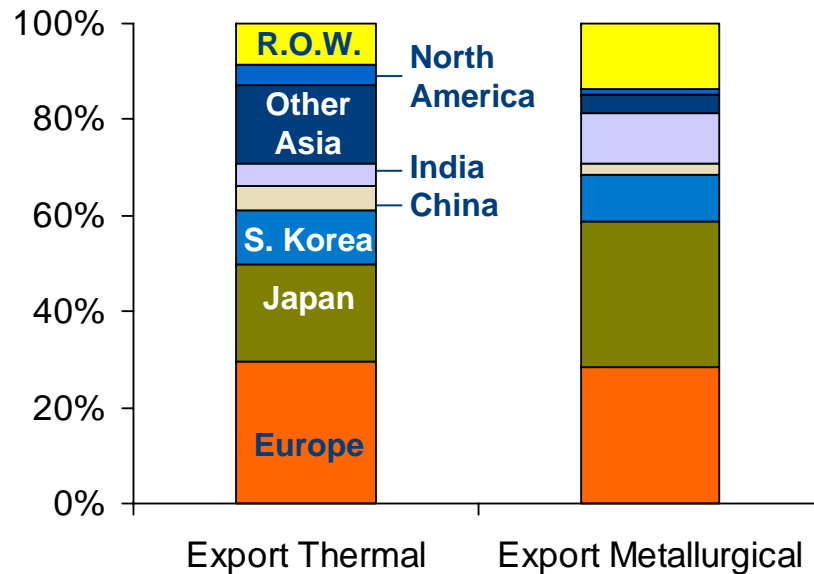
*Note: Based on AME and other publicly available sources*



# Europe and N.E. Asia Drive Demand for Export Coal



% Share of Export Coal Demand, 2007



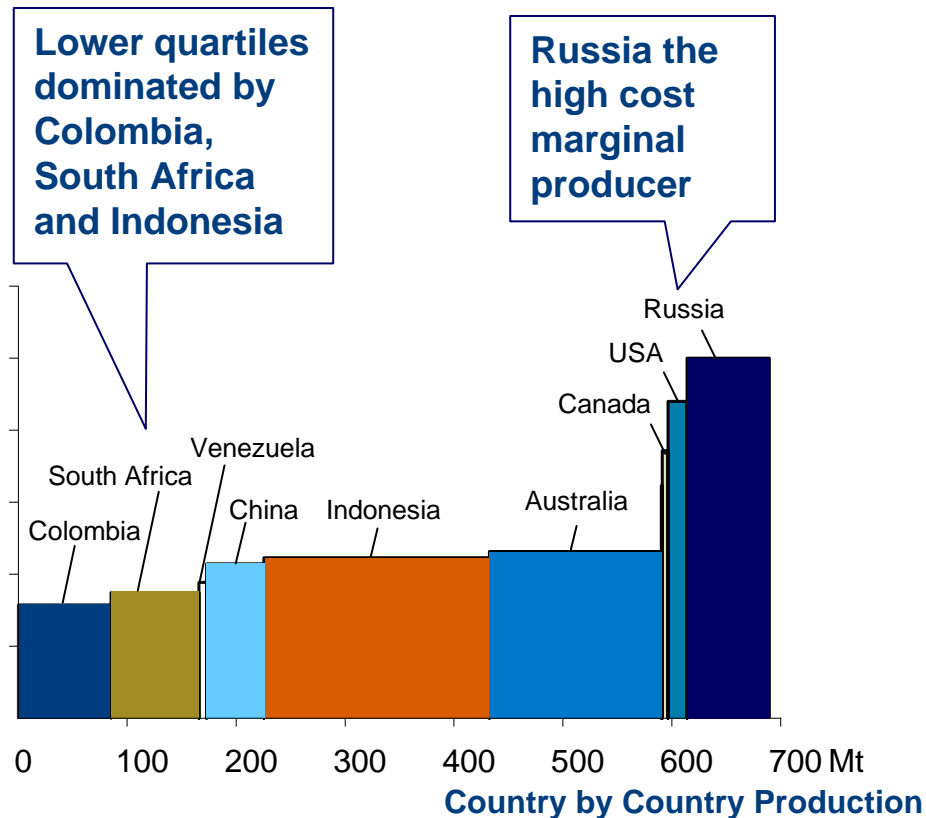
- Export coal demand currently driven by developed economies – Japan and EU 25
- China and US historically exporting surplus consumption – now broadly balanced
- India historically a domestic market – now shifting to net importer

*Note: Indicative cost curves only based on AME and other publicly available sources*

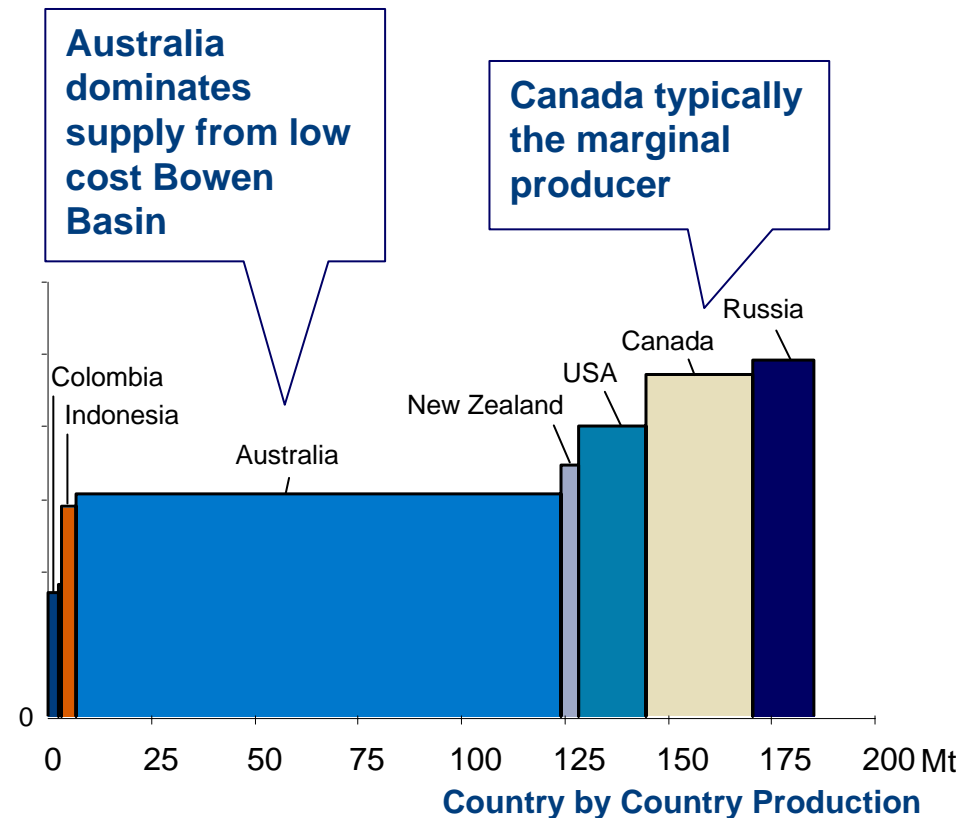
# Differing Cost Structures Across Export Coals



**Indicative Med-Atlantic Export Thermal Cost Curve**  
(US\$/mt, adjusted @ 6000 kcal/kg NAR @ FOB)



**Indicative Premium Hard Coking Coal FOB Cash Cost**  
(US\$/mt @ FOB)

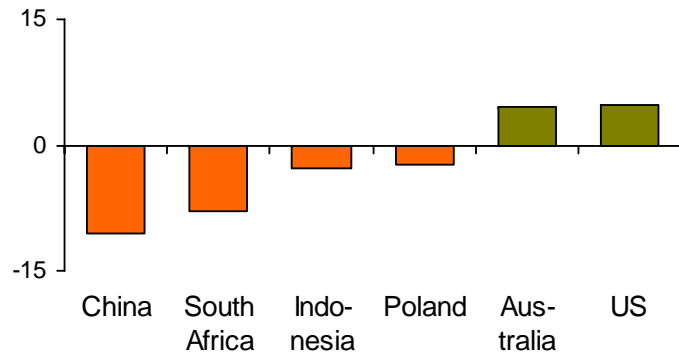


*Note: Indicative cost curves only based on AME and other publicly available sources*

# H1 2008 Supply Side Challenges – Response from Higher Cost North America



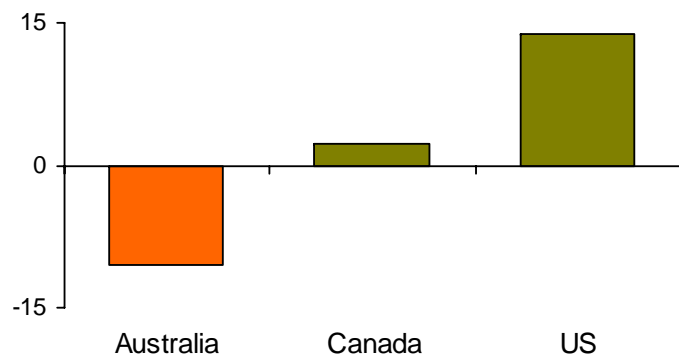
Annualised H1 Export Thermal Supply Increase (2007-2008, Mt), at June 2008



**Australia** – infrastructure bottlenecks, weather

**South Africa** – power, tonnage diversion and rail capacity to Richards Bay

Annualised H1 Export Met Supply Increase (2007-2008, Mt), at June 2008



**Indonesia** – procurement challenges, mining rights, royalty issues, increasingly congested rivers, growing domestic demand

**China** – cut in export licences, restrictive coal trading policies

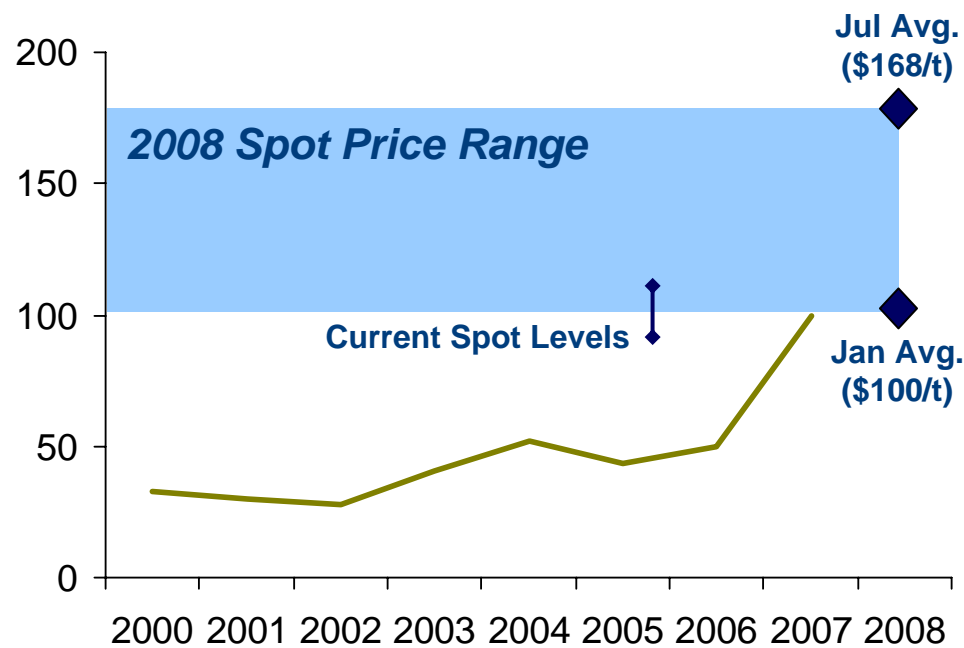
Source: McCloskey, June 2008

# Supply Side Challenges Drove Strong Price Growth



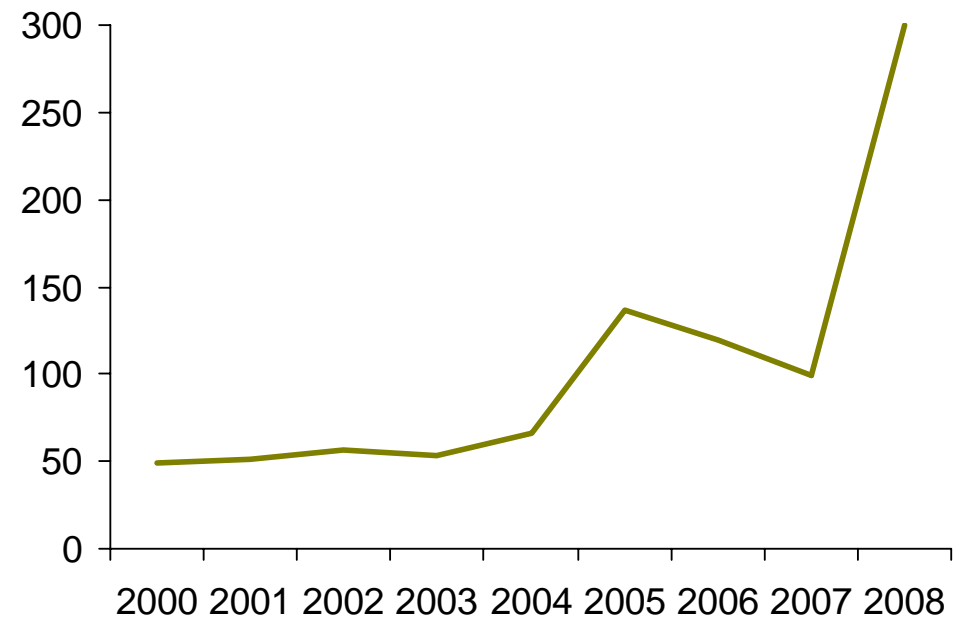
## Thermal Coal Prices (API4)

Quality adjusted, Mt and US\$/mt FOB RBCT



## Hard Coking Coal

Mt and US\$/mt Goonyella FOB Hay Point

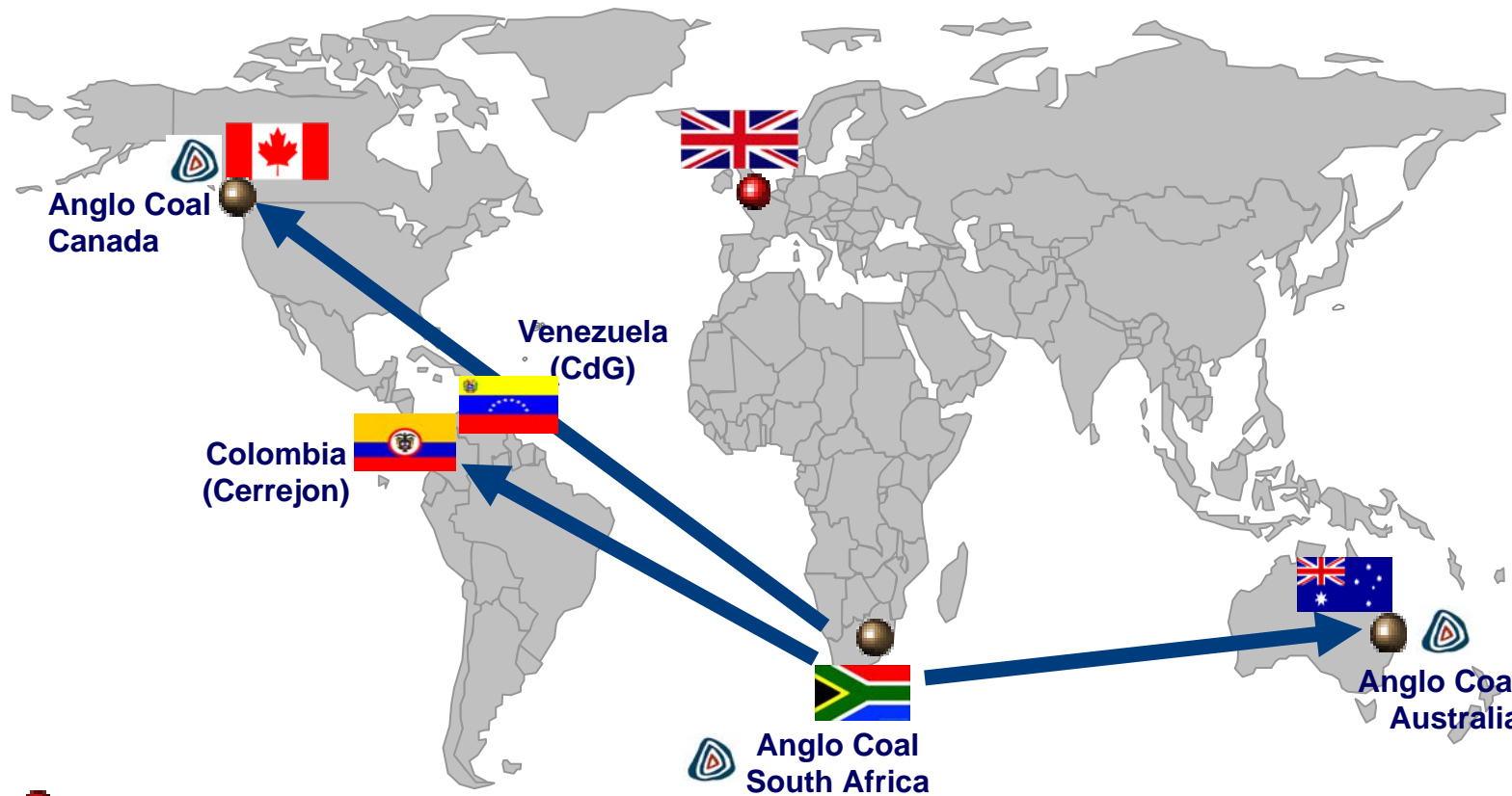


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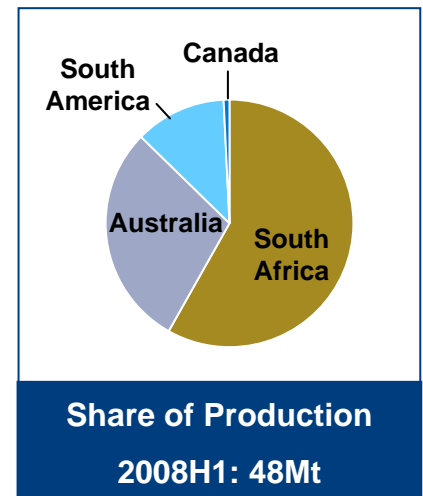
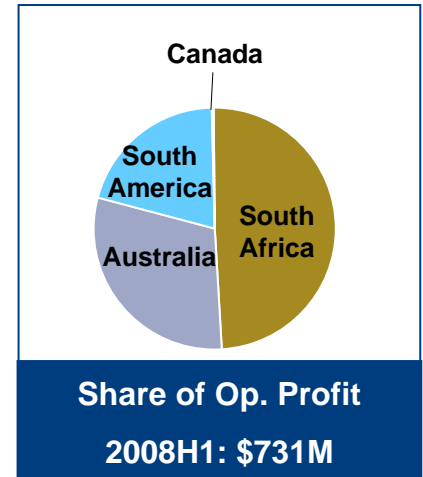


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# Geographically Diverse Production Base



- Global Headquarters
- Regional Headquarters
- Representative office



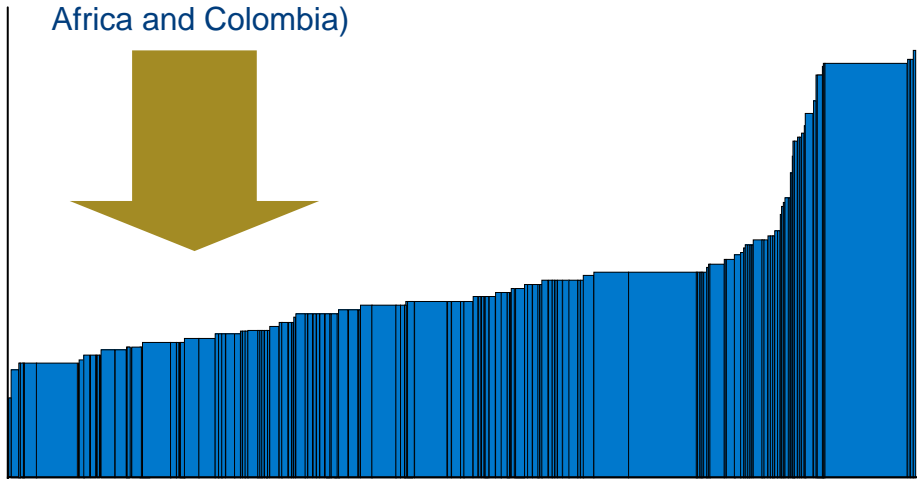
# Low Cost Operations



**Indicative Med-Atlantic Export Thermal Cost Curve**  
(US\$/mt, adjusted @ 6000 kcal/kg NAR @ FOB)

## Anglo Coal

(Predominantly South Africa and Colombia)

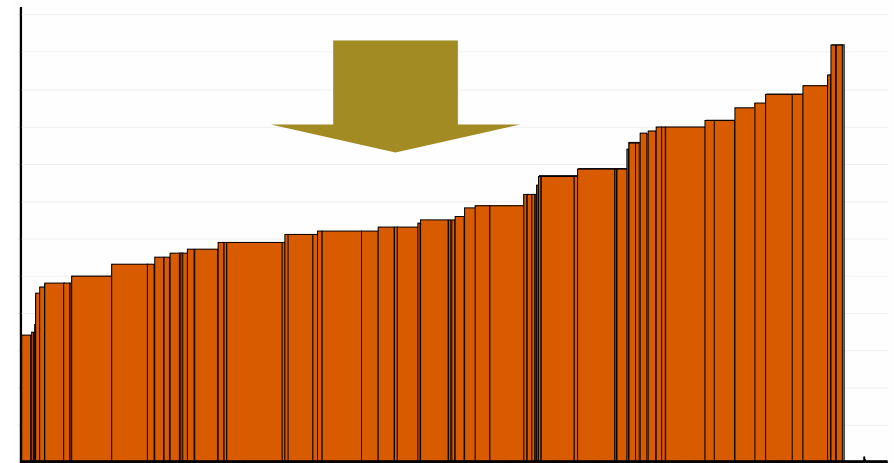


**Mine by Mine Production**

**Indicative Hard Coking Coal FOB Cash Cost**  
(US\$/mt @ FOB)

## Anglo Coal

(Australia)



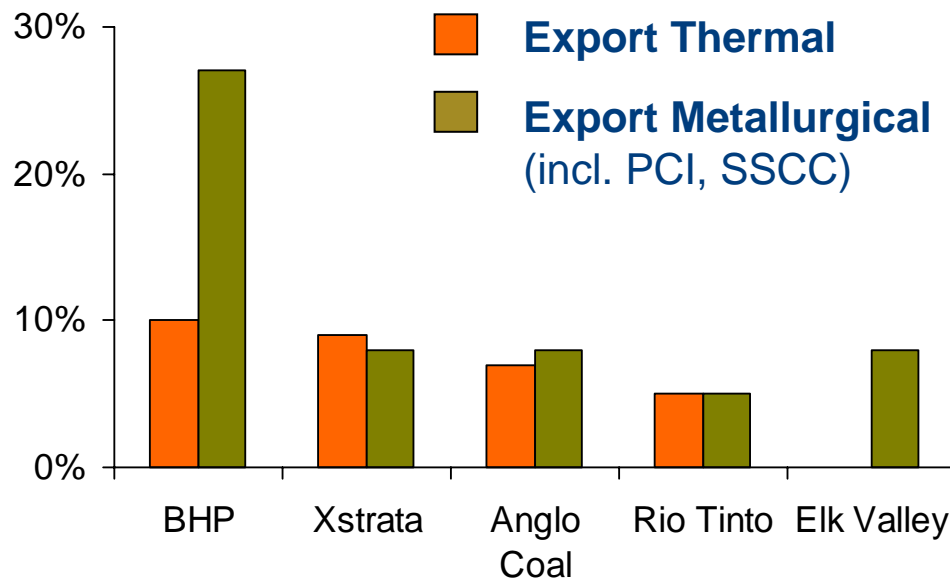
**Mine by Mine Production**

*Note: Indicative cost curves only based on AME and other publicly available sources*

# Major Producer in Both Export Segments



Estimated % Share of Market Export Production



- Production from large scale, long life operations
- High quality coking coal brands from Australia (close to Goonyella benchmark)
- Established export thermal brands through Richards Bay
- Only export met coal producer in both Australia and Canada

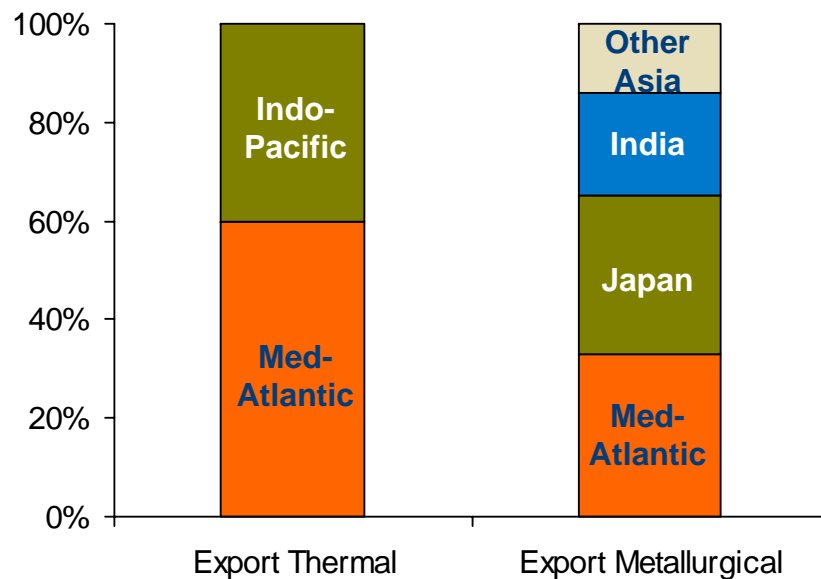
*Note: Indicative cost curves only based on AME and other publicly available sources*



# Diverse Customer Base and Longstanding Relationships



## % Share of Anglo Coal Sales Tonnage



### Export Thermal

- Evenly balanced exposure to global energy demand
- Risk diversified over large number of major utility company customers

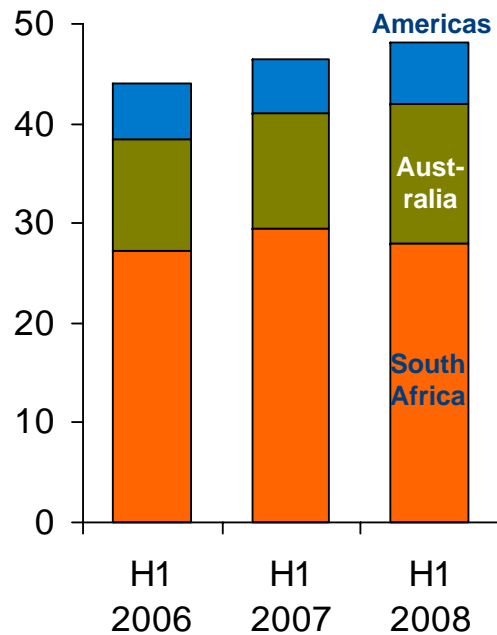
### Export Metallurgical

- Production focused on the major established met coal basins
- Two thirds of production sold to top 10 steel producers and five major met coal customers served from multiple locations
- Long standing customer relationships – key part of their raw material supply mi

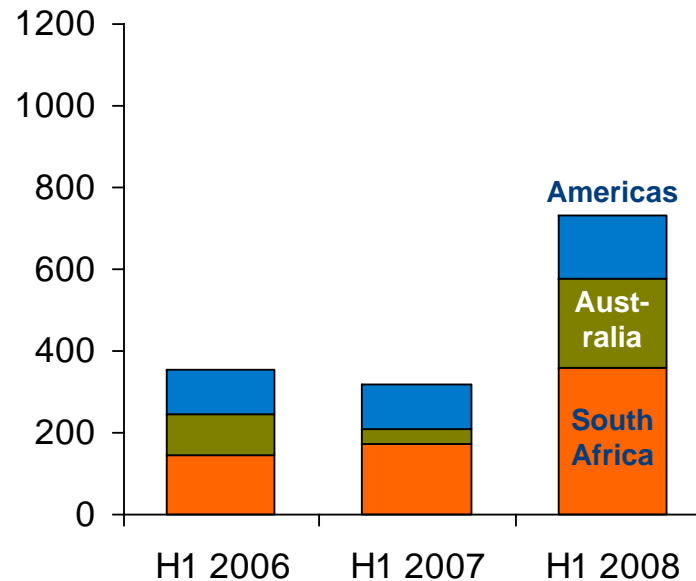
# Building on the Turnaround



Production (Mt)



Operating Profit (\$M)

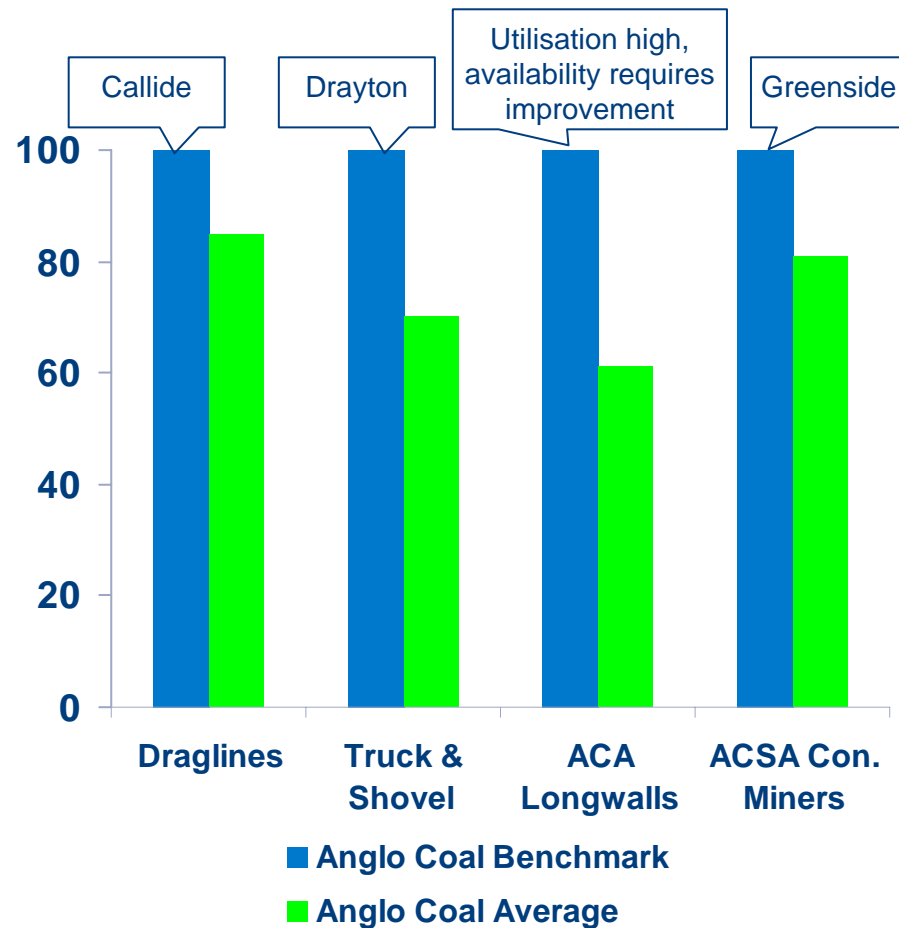


- Mineral rights confirmed in South Africa
- New management teams in place on most Australian operations
- Both South Africa and Australia exposed to exchange rate: AUD 10c change = \$190M, and ZAR 80c change = \$70M for a full year

# Continued Focus on Cost and Productivity – Asset Optimisation



## Equipment Performance Benchmarking (%)



### Revenue

- Equipment performance benchmarking and improvement
- Pit coal recovery maximisation
- Logistics optimisation between plant and port
- Value increase by product blending and contract renegotiation

### Costs

- Maintenance = 30% of spend – under review
- Focus on increasing labour productivity

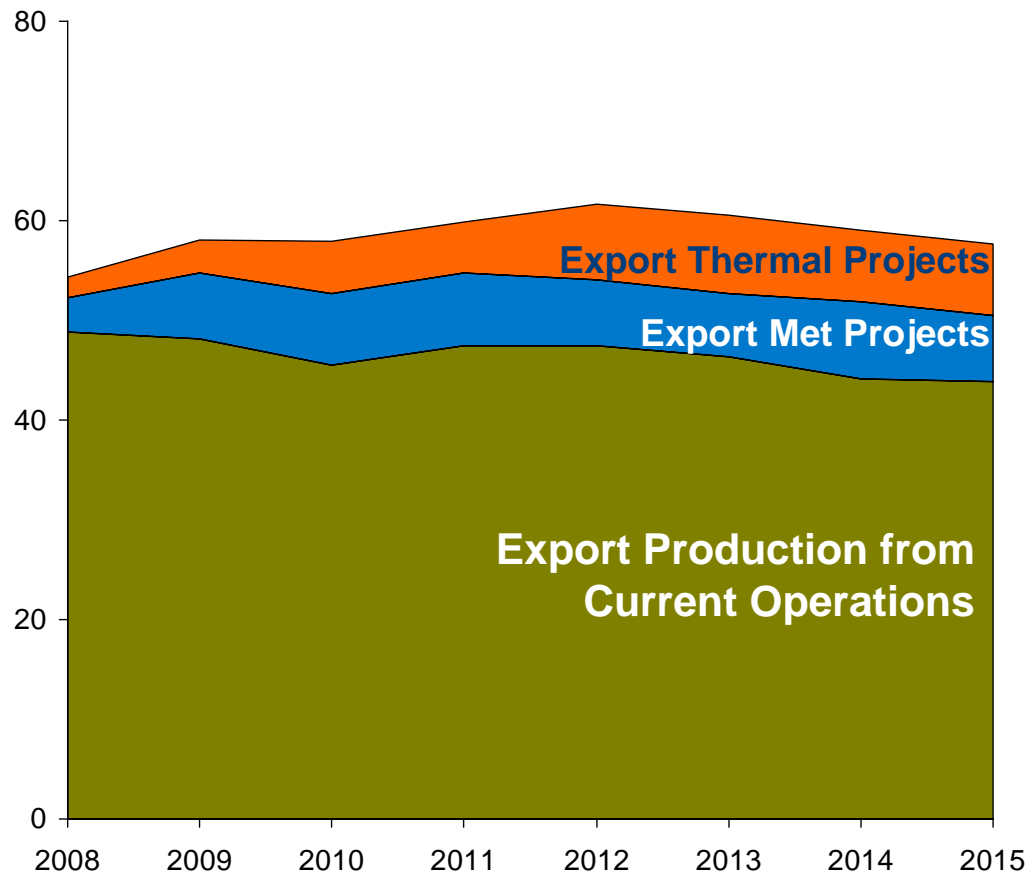
### Capital expenditure

- Stay-in-Business capex reduction through risk ranking process - target spend below depreciation and amortisation

# Expansion Projects Largely Complete, Growing Export Production

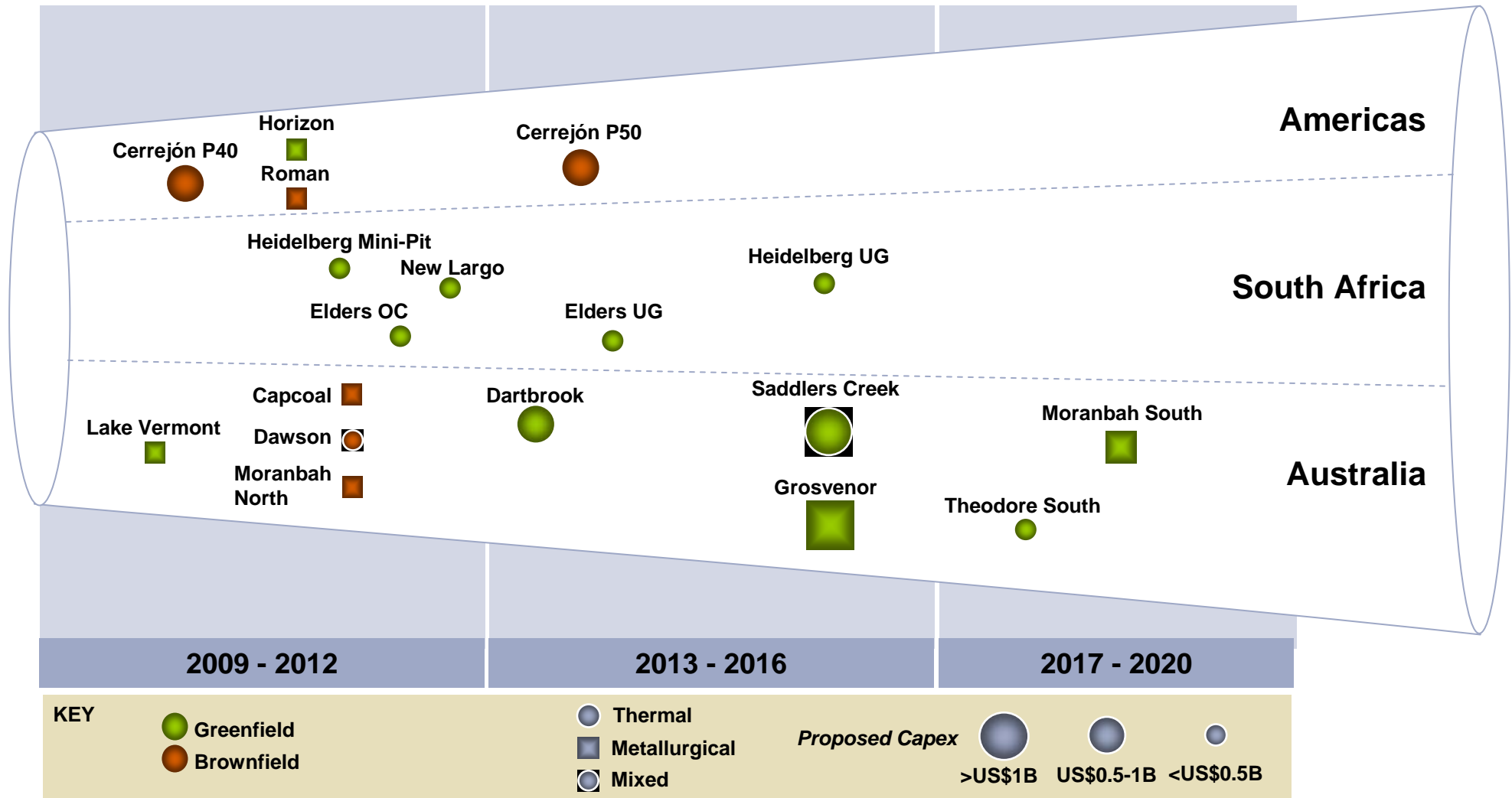


Anglo Coal Share of  
Production (Mt)



- **Lake Lindsay:** 4Mt of Bowen Basin HCC and SSCC for the export market (*Anglo share = 70%*)
- **Dawson:** 5.7Mt of Bowen Basin HCC, SSCC and export thermal (*Anglo share = 51%*)
- **Cerrejon:** 3Mt of additional low cost, export thermal quality coal for the Med-Atlantic market (*Anglo Share = 33%*)
- **Mafube:** 5.4Mt of export and Eskom thermal coal, fully utilising the resource base (*Anglo share = 50%*)
- **Zondagsfontein:** 6.6Mt of export and Eskom thermal coal, first project under Anglo Inyosi Coal (*Anglo share = 73%*)
- **Project capex** – US \$500M still outstanding

# Near & Long Term Project Pipeline Options

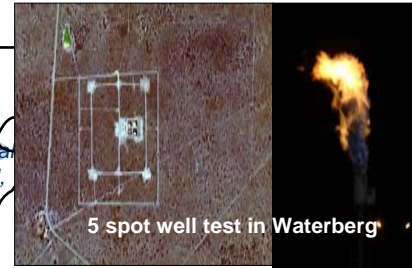
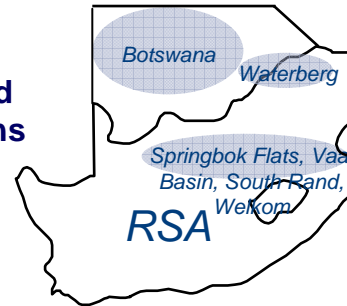


# Building an Asset Base for the Future



## Business opportunities beyond conventional coal are expanding

Coal bed methane (CBM) exploitation allows safer mining, emissions reduction, power generation and could extend the business model in existing regions



Stranded reserves such as the Monash project in Victoria have mining, gasification, liquifaction and CCS opportunities, but development economics are currently very challenging



The Xiwan project in China offers opportunity for conventional mining, gasification and a range of chemical product streams



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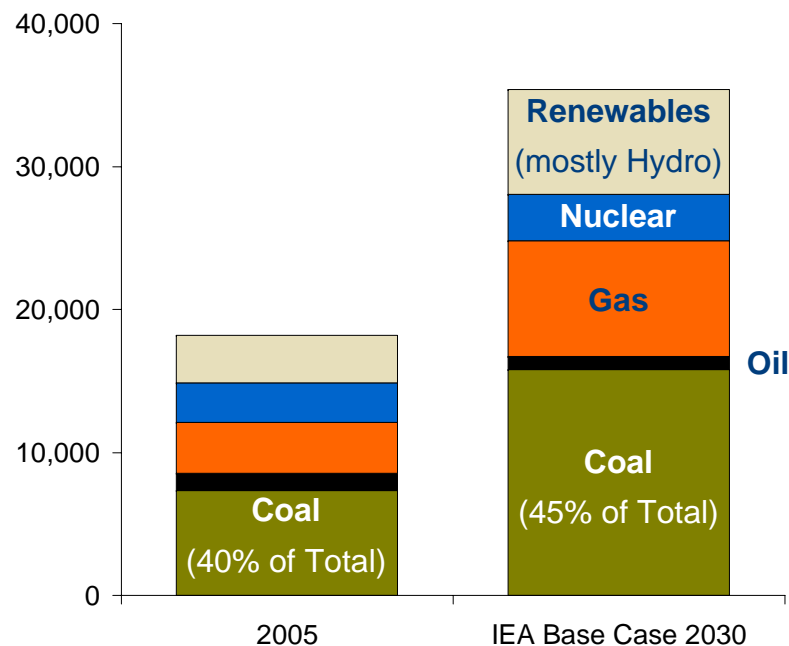


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# Thermal Coal to Remain the Primary Fuel for Electricity Generation



World Electricity Generation by Fuel Type (Twh)



- World electricity demand forecast to nearly double by 2030 (China and India drive ~45% of incremental demand)
- Coal a large low cost fuel per kwh when considering both capex and opex
- In locations where coal is plentiful, it is likely to remain the fuel of choice for electricity generation

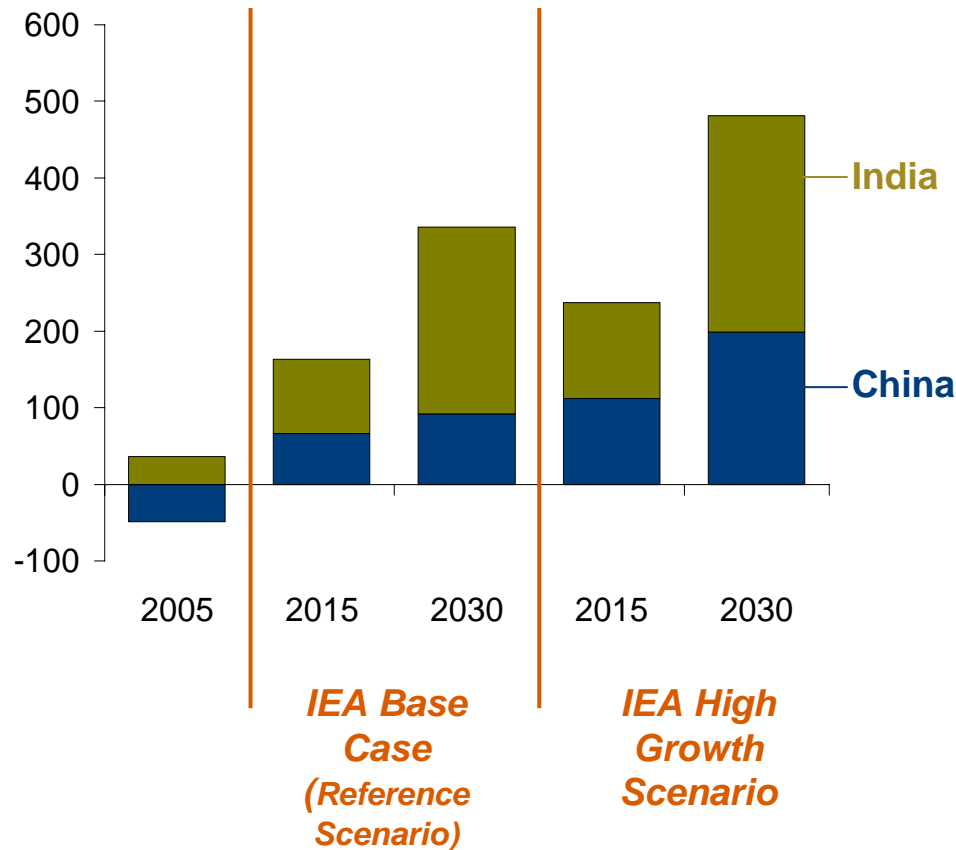
Source: IEA, World Energy Outlook 2007



# Thermal Coal Most Exposed to China / India Growth – Both Becoming Net Importers



Forecast China and India Net Thermal Coal Imports (Mt)



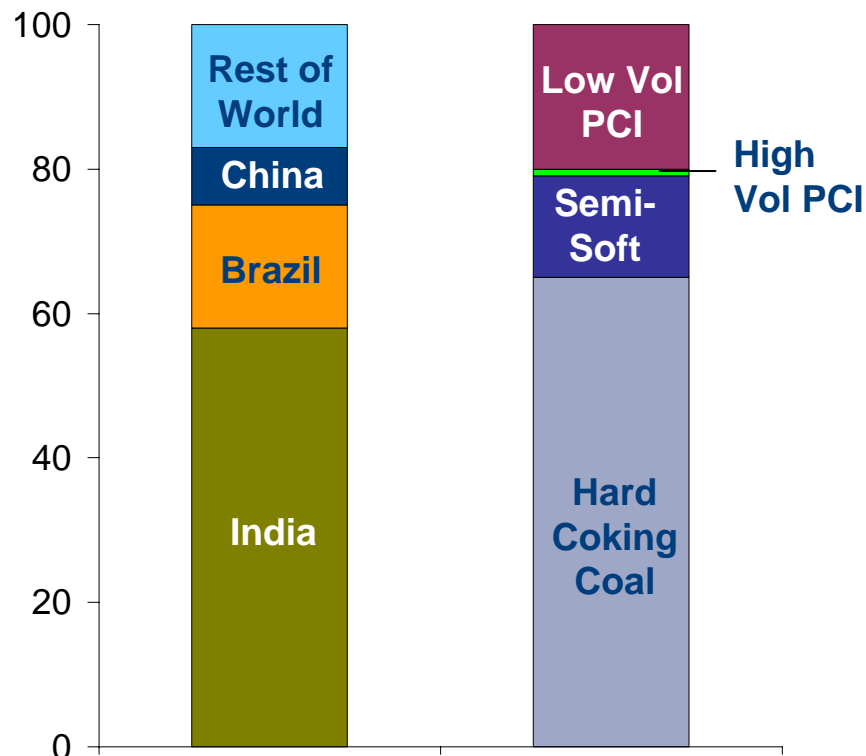
- Both regions expanding coal powered generation infrastructure
- China production challenged by safety issues
- India challenged by domestic coal quality

Source: IEA World Energy Outlook 2007

# Brazil, India to Drive Demand Growth for Metallurgical Coal



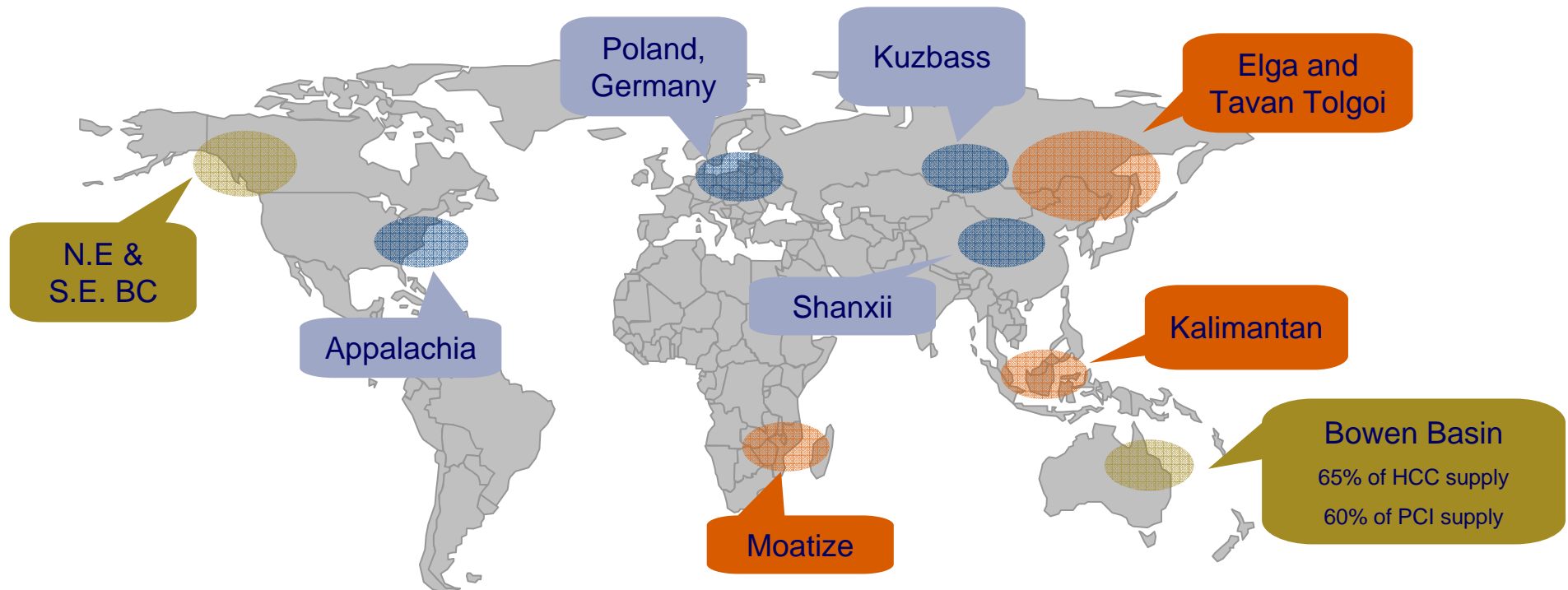
Share of Forecast Incremental Export Met Coal Demand 2008 – 2012 (%)



- Met coal demand growth will be dependent on Indian and Brazilian steel production
- Customers highly dependent on Australia – 65% of HCC supply and 60% of PCI supply
- Latest AME view (last week) suggests growth rate in met coal will reduce from 4.1% pa in 2008 to 2.4% pa in 2009
- Around 75% of 2009 growth in imports will still be attributable to Brazil, China and India
- Beyond 2010, imports to rebound driven by India and Brazil (HCC and LV PCI)

Source: AME

# No Near Term Sources of New Production, Especially in Metallurgical Coal



*Existing basins, close to domestic demand, but increasingly high cost and challenging*

*Current major exporters, high quality resource, existing infrastructure*

*Emerging Greenfields, infrastructure and quality challenges, long time horizons*

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# Conclusions



- Market volatility creating demanding conditions
- Near term focus on costs, productivity, and project completion
- Recent expansion phase almost complete – new, low cost production available
- Significant project pipeline, but timing flexible to suit market conditions
- 18 operations, 5 countries, 100Mt of production, 2.3Bt of reserves, 8% share of the export market

**Adapting to the short term to thrive longer term**



# Question and Answer session