A climate for clean coal partnerships

Global sustainable development report 2005

ANGLO COAL

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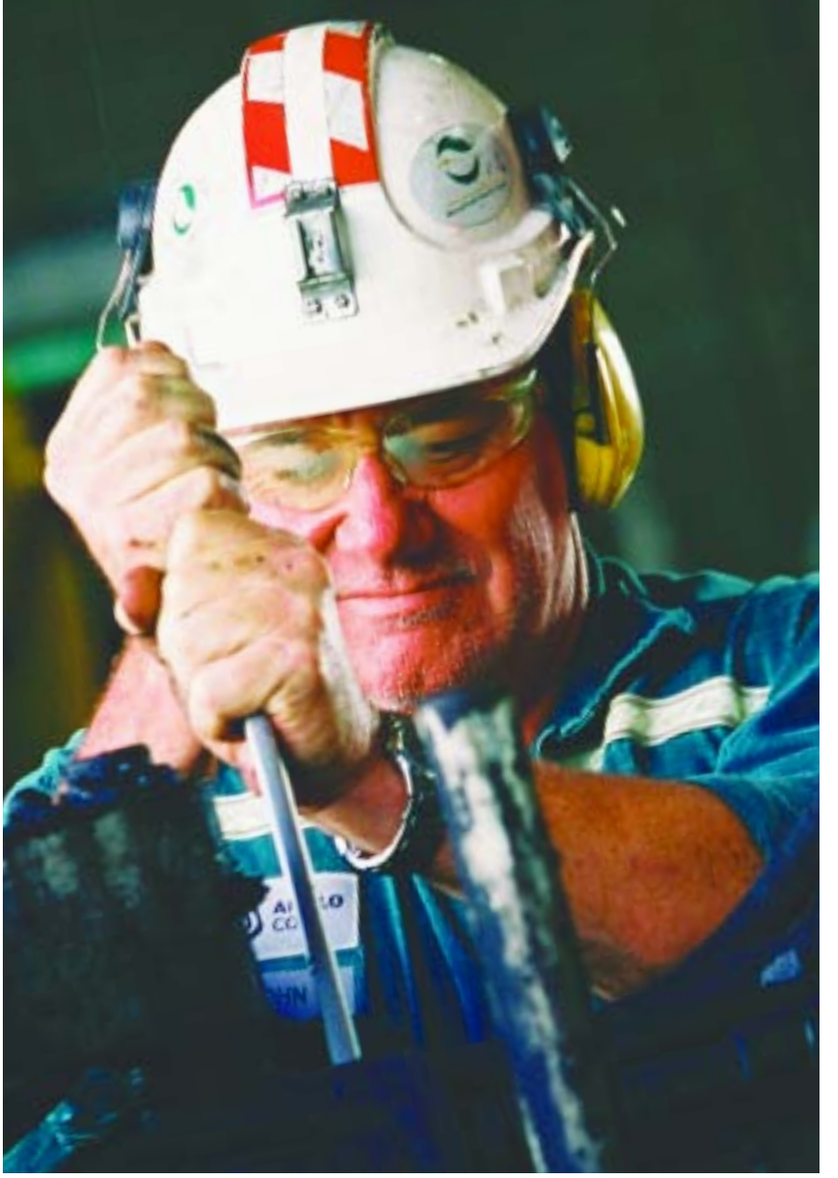


Report scope

This report covers the operations owned and managed by Anglo Coal for the year 2005. It excludes all non-managed operations.

GRI INDICATOR KEY

- VISION AND STRATEGY
- PROFILE
- CORPORATE GOVERNANCE
- ECONOMIC PERFORMANCE
- ENVIRONMENTAL PERFORMANCE
- SOCIAL PERFORMANCE INDICATORS – LABOUR PRACTICES
- HUMAN RIGHTS
- SOCIETY
- PRODUCT RESPONSIBILITY

Background> Anglo Coal is wholly-owned by Anglo American plc. The ownership structure is reflected on page 4. The report was developed using the Global Reporting Initiative (GRI) 2002 guidelines for sustainability reporting.

Additional reports> This report aims to provide information about how we, as a global coal business, are setting about achieving our goals to be a sustainable enterprise. The report is intended to bridge the gap between our two regional annual sustainable development reports, Anglo Coal Australia's *A climate of change – transforming coal* and Anglo Coal South Africa's *A climate for clean coal partnerships*, and the Anglo American plc *A climate of change Report to Society 2005*.

Independent assurance> KPMG has undertaken an external, independent review, at selected sites, of the sustainability performance indicators reflected in this report and associated Anglo Coal regional reports. KPMG's independent assurance report is on the inside back cover.

2.1 | 2.11 | 2.13 | 2.15 | 2.22

Chief executive officer's review

1.2
2.12
EC7

"In 2006, we will aim to embed a mindset which indicates that all injuries are preventable. We will also inspire a learning culture so that we can avoid repeat accidents and, at the same time, reinforce the acceptance that safety standards and values are non-negotiable"

JOHN WALLINGTON
CEO, Anglo Coal

IT GIVES ME PLEASURE to present you with our second consolidated global sustainable development report. We have, in the past year, made progress with our growth-driven strategy and commitment to participating in and, where appropriate, leading industry progress on sustainability issues. We have a role to play in bridging the historically poor image of the coal industry to lead us into an era in which coal is the environmentally acceptable mainstay of the global energy mix. This is especially valid in developing countries where economic and related advances depend on low-cost and reliable energy sources.

2005 performance

The information in this report provides an overview of Anglo Coal's progress in implementing the core aspects of sustainable development within our business processes. We have made progress with our organisational culture transformation programmes, namely *Yebo Siyaphambili* in South Africa and *People, Performance, Growth* in Australia. The culture change initiatives, although customised for regional employees, will serve to develop a shared understanding of our values and help employees with their personal growth. It is expected that culture change will enhance communication, safety and productivity, and move Anglo Coal from a good to a great company.

Safety> In 2005, we were unable to meet our safety targets and it is with deep regret that I report the deaths of six of our people at operations in South Africa and Australia.

There were, however, instances of excellence which indicate that our safety targets are achievable. The safety performance at Goedehoop colliery, which recorded a single lost-time injury in 2005 and received the Anglo American plc safety award for large operations, serves as a milestone in our progress towards zero lost-time injuries.

Anglo Coal has begun a process to implement safety improvement plans at our operating sites.

Health> Our ongoing focus on workplace HIV and AIDS programmes continues to deliver positive results. About 68% of employees in South Africa participated in voluntary counselling and testing in 2005. The provision of anti-retroviral treatment to HIV positive employees has had a significant impact on reducing absenteeism and incidents of cardio-respiratory tuberculosis.

Environment> As part of our efforts to reduce our environmental footprint, we have embarked on a process to better assess our energy consumption baselines and to identify and implement energy-saving projects. Our aim is to achieve a 15% improvement in energy intensity by 2014. We have formed wider stakeholder partnerships to manage water consumption and the treatment of waste water.

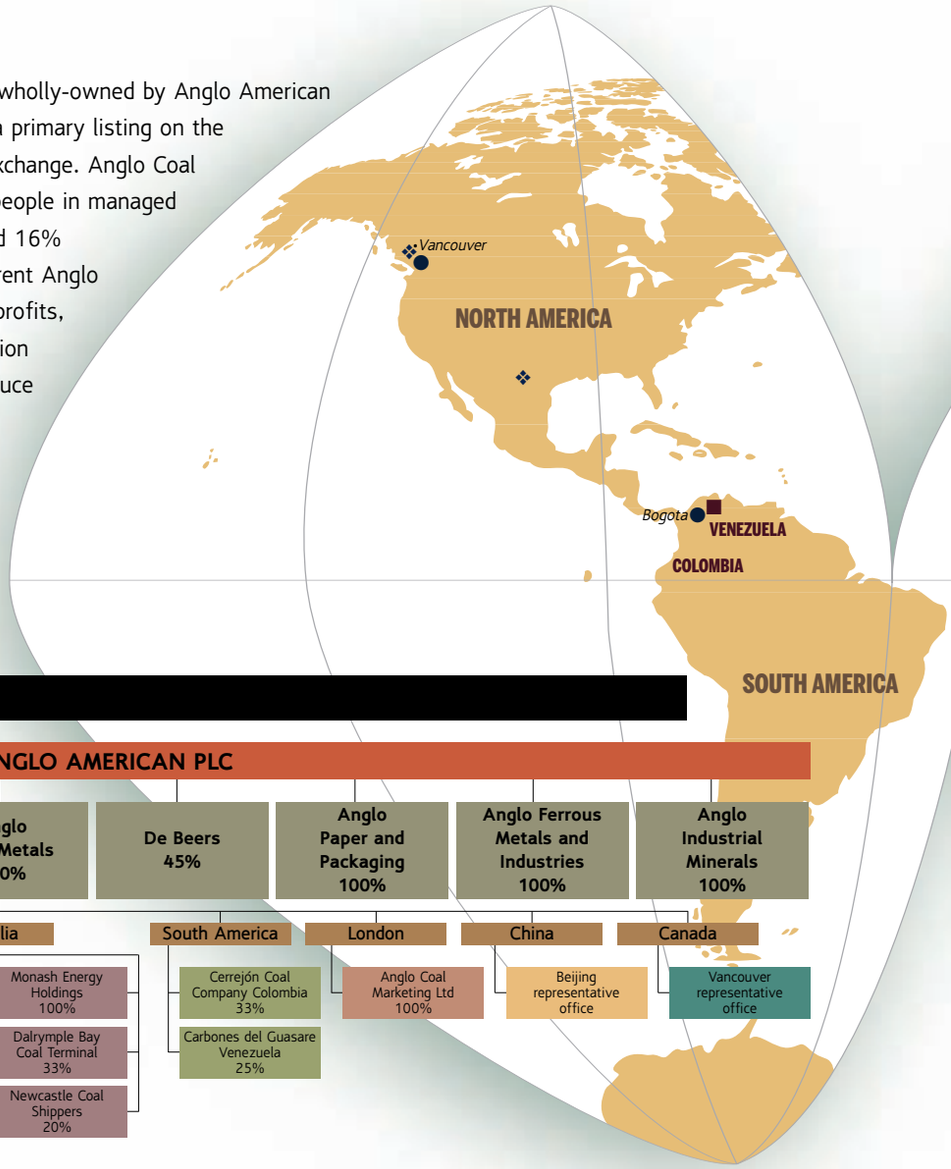
Financial performance

US$ million	2005	2004
Operating profit	**1,019**	497
EBITDA	**1,243**	687
Net operating assets	**2,244**	2,303
Capital expenditure	**331**	218
Share of Anglo American plc operating profit (%)	**16**	11

Global overview

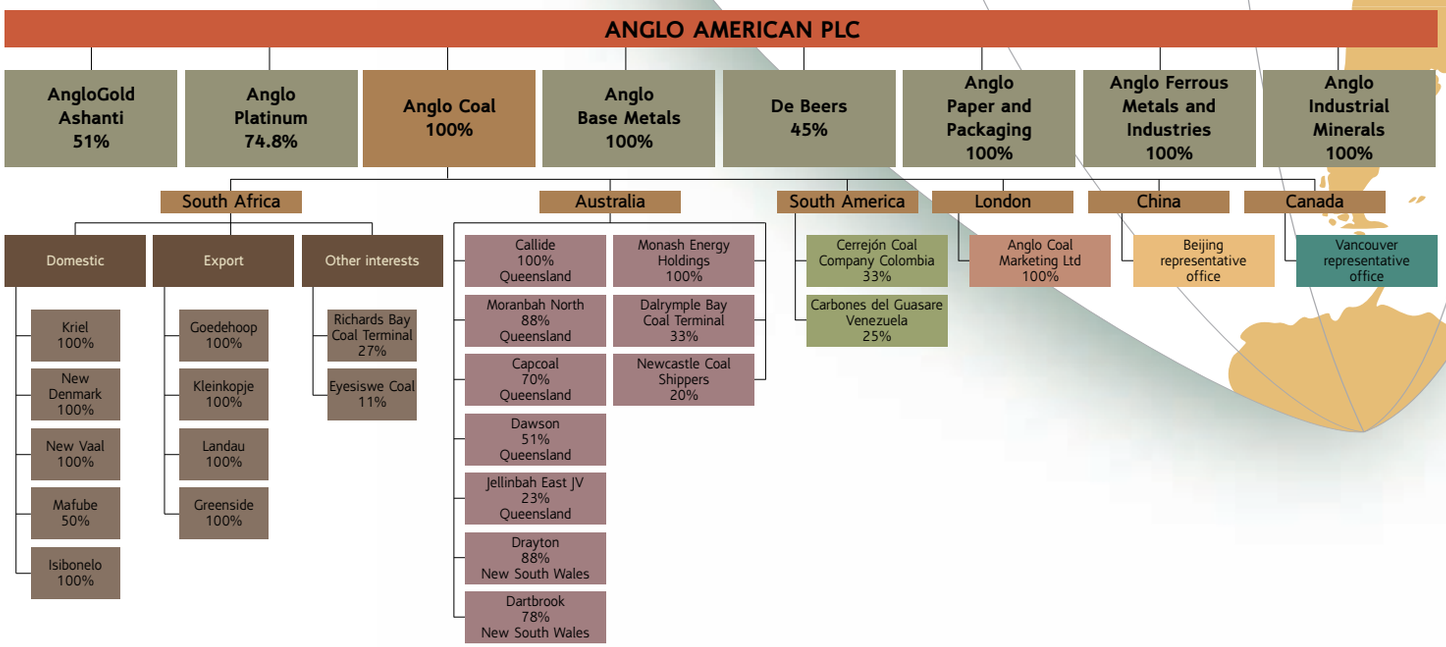
2.1 | 2.2 | 2.3 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 | 2.14
EC1 | EC2
LA1 | LA2

ANGLO COAL is wholly-owned by Anglo American plc, which has a primary listing on the London Stock Exchange. Anglo Coal employs around 15,000 people in managed operations and contributed 16% (US$1,019 million) to parent Anglo American plc's operating profits, the highest-ever contribution from Anglo Coal. We produce thermal and metallurgical coal for international export markets and for domestic customers in the countries in which we operate.



- Corporate offices
- Operations
- Projects

Company profile



South America

Attributable production / Mt	10.1
Attributable earnings (EBITDA) / US$ mil	273
Attributable reserves (ROM) Mt	353
Additional resources (MTIS) Mt	381

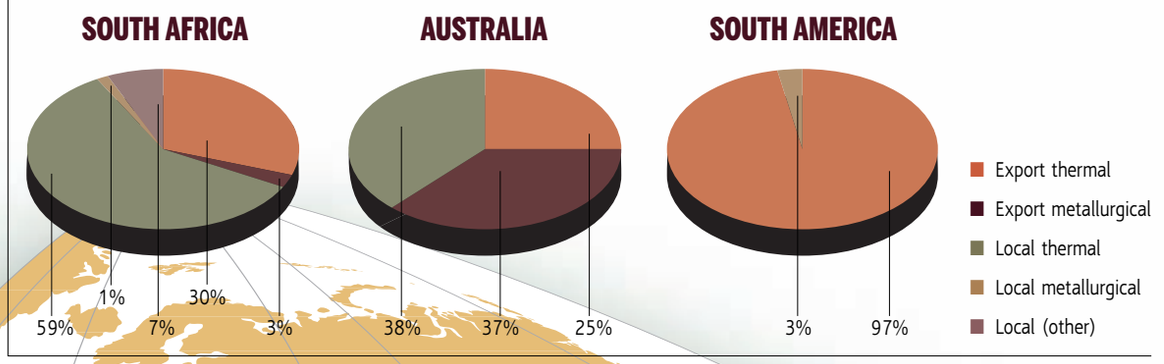
South Africa

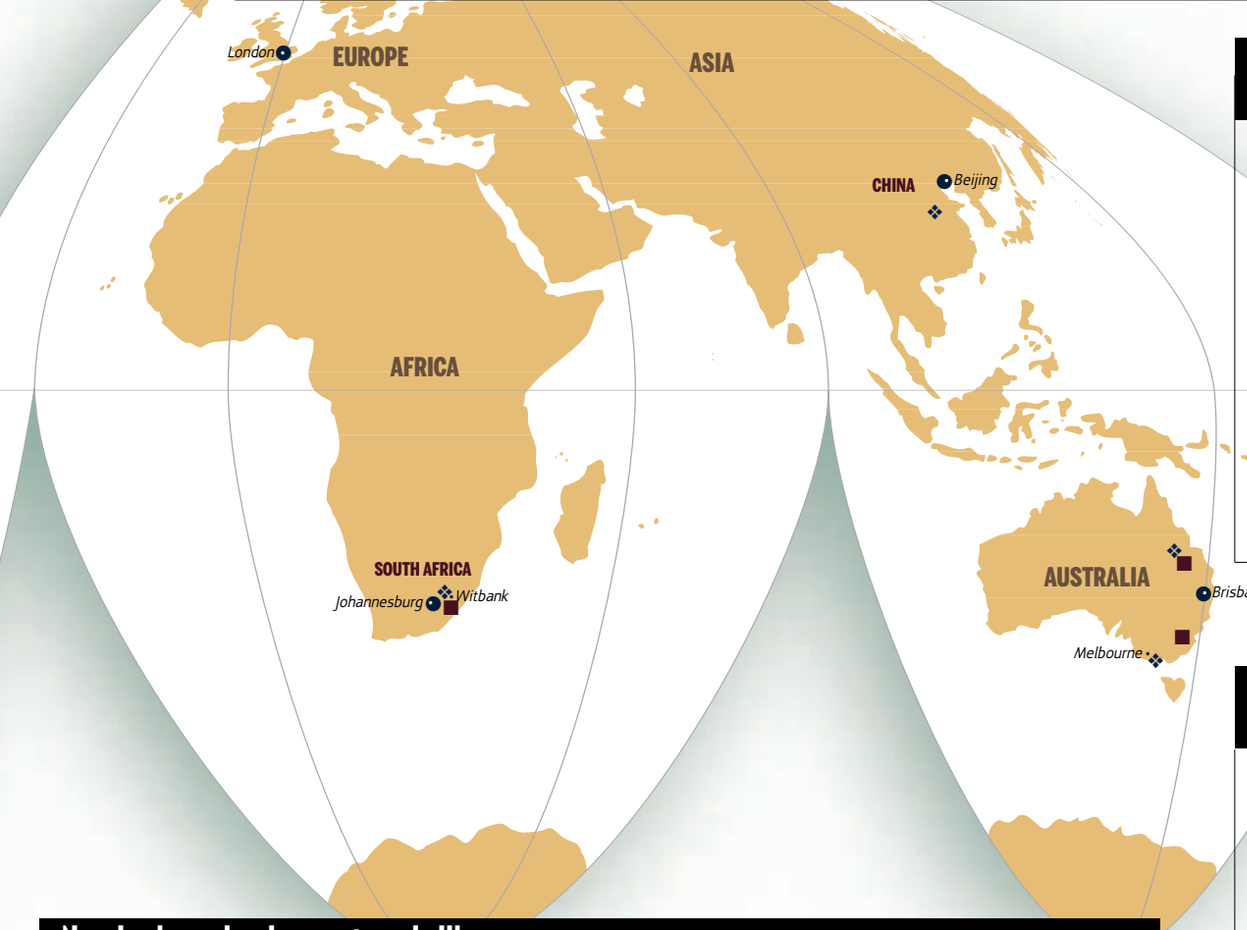
Attributable production / Mt	56.9
Attributable earnings (EBITDA) / US$ mil	523
Attributable reserves (ROM) Mt	1,388
Additional resources (MTIS) Mt	3,353
Employees and full-time contractors	11,148

Australia

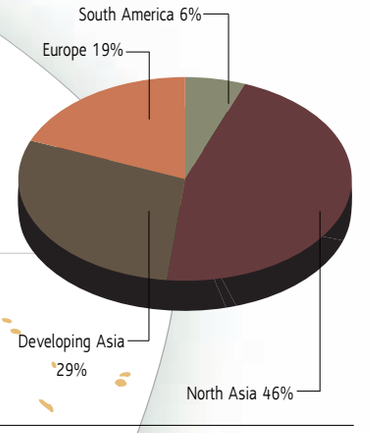
Attributable production / Mt	26.1
Attributable earnings (EBITDA) / US$ mil	447
Attributable reserves (ROM) Mt	1,108
Additional resources (MTIS) Mt	1,838
Employees and full-time contractors	3,890

Production by coal type

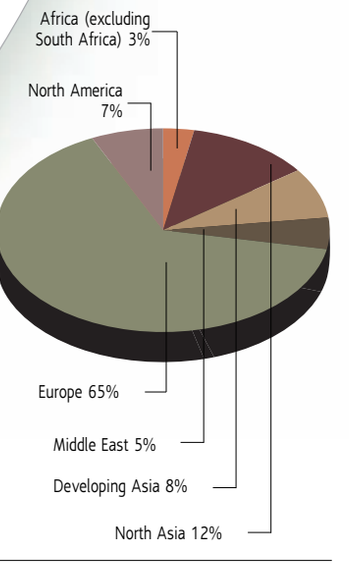




Export sales by destination Metallurgical



Export sales by destination Thermal



New business developments and alliances

SOUTH AFRICA

Isibonelo> First consignment of coal supplied to Sasol July 2005. Production commenced on time and on budget. Full production of 5Mtpa thermal coal to Sasol as of 2006.

AUSTRALIA

Anglo American plc and Shell alliance> To develop selected coal projects for low emissions production of chemicals, liquid fuels, electricity or hydrogen. Examining the opportunity to include Anglo Coal's Monash Energy, into the alliance.

Lake Lindsay> Expansion into new mining area at Capcoal complex. Production of 3.7Mtpa of metallurgical coal will commence late 2006.

Dawson> Combining three adjacent coal mining areas. Full production of 13Mtpa export thermal and metallurgical coals as of 2007. Will also supply seamgas for Queensland's gas pipeline system.

NORTH AMERICA

FutureGen> Participation in the US government led industrial alliance consisting of major energy and mining companies, to design, construct and operate the world's first 'zero emissions' coal-fuelled power generation plant.

Hillsborough Resources> Consists of two properties in British Columbia, Canada – the Horizon Group and the Murray River Group. Anglo Coal will manage ongoing exploration and development of the latter, commencing July 2006.

CHINA

Shenhua Energy Company> Investment of S$150 million for participation in the large integrated coal-based energy company. Comprises thermal coal mines, rail transport infrastructure, a loading port and power generation business. Planned increase in production to 149Mtpa by 2007.

Top: A key initiative implemented by Anglo Coal Australia in 2005 was the Control of Energy Standard, *which requires the use of personal locks on equipment to protect operators against accidental releases of energy.*

Above: Anglo American plc chief executive Tony Trahar (right) presents the group's top safety award for 2005 to Anglo Coal South Africa's Goedehoop colliery, represented by regional general manager John Standish-White.

In South Africa, work is in progress to complete a 20Ml per day plant that will treat water discharged from Anglo Coal's Kleinkopje, Landau and Greenside collieries, and potentially also the neighbouring BHP Billiton colliery. The plant is scheduled for completion in 2007 and the treated water, which will be of potable quality, will be sold to the local Emalahleni municipality.

Our waste management strategy is being revised to include a greater focus on waste minimisation at the source, waste avoidance, recycling and recovery of valuable coal products from waste streams.

All operations are progressively instituting biodiversity action plans. These plans are integrated with the life-of-mine plans, and post-mining rehabilitation and closure plans for each operation.

Community> Through the implementation of the Socio-Economic Assessment Toolbox (SEAT) process over the past two years, our community engagement plans have been reviewed to be more responsive to identified issues. The development of social and labour plans in South Africa has resulted in a similar outcome. We have met, and in some cases exceeded, our Mining Charter targets in South Africa with 11% of our workforce consisting of women and 30% of our senior managers being historically disadvantaged South Africans (HDSAs). Procurement from black economic empowerment companies rose from US$115 million in 2004 to US$170 million in 2005.

In Australia, we participate in regional partnerships in central Queensland and the Hunter Valley, which resulted in a shared responsibility agreement with traditional owner groups that live in Woorabinda.

Business sustainability

Climate change> Climate change is a strategic focus for Anglo Coal as it has a significant influence on the future of our industry. We understand our role in a carbon-constrained future. Importantly, we are starting to understand what we need to do to ensure that we are adaptable, effective and respected by all stakeholders. Our response has been to embed carbon constraint considerations in all our business activities extending from production to the use of coal. We have become increasingly involved in promoting and developing carbon mitigation and offset technologies. These range from large-scale business development projects, such as Monash Energy, to alliances with the project FutureGen and much smaller-scale investments in emerging photovoltaic technologies.

We continue to make significant progress at an industry level where energy security and the role of coal in developing economies are key considerations. We contribute actively to efforts in the World Coal Institute, IEA Clean Coal Centre, Carbon Sequestration Leadership Forum and in regional organisations such as Coal 21 in Australia and CoalTech 2020 in South Africa.

The way forward> Our direction is clear and premised on a move towards a less carbon-intensive use of fossil fuels supplemented by alternative energy sources. We will need support from, and the co-operation of, all our stakeholders to understand the problems and the opportunities as we tackle the future.

We look forward to your views on our progress.

JOHN WALLINGTON
CEO, Anglo Coal

Framework for sustainable development

3.1 | 3.4 | 3.9 | 3.13 | 3.20
EN14 | EN16
HR10

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs"

Brundtland report 1987

The five capitals model

USING THE COMMONLY-HELD understanding of sustainable development defined, in the Brundtland report *Our Common Future*, as "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs", Anglo Coal has adopted the Five Capitals model to conceptualise a framework in which the external impact of our mining activities is balanced by external contributions to the collective effort of creating a sustainable future.

The five capitals comprise natural, human, social, manufactured and financial capital. In terms of this framework, mining activities are seen as transforming natural capital into sustainable livelihoods and human development, new technologies and wealth creation.

Natural capital> The natural environment provides the foundation on which all other capitals are built. Future generations require clean air, potable water, affordable energy, functioning ecosystems and the means to generate livelihoods.

Our key activity involves the extraction of coal, a component of natural capital. We can conserve natural capital by ensuring that our mining activities take into account ecosystems, that we use resources efficiently and that we minimise waste generation.

We need to work with suppliers, customers and other stakeholders to reduce our footprint on the environment. This extends from pollution prevention and water management to development of new and alternative technologies to reduce greenhouse gas emissions associated with coal combustion.

Human capital> This is of particular importance in developing economies, where skills development and job creation contribute to longer term economic growth. At Anglo Coal, safety and health are key priorities, and the company has set in place programmes to attract and develop talent and to actively address gender and diversity imbalances.

Social capital> Building social capital is no longer an act of philanthropy – it has become a value adding process for keeping and building sound external stakeholder relationships. It provides a level of sound long-term neighbourly relations and a 'social licence to operate'. For Anglo Coal, this involves stimulating small-scale business development, strengthening social institutions, such as schools, and other corporate social investment initiatives.

Manufactured capital> This relates to the infrastructure and technology in process and product stewardship activities; improving efficiencies in mining; innovative technologies in water treatment; improving coal beneficiation yields; and research and development of new technologies in carbon capture and storage.

Financial capital> In a competitive business environment, economic capital is built by delivering superior shareholder returns, providing fair value, exhibiting competence and contributions to wealth through decent wages, taxes, competitive supplier agreements and proactive procurement.

Five capitals of sustainable development

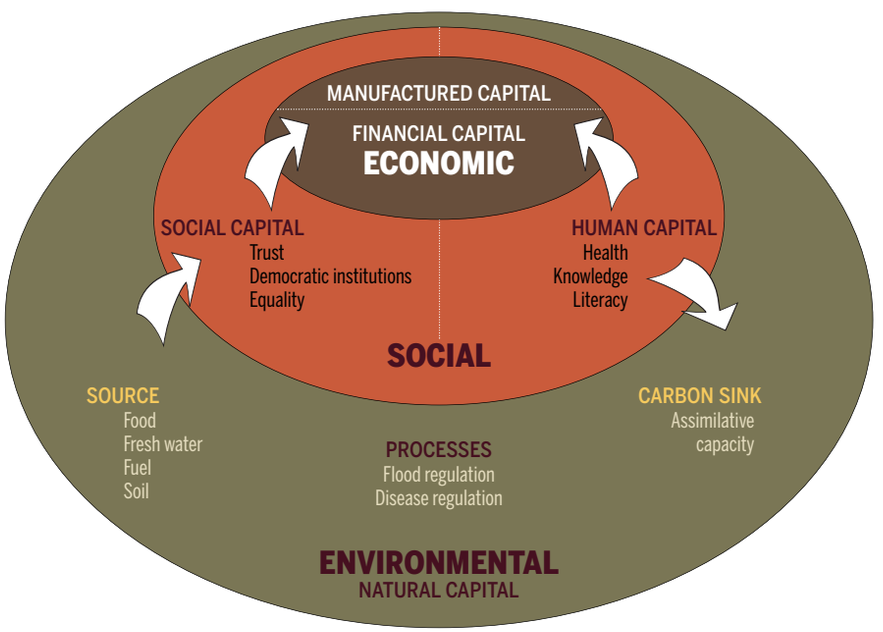
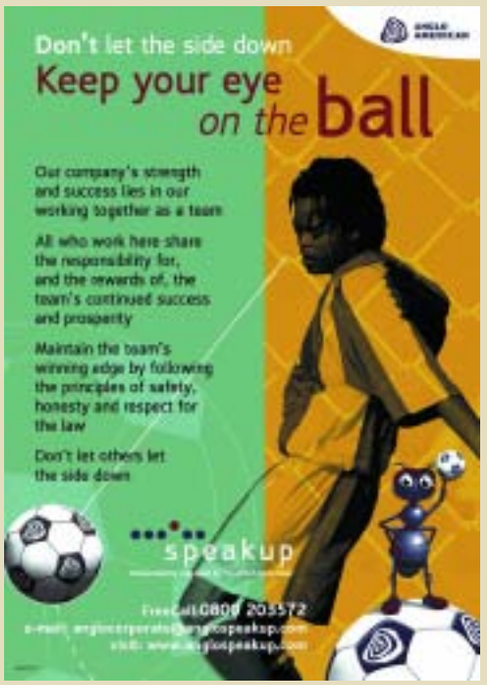


Diagram developed by Incite Sustainability

'Speakup' campaign – Building a culture of transparency and accountability



Other numbers to reach us:
0800 203 571 (South Africa)
+27 31 508 6408 (International)

Anglo Coal participates in the Anglo American plc whistle-blowing programme called* Speakup. Speakup *is an independently managed facility which provides a global channel for reporting unethical or unsafe practices. The idea is to provide confidential means of communicating any practice contrary to the group's business principles, such as criminal offences, unreliable accounting, non-compliance with regulations, and safety, health and environmental transgressions. No employees will be prejudiced for raising, in good faith, violations of the group's business principles, or any legal or ethical concern.

Governance processes

Sound corporate governance is needed in pursuit of sustainable development. Anglo Coal is wholly-owned by Anglo American plc and adopts the standards as set out in *Good Citizenship: Our Business Principles**, and adheres to the parent company's implementation guidelines for the *Voluntary Principles on Security and Human Rights*.

Our business principles encompass:

- integrity and ethics
- corporate citizenship
- employment and labour rights
- safety, health and environmental stewardship, and
- compliance with all law – including all antitrust and competition law.

** available at www.angloamerican.co.uk*

Our effectiveness in implementing standards and policies is reported on by the regional executives to Anglo Coal's chief executive officer, who accordingly provides a consolidated assurance to the chief executive of Anglo American plc.

The annual letters of assurance provide information on the management of risks relating to safety, health, the environment, community and other stakeholder issues. They are based on progress tracked through quarterly operational and management reports.

All Anglo Coal operations are certified to the ISO 14001 Environmental Management System standard. Our Australian operations are all certified to the OHSAS 18001 Occupational Health and Safety Management System and our South African operations have committed to achieve certification by the end of 2007.

The seven minor legal actions taken against Anglo Coal South Africa related to unsafe acts or conditions and a breach of the Mine Health and Safety Act, all of which were remedied immediately without prosecution or fines being imposed.

Emergency reporting is in place to manage incidents of catastrophic magnitude, such as a fatality or a level 3 environmental incident (severe environmental damage). None of the latter was reported in 2005. Where fatalities have occurred, the chief executive officer of Anglo Coal reports to the Anglo American plc Safety and Sustainable Development Board on the circumstances in which the incident occurred, the root cause and what measures were put in place to prevent recurrence of similar incidents.

Coal stewardship

3.9 | 3.10 | 3.11 | 3.12 | 3.14
3.16 | 3.17 | 3.19
EN7 | EN12
LA4 | LA8 | LA10
HR2 | HR3 | HR4
SO1

BY ADOPTING a coal stewardship approach, Anglo Coal looks to mitigate impacts in process activities and works in partnership with industry to resolve product impacts by investing in emerging carbon mitigation and offset technology.

Anglo Coal understands the need to hold open dialogue, resolve issues and plan for future events with stakeholders on process and product stewardship, from the initial exploration plans of a mine to the disposal of waste by-products as a result of the use of our coal. Our business is far-reaching and affects many stakeholders. Engagement is seen as critical to ensuring the best outcome for the company and its stakeholders over the long term. Further information on our stakeholder engagement can be found in our regional reports.

To Anglo Coal, process stewardship is the responsible provision of coal for stable energy supply, while reducing the company's environmental footprint and creating maximum societal value from our activities. This covers many elements of the five capitals model such as safety, health, the environment, community and black economic empowerment in South Africa.

Product stewardship means contributing to improving the performance and use of our products beyond the point of sale. Concerns over security of supply, quality, clean technology and CO_2 markets are shared through downstream value chain stakeholder partnerships.

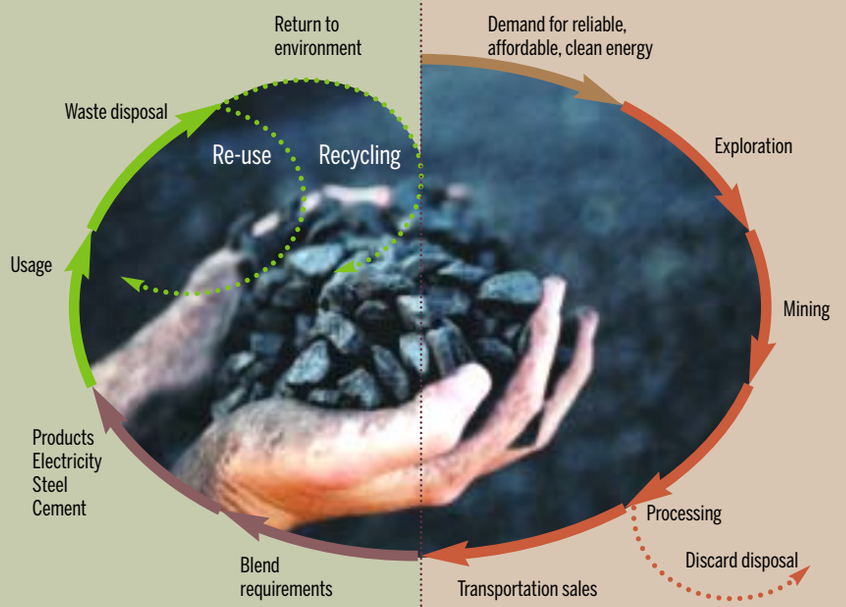
Coal stewardship

PRODUCT STEWARDSHIP

STAKEHOLDERS
Customers
Regulators, policy makers and NGOs
National industry engagement
International industry engagement
Climate change science and policy debate
Partners

PROCESS STEWARDSHIP

STAKEHOLDERS
Employees
Suppliers
Communities
Regulators, policy makers and NGOs
Partners



KEY ELEMENTS
Secure supply
Quality
Clean technology
CO_2 markets

KEY ELEMENTS
Safety
Health
Environment
Community engagement
Culture and structure of the business

Above: Rhonda Stubbins, human resources advisor at Anglo Coal Australia's Callide mine, discusses the safety Golden Rules with employees.

Below: Maria Khoza and other HIV/AIDS peer educators receive training in the clinic at Anglo Coal South Africa's New Vaal colliery.

Process stewardship

People are our key focus. Our organisational culture transformation programmes, *Yebo Siyaphambili* in South Africa and *People, Performance, Growth* in Australia, are focused on improving communication and promoting knowledge sharing, personal growth and leadership behaviour. It is anticipated that these organisational culture initiatives will benefit our safety and operational performance.

Safety and health

Our safety performance was unacceptable in 2005. We know that mining can be conducted safely. An example of this is the safety management at Goedehoop colliery, where just a single lost-time injury was recorded. The colliery won the Anglo American plc safety award for large operations. Our Anglo Coal Australian operations achieved a total injury frequency rate that was the lowest in their history, despite not achieving the target.

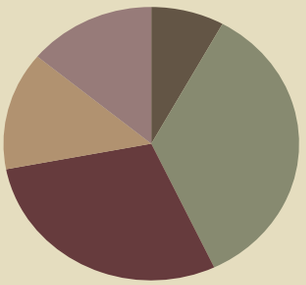
Tracking of high potential incidents (HPIs) is a practice to prevent injury. HPI and other investigations have led to a number of major interventions such as upgrading of lock out, rigging and drill-rig standards. Pedestrian safety around mobile equipment was also identified as needing improved operating standards.

Anglo Coal took a strategic decision to target zero lost-time injuries and to embark on a programme of company-wide coaching and alignment of leadership, using DuPont as facilitators. Ending in early 2006, the coaching sessions and workshops were conducted for executives, senior managers, leaders and supervisors, at head office and at our operations. Strategic action plans, called safety improvement plans, have been developed by the division and by each operation following the outcome reports from peer review and third party audits, as well as the feedback reports following the DuPont workshops.

HIV and AIDS

In our South African operations, we achieved a 68% voluntary counselling and testing (VCT) rate in 2005, against a target of 50%. One colliery, Goedehoop, was exemplary in achieving a 96% VCT uptake. By the end of 2005, 5,854 employees had presented for VCT. Of these, 14% were found to be HIV positive. The Anglo Coal anti-retroviral therapy (ART) programme was launched on 28 August 2002, and to date 362 employees have commenced with anti-retroviral treatment. Altogether, 92% of all known HIV positive employees have registered on the Anglo Coal disease management programme,

Bursaries awarded
% per discipline



and 96% of employees on ART are on regular duty. The average monthly cost per patient for ART is US$112. It is heartening that employees on ART have experienced a reduction of more than 50% in absenteeism compared with prior to starting the therapy.

In 2006, we intend encouraging the remaining untested group of employees to undergo VCT. All employees will continue to be offered VCT during their annual medical assessments. Employees known to be HIV positive will not be retested but the visit will be used as a wellness assessment session.

Workforce relations

Affording women the right to work, while maintaining a safe and healthy environment for a mother-to-be and her unborn child, requires innovative re-skilling programmes and willingness from all involved to seek solutions. Awareness programmes have been implemented across our operations to highlight respect for gender and to foster racial tolerance, with formal grievance procedures and services (such as the Speakup facility) in place to manage any complaints.

We aim to foster constructive relations with organised labour in all regions. In Australia, the federal government has introduced the Workplace Relations Amendment Bill to streamline the current labour dispensation in the country. This has been met with opposition from the state labour governments and trade unions as it is seen as eroding the power of unions.

Our engagement processes described above are focused on airing concerns and discussing them openly, honestly and in a non-threatening manner. Understanding the issues can only foster improved tolerance and lower discomfort levels. Building trust internally and externally is crucial to our continued success and viability.

The Mining Charter

By pursuing the South African Mining Charter targets successfully, we are adding value to our organisation and making it dynamic, multi-skilled and multi-cultural. In 2005, 109 people took advantage of the adult basic education and training programmes. We achieved our Anglo Coal South Africa target of 11% of our workforce being women and 30% of our managers being historically disadvantaged South Africans. Targets for 2006 are 11% and 35% respectively.

Part of ensuring a sustainable business is to encourage talented and skilled people to join the industry. In 2005, we allocated 120 bursaries in South Africa, split between disciplines as indicated by the diagram (left). Of these bursaries, 38% were allocated to black men and 17% to black women. It is a global challenge to attract suitably skilled professionals, especially women, to the industry.

We allocated 226 learnerships in South Africa, of which 19% went to black women and 73% to black men.

Environment

Energy> It has become an imperative for Anglo Coal to improve energy efficiency. We aim to achieve a 15% decrease in energy intensity consumption by 2014, off a 2004 base. This has necessitated a new approach to energy management. With the help of external consultants, we are implementing monitoring and reporting processes and identifying new energy saving opportunities. These are supplemented by training initiatives and the raising of awareness both technically and among the community in general.

At some of our operations in Australia, where seam gas concentrations are inherently high, methane capture is being conducted ahead of mining. Such projects not only improve safety during mining but also enable economically beneficial use of coal seam gas, which otherwise would have been vented or flared.

Top: Wildlife on Anglo Coal South Africa's Kriel colliery.

Above: Johan van der Walt examines a rehabilitated pit area at Kriel. Grass species have started to diversify in the rehabilitated area.

- Moranbah North has entered into an agreement to capture methane and deliver it to a commercial pipeline from mid-2006. This activity will reduce greenhouse gas emissions by more than 2 million tonnes of CO_2 equivalent per year.
- The installation of methane capture infrastructure and a 32MW methane-fired power generation plant at Capcoal (by joint venture partner Energy Developments Pty Ltd) is expected to be operational during the second half of 2006, and should reduce greenhouse gas emissions by 1.2 million tonnes of CO_2 equivalent. This project has become economically feasible with the support of government incentives.
- At Dawson, approximately 5.6 petajoules per year of energy were delivered to a commercial pipeline. This represents 6% of the Queensland gas market and avoids release of methane to the atmosphere equivalent to 2.2 million tonnes of CO_2 per year.

Water> Water is the primary concern and focus of environmental risk management at our South African and Australian operations. Anglo Coal has set a primary water use reduction target of 3% on 2005 actual levels. Although 2005 targets were not achieved, largely due to expansion projects, we believe these targets remain realistic.

The underground operations in South Africa have to dispose of water, a process that is controlled by stringent permits. This requires operations to find innovative methods to dispose of polluted water. One such example is the construction of a 20Ml per day plant to treat mine water piped from Kleinkopje, Greenside and Landau collieries. The treated water, of potable quality, will be supplied to the Emalahleni municipality and is expected to contribute approximately 20% of the municipality's requirements. It is envisaged that the water treatment plant will also be used to treat water piped from neighbouring BHP Billiton's Ingwe colliery.

The mine water irrigation project conducted under the South African CoalTech 2020 programme has shown unequivocally that sulphate-rich mine water can be used to increase crop yields on the Highveld without any detrimental effect on soils in the long term. Studies on the impact of irrigation with mine water on the groundwater reserve are almost completed, and early indications are that small and appropriately sited irrigation pivots can reduce impacts on receiving water bodies to acceptable limits.

Anglo Coal Australia continues to support water related research. One such example is the Sustainable Minerals Institute study on demand management in the Northern Bowen Basin coalfields. This study is mapping current water management practices that

Top: Water quality sampling of stream diversion at Callide mine in Australia.

Above: Leonard Mkhwebane separates waste at Isibonelo colliery in South Africa before it is taken away for recycling or disposal.

are used to reduce, recycle and harvest on-site surface water and groundwater.

Biodiversity> All sites are finalising their biodiversity action plans (BAPs) and linking these to closure and rehabilitation plans, as well as to their risk management processes, primarily through integration with the ISO 14001 systems. A formal peer review process of the BAPs during 2005 found that biodiversity management requires the formal allocation of biodiversity conservation responsibilities to mine staff, better stakeholder engagement, the implementation of internal audits and external verification of these, as well as the need to develop a stronger business case for biodiversity conservation. These findings will be rolled out to all operations in 2006.

Biodiversity continues to be a focus in our operational activities and research programmes. Operationally, achievements in 2005 include:

- Our Australian operations improved the ratio of rehabilitated land to disturbed land to 46%, up from 38% in 2004;
- Property resource management plans were initiated with all landholders on the Moranbah North mining lease in Australia, in which graziers and the mine personnel agree on how to manage the land and monitor performance;
- Two offsite wetland rehabilitation projects are being managed by Isibonelo colliery in South Africa in collaboration with the Working For Wetlands programme involving local communities;
- Weed surveys were conducted in South Africa to ensure compliance with the new National Environmental Management: Biodiversity Act. Recommendations have been made for the control of all alien invasive weeds and these are being implemented through the mines' environmental management programmes.

Anglo Coal South Africa is also participating in two new CoalTech 2020 projects, namely an indigenous species seeding trial and a soil compaction alleviation trial, both of which will run for three years.

Waste> Through the implementation of ISO 14001 on all sites, Anglo Coal is revising its waste management strategy to focus on waste minimisation at source – waste avoidance, reduction, resource use efficiency, recycling and recovery of resources. There is also a focus on reprocessing and recovering saleable products from waste residues.

Top: Learners from the Blackhill Schoongezicht school in South Africa which was built by Landau colliery and formally handed over to the Mpumalanga Department of Education in 2004.

Above: Eric Ford, CEO Anglo Coal Australia, discusses the Woorabinda agreement with Steve Kemp, Woorabinda community development and employment programme co-ordinator, and Brad Carter, regional director, Department of State Development and Innovation.

Waste coal can be used in a number of different ways to minimise waste, reduce impacts, reduce our environmental footprint and create resources. Research on biosolubilisation is ongoing and has shown that coal can be 'dissolved' using fungal microbes, producing a number of by-products which can be used for:

- clean liquid fuel;
- methane from the microbial digestion of coal;
- high value chemicals and organic compounds;
- self-establishing dump coverage, topsoil rehabilitation and soil conditioning;
- low-cost carbon source for biological mine water treatment and groundwater remediation; and
- ethanol production.

Biosolubilisation research by postgraduate students from Rhodes University in South Africa has improved the understanding of the mechanisms involved in the fungal breakdown of coal, weathered coal and discard. Field trials were begun on the discard dumps at Kleinkopje and Greenside collieries to investigate the *in situ* breakdown of discard material into a suitable substrate for plant growth. This project will be concluded in 2006.

Closure> Closure is a challenge for coal mines, especially relating to the management of acid mine drainage. Biodiversity action plans are integrated into closure and rehabilitation plans. Closure liabilities have been quantified for all mines. In Australia, the total liabilities at the end of 2005 amounted to US$131.4 million (assuming 74 Australian cents to the US dollar). The South African closure liabilities, which total US$246.7 million (assuming 6.37 South African rand to the US dollar), are largely funded through the Rehabilitation Trust (balance at end 2005: US$97.2 million).

Communities

In 2005, having recognised that stakeholder engagement was historically weak, we took specific action to address this through, for example, a customer survey. With respect to engagement with communities, we have used the Socio-Economic Assessment Toolbox (SEAT) process, and the social and labour plans to review community engagement plans and improve on them. The ongoing effect of implementing the SEAT across our operations is increasing mutual understanding and sensitivity towards the concerns, limitations and needs of all the parties involved.

In South Africa, a stakeholder management framework has been developed to integrate the numerous initiatives that have been undertaken in the areas in which we operate.

In Australia, Anglo Coal is participating in regional partnership groups in Central Queensland and the Hunter Valley which bring together industry representatives, traditional owners and government departments in a forum where best practice can be shared, initiatives identified and alliances examined. A shared responsibility agreement, the first of its type for a coal mining company in Australia, was signed in January 2006 by Anglo Coal, the Woorabinda Aboriginal community and the Australian federal government.

In South Africa, partnerships such as loveLife have been initiated to give effect to our HIV/AIDS policy in our surrounding communities.

Land rights and resettlements are ongoing issues in Colombia and South Africa as our operations expand in these regions, particularly with the proposed opencast mining methods used at these sites. The resettlement of affected communities will always be actioned only after thorough processes of engagement with all affected stakeholders and in accordance with World Bank guidelines, legislation and humanitarian considerations. In South America, one such example is the resettlement of the New Oragonal village, where a long engagement process has been under way.

Suppliers

We are pursuing the implementation of value-adding activities to our sustainable development drivers throughout our supply chain. To reinforce compliance with our business principles, we have a supplier risk committee in South Africa which ensures that sustainable development aspects are considered as part of pre-tender and contract procedures.

3.15 | 3.16
PR1

Product stewardship

Energy underpins economic and social development. To achieve this development, energy must be readily available, reliable, affordable and environmentally sustainable. Technologically, we are facing the carbon challenge, together with other energy companies, governments, research organisations, communities and NGOs. We are all responding to the challenge and placing coal squarely in the foundation of future energy sources. Collectively, we must find solutions that will be acceptable to the diverse range of interests by ensuring that coal is produced and consumed, especially for power generation, in a manner which utilises the location and extent of reserves to the best advantage while minimising the total environmental impact of the product and related processes.

An artist's impression of the proposed FutureGen plant in the United States.

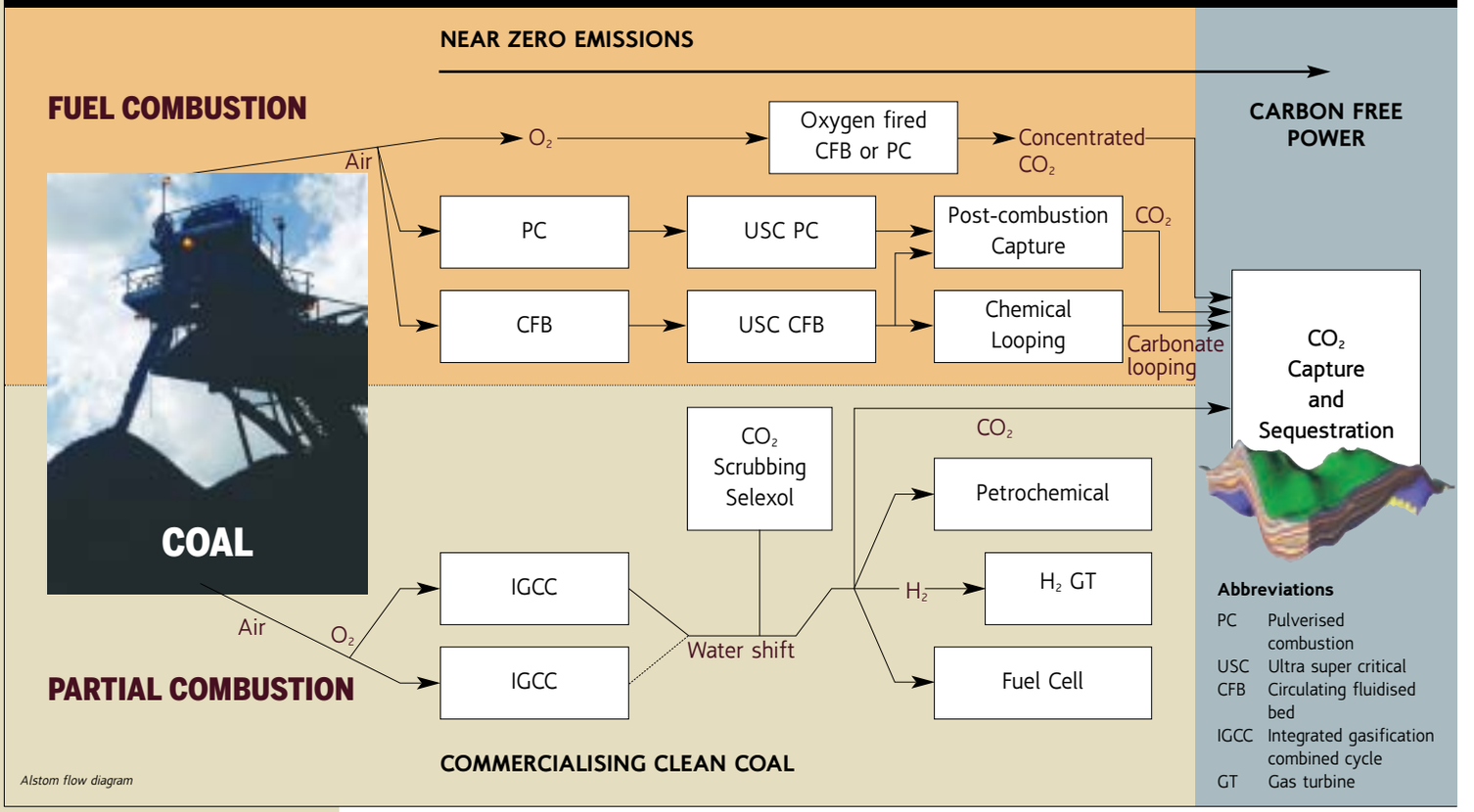
Energy security and social development

Dependence on oil and gas reserves which are located almost exclusively within politically unstable regions, threatens the long-term stability of global energy security. Coal reserves are more widely dispersed than oil or gas, and more than 80% of coal is used in the country in which it is produced. Coal, therefore, plays a critical role as a source of energy in developing countries, especially in India (75% of electricity), South Africa (90% of electricity) and China (77% of electricity). Energy demand has risen by 15% globally over the past five years. Based on current consumption estimates, there remain 200 years of coal reserves, 60 years of gas and 40 years of oil, globally. To produce a given amount of energy, coal is about one-sixth as capital intensive as gas.

Given these facts, coal will remain an important component of the energy mix if we are to maintain the current levels of technological advancement, and promote social upliftment and the improved quality of life that this brings. Political recognition of the need for long-term energy security is vital. Policy measures must not be contrary to achieving (at times seemingly disparate) environmental, social and economic objectives. Russia has made this a key feature of its G8 presidency in 2006.

Research has shown that liquid hydrocarbons, methane gas, chemicals, fertilisers and hydrogen can all be produced from coal. Coal is less susceptible to natural phenomena that could interrupt delivery, therefore supply is more reliable and the product can also be stockpiled. Coal remains cheaper than oil and gas, and the rates of price increases are similarly lower. In the past three decades, coal production has more than doubled from 2 billion to 5 billion tonnes a year. Nearly 40% of the world's electricity is produced using coal. Seventy percent of the world's steel production is dependent on coal as a raw material input, and coal is also a raw material and energy source for the cement industry.

Our vision for clean coal power portfolio of technologies



Alstom flow diagram

"Coal plays a critical role as a source of energy in developing countries. Energy demand has risen 15% over the past five years. Based on current consumption estimates, there remain 200 years of coal reserves, 60 years of gas and 40 years of oil, globally"

Therefore, as a direct energy source, a raw material input, and as the primary source of electricity in developing countries, coal underpins many economic and social development programmes.

Climate change, energy use and emissions

Anglo Coal has adopted a leadership stance in building coal industry momentum to address the challenges of climate change. These efforts are channelled through involvement in industry associations, research organisations and technology alliances.

These include the World Coal Institute (WCI), the International Energy Agency Clean Coal Centre (IEA CCC) and the FutureGen alliance. In addition, we lead and participate in a number of national and regional coal industry initiatives in Australia and South Africa. Some of these are CoalTech 2020 in South Africa, and Coal 21, the CO_2 Coal Research Centre and the Asia Pacific Partnership in Australia.

The WCI, where we hold a leadership position through the chairmanship, promotes coal as a strategic resource for developed and developing economies. The institute also promotes a progressive industry approach that is committed to technological innovation and an improved environmental performance. In this regard, the WCI engages with policy makers, equipment suppliers and other stakeholders, with particular focus on the European Union, Japan, China and India.

The IEA CCC facilitates co-ordination by industry players of clean coal technology research, with particular emphasis on coal usage.

Subsequent to the Gleneagles Summit in July 2005 and the release of the G8 action plan covering climate change, the International Energy Agency has requested the IEA CCC to undertake specific research tasks around cleaner energy.

The Carbon Sequestration Leadership Forum (CSLF) is a 10-year project to facilitate international collaboration on the separation, capture, transportation and storage of CO_2. Internationally, the CSLF also serves as a platform to broaden stakeholder support for carbon capture and storage. In Australia, Anglo Coal participates in Coal 21 to investigate the technical and commercial aspects of CO_2 storage. This follows from Anglo Coal having assumed an interest in Monash Energy.

The Monash Energy project includes the extraction of brown coal, a gasification plant and a fuel synthesis plant for converting gas to liquid. It is expected that the project will produce more than 60,000 barrels

per day of mainly ultra-clean diesel. The envisaged process also includes the production of hydrogen and power generation, with separation of a concentrated CO_2 stream for carbon capture and storage (CCS). In full operation, the use of CCS means a carbon saving of 13 million tonnes CO_2e per year. An initial project phase consisting of coal drying and gasification testing, demonstration plant selection and regional CCS evaluation, has been completed, and the second phase consisting of demonstration plant, CCS injection site characterisation and revised commercial pre-feasibility studies is due to commence mid-2006.

FutureGen alliance> Anglo Coal, through parent Anglo American plc, has invested in the FutureGen industrial alliance. The alliance consists of major energy and mining companies which will co-fund and partner the United States Department of Energy to develop and operate a 275MW zero-emission coal-fuelled power generation plant.

The prototype FutureGen plant will demonstrate advanced clean coal gasification technologies for power generation and the production of hydrogen to power fuel cells for transportation and other needs. The technology will include carbon capture and storage.

Construction of FutureGen is expected to commence in three years, and work is under way to locate a suitable site for the plant, which is expected to be operational in 2012.

In support of renewable energy> As part of the drive to reduce its carbon footprint, Anglo Coal seeks to promote coal/renewable synergies, including coal biosolubilisation research.

Anglo Coal has taken a minority interest in Johanna Solar Technologies (JST), a German photo-voltaic company set up to commercialise new thin film solar technology developed at the University of Johannesburg. JST will erect the plant at Brandenburg, Germany, and expects to produce about 30MW of solar panels once fully commissioned in 2007.

Clean coal technologies, carbon capture and storage

In pursuit of achieving a solid status as a clean coal provider and energy source, Anglo Coal has invested in two major global CCT/CCS projects in 2004/2005, namely Monash Energy and FutureGen.

CARBON DIOXIDE AND METHANE are the challenges facing the industry with respect to their contribution to global warming. However, carbon capture and storage (CCS) and clean coal technologies (CCT) are now realities that remove many of the impediments to basing the future of energy on coal. The removal and storage or sequestration of CO_2 holds the key to achieving zero or near-zero emissions. Challenges still remain with respect to commercial level implementation of these technologies. For example, CO_2 separation is the first step in direct sequestration that entails capturing CO_2 before it is emitted. This technology exists today but can raise energy costs.

CCTs have proven to remove waste material in coal, particulate emissions, emissions of trace elements, oxides of nitrogen and sulphur. The cost barrier to their implementation has been reduced. Other technologies, such as coal-fired Integrated Gasification Combined Cycle (IGCC) power plants, pre-combustion capture, oxyfuel combustion and chemical looping combustion, have yet to prove their reliability on a larger scale but hold additional promise given their likely association with carbon capture and storage projects.

Long-term permanent storage options for captured CO_2 include geological, chemical, ocean based and biological sequestration. CO_2 storage is being undertaken for enhanced oil recovery at the Sliepner field in Norway and at the Weyburne field in North America. Depleted oilfields have a storage capacity of 126Gt CO_2, natural-gas reservoirs have 800Gt and unmineable coal beds have 150Gt storage capacity. Some of this capacity can be utilised at a net cost saving. Distance from the source of generation to storage is a key issue. Technological advancements are anticipated to result in significant cost decreases, in the same way that the capital costs of fluegas desulphurisation plants at power stations have decreased by 75% in 30 years.

Anglo Coal – methane capture projects

Capcoal Power (Australia)

This project involves construction of 32MW of gas-fired power generating capacity to utilise waste coal mine methane. This will result in 1.1 million tonnes CO_2e carbon saving per year. The project is to be commissioned in the second half of 2006.

Moranbah North (Australia)

This project involves the connection of surface and underground gas drainage activities to utilise waste coal methane. First gas is planned to be sold in 2006. CO_2e savings are expected to be approximately 0.5Mtpa in 2006, rising to up to 2.6Mtpa in 2009.

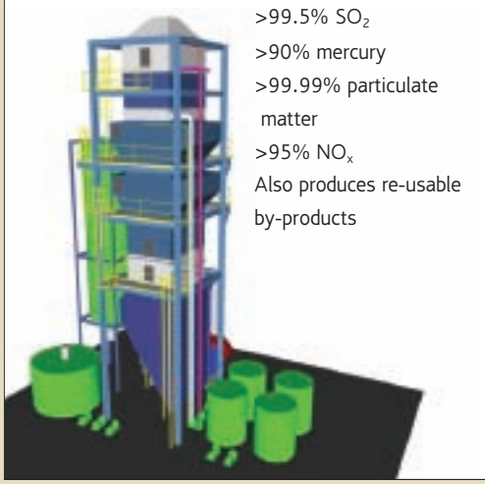
Waterberg (South Africa)

Situated in the Limpopo province, initial exploratory drilling of this area indicated a gas potential of recoverable coal bed methane. Five spot field tests are currently under way, for a more detailed assessment of the resource.

CCT in power generation

INTEGRATION AIR-POLLUTION CONTROL SYSTEM

Integrating current day technologies to control SO_x, particulate matter ($PM_{10}/PM_{2.5}$), mercury and NO_x emissions.



Contaminant removal:

- >99.5% SO_2
- >90% mercury
- >99.99% particulate matter
- >95% NO_x

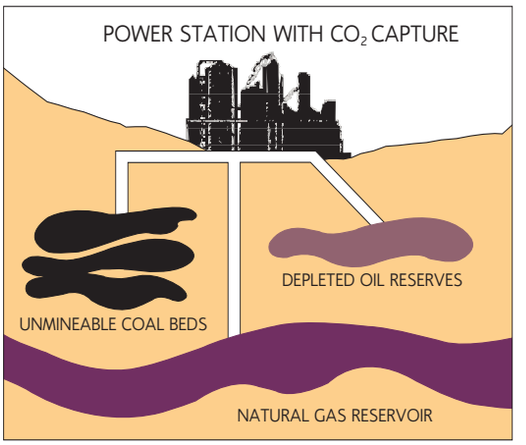
Also produces re-usable by-products

Carbon capture and storage

GEOLOGICAL SEQUESTRATION

Injection of CO_2 into the earth sub-surface offers potential for the permanent storage of very large quantities of CO_2. The CO_2 is compressed before being piped deep underground into natural geological resevoirs.

SOURCE: IEA CCC

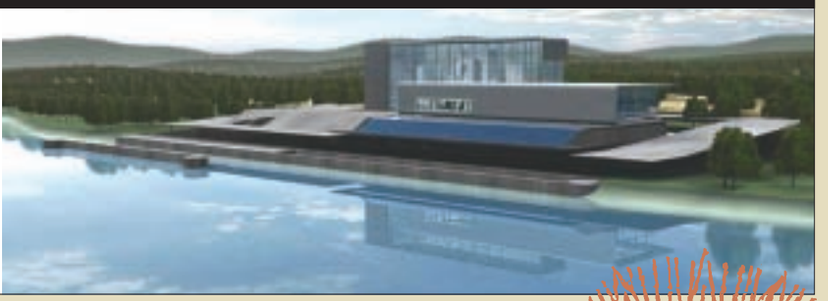


CLEAN COAL ENERGY ALLIANCE

Anglo Coal's parent company, Anglo American plc, has entered into an alliance with Shell to develop selected coal mining and gasification projects for the low-emissions production of chemicals, liquid fuels, electricity or hydrogen. The partners are currently examining the opportunity to include Anglo Coal's Monash Energy project, into the alliance.

FutureGen

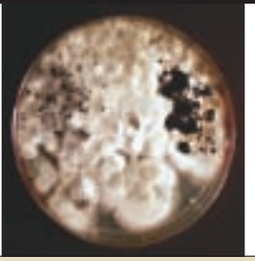
- United States Department of Energy initiative
- US$1 billion project to develop a 275MW advanced coal gasification plant that will also produce hydrogen and allow for carbon dioxide capture and geological sequestration
- Anglo Coal has joined the multi-stakeholder government and industry alliance



Anglo Coal – alternative energy research

COAL BIOSOLUBILISATION

Research undertaken to examine potential for biochemical breakdown of coal discards using fungi to produce humic acid.



THIN FILM SOLAR TECHNOLOGY

Anglo Coal holds 5.3% equity in Johanna Solar Technology (JST), which if successful will commercialise new thin film photovoltaic technology in Germany. Production of solar cells expected to commence in 2007.

Goals and targets achieved

Goals, actual performance and targets*

	Our goals for 2005	2005 performance	2006 and future targets
Safety	Zero fatals LTIFR** 0.30	✘ 6 fatal injuries ✘ LTIFR** 0.48	Zero fatals LTIFR** 0.12
Social capital			
Community engagement	All operations to undertake SEAT assessments	➵	All operations to have completed SEAT assessments by end 2006
HIV/AIDS (South Africa)	50% participation in VCT	✔ 68% participation in VCT	70% participation in VCT
Environment			
Management systems	Maintain certification to ISO 14001	✔	Maintain certification
Energy and CO_2	1.5% energy efficiency reduction on 2004 actual	✘	15% improvement on specific energy consumption by 2014 (2004 baseline) Site specific management targets to be developed
Water use	Set targets to improve efficiency of use in water stressed areas	➵	Site specific management targets to be developed
Biodiversity	BAPS to be integrated into ISO 14001 systems	✔	Sites to participate in BAP audit reviews

✔ Target achieved ✘ Target not achieved ➵ Progress being made

Additional performance statistics*

	Units	2005
Occupational diseases***	cases	47
Total energy consumed	million GJ	11.5
CO_2e emissions	million tonnes	
Processes, fossil fuels and electricity purchased		2.0
Coal mine methane		2.8
Total CO_2e emissions		4.8
Water used for primary activities	million m^3	11.1
Environmental incidents		
Level 2		58
Level 3		0

* The definitions of terms used in this table are provided in the Anglo Coal Australia and the Anglo Coal South Africa regional sustainability reports, available at www.angloamerican.co.uk.

** LTIFR per 200,000 exposure hours.

*** New cases of occupational diseases include noise-induced hearing loss, pneumoconiosis, chronic obstructive airway disease and cardio-respiratory tuberculosis.

KPMG independent assurance report

Independent assurance report to the Directors of Anglo Coal on aspects of the 2005 Global sustainable development report *A climate for clean coal partnerships*.

Introduction> We have performed our independent assurance engagement of the Anglo Coal 2005 sustainable development report (the Report) with respect to the 'selected 2005 sustainable development (SD) performance indicators', indicated below.

This report is made solely to Anglo Coal in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Anglo Coal those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Anglo Coal for our work, for this report or for the conclusions we have reached.

Responsibilities of directors> The directors of Anglo Coal are responsible for the preparation and presentation of the Report and the information and assessments contained within it; for determining Anglo Coal's objectives in respect of SD performance; and for designing, implementing and maintaining appropriate performance management and internal control systems to record, monitor and improve the accuracy, completeness and reliability of SD data from which the reported information is derived.

Responsibility of the assurance provider> Our responsibility is to express our conclusions to Anglo Coal, based on our independent assurance engagement, performed in accordance with the International Standard on Assurance Engagements (ISAE 3000): *Assurance engagements other than audits or reviews of historical financial information*. This standard requires us to comply with ethical requirements and to plan and perform our assurance engagement to obtain limited assurance, expressed below, regarding the subject matter of the engagement.

Basis of work and limitations> The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the subject matter and the purpose of our engagement. In making these assessments we have considered internal controls relevant to the company's preparation and presentation of information in the Report, in order to design procedures appropriate for gathering sufficient evidence to determine that the two aspects indicated above are not materially misstated or misleading. Our assessment of relevant internal controls is not, however, for the purpose of expressing a conclusion on the effectiveness of the company's internal controls. It is important to understand the 'selected 2005 SD performance indicators' and related statements in the Report, in the context of these limitations.

Anglo Coal applies the Anglo American plc Safety, Health and Environmental (SHE) reporting guidance, as the criteria for determining the recognition and measurement of the 'selected 2005 SD performance indicators'. The reliability of SD performance indicators is subject to inherent limitations given their nature and methods for determining, calculating or estimating such data.

We planned and performed our work to obtain all the information and explanations that we considered necessary for sufficient appropriate evidence to provide a basis for our limited assurance conclusion expressed below. No assurance is expressed in relation to the remaining SD performance indicators in the Report, not covered by our work performed.

Subject matter and criteria> The SD performance indicators selected by KPMG to be the subject of the assurance engagement were determined by considering Anglo Coal's key SD risks, identifying those SD indicators considered relevant to management and stakeholder decision-making processes, and our experience of the risks associated with reporting SD performance and the systems and processes in place to mitigate those risks. These are collectively referred to as the 'selected 2005 SD performance indicators'.

The 2005 SD performance indicators selected for purposes of expressing limited assurance were: Total number of work-related fatalities; Carbon dioxide (CO_2) emissions from processes and fossil fuels; CO_2 emissions from electricity purchased; Total energy used; Lost-time injury frequency rate (LTIFR) including restricted work cases; New cases of occupational diseases; HIV prevalence rate; Number of employees participating in the voluntary counselling and testing (VCT) programme; Number of employees receiving anti-retroviral treatment (ART); Total coal mine methane CO_2 equivalent emissions; Water used for primary activities; and Number of level 2 and 3 environmental incidents as set out in the table on page 18.

The internally developed Anglo American plc SHE guidance was used as the criteria for assessing the selected 2005 SD performance indicators.

Work performed> Our work consisted of:

- Obtaining an understanding of the systems used to generate, aggregate and report the selected 2005 SD performance indicators based on Anglo American plc's sustainability guidance for the selected 2005 SD performance indicators at three sites in Australia (Callide, Moranbah North and Dawson operations) and South Africa (Kriel colliery, Kleinkopje colliery, and New Denmark colliery), collectively referred to as the 'selected sites' and at head office level to assess the associated reliability of the selected 2005 SD performance indicators;
- Conducting interviews with management, at the six sites visited in the current and previous year and at head office level, to obtain an understanding of the consistency of the reporting processes compared with prior years and to obtain explanations for SD performance trends;
- Performing an analytical review of the selected 2005 SD performance indicators aggregated at head office level and obtaining explanations for unusual trends; and
- Testing the accuracy of the aggregation process for the consolidated selected 2005 SD performance indicators at head office level.

Conclusion> Based on the work described above, in our opinion, nothing has come to our attention that causes us to believe that the selected 2005 SD performance indicators set out above for the year ended 31 December 2005, are not properly presented in all material respects on the basis of the Anglo American plc SHE reporting guidance.

KPMG

KPMG Services (Pty) Limited
Johannesburg
21 July 2006

Useful websites>

Anglo American plc
www.angloamerican.co.uk

Anglo Coal Australia
www.angloamerican.com.au

Global Reporting Initiative
www.globalreporting.org

International Council on Mining and Metals
www.icmm.com

International Energy Agency
www.iea-coal.org.uk

World Coal Institute
www.wci-coal.com

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used during the manufacturing process is recycled.

ANGLO COAL

A member of the Anglo American plc group