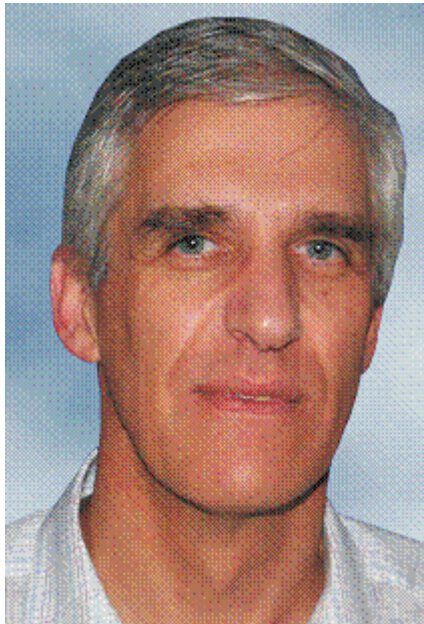




Growth and Strategy Group Report 2006

Message from the Head of Growth and Strategy



The Growth and Strategy Group is responsible for delivering Anglo Coal Australia's (ACA) approved major projects, new projects under development and the exploration activities that identify future resources.

As the activities of the Growth and Strategy Group are often a stakeholder's first impression of the company, our respect for the social, cultural and environmental values of our hosts must be evident in the way we do business. We intend to deliver on our mission to support the economic sustainability of ACA to work safely and responsibly, and to work constructively with the communities that host us.

SAFETY

The Growth and Strategy Group's positive safety achievements during 2006 placed us at the top end of industry performance for overall safety. The Dawson project achieved over 1,000,000 work hours Lost Time Injury (LTI) free in the year and the German Creek Power project was LTI free for its entire construction. Unfortunately, there were four LTIs recorded in 2006, two at the Lake Lindsay project, one at Dawson mine and one at the Moranbah South exploration site. All of the incidents were investigated, and the relevant findings used to improve safety management at ACA.

Audits of key contractors' Safety Management Plans in 2006 allowed us to better manage our contractors' health and safety and to improve the overall safety performance of all of our employees.

ACA is progressively implementing the Safety Leadership Program into the Growth and Strategy Group, continuing to build a safety culture within the organisation by understanding human behaviours and promoting safety principles. The Growth and Strategy Group Safety Leadership Team was formed in 2006 to address Safety, Health, Environment and Community (SHEC) related issues and rollout common practices across all projects. Monthly meetings are held to discuss project progress including safety and health issues.


Key safety initiatives developed by the Growth and Strategy Group in 2006 included:

- The Dawson project participating in the Dawson mine 'Enough is Enough Program' initiative where the operation was shut down for 48 hours to discuss safety issues;
- The Lake Lindsay project developing Safety Requirement Plans to ensure the interface between Capcoal operations and the project were proactively managed. The 'Contractor Safety Requirement Plan' was used extensively to review all major subcontractors;
- Exploration completing a draft Rural Safety Management Plan covering non-mining related activities undertaken on ACA's rural properties;
- The Saddlers Creek project completing extensive improvement of the mechanical and electrical management systems (tailored specifically to exploration equipment); and
- ACA 'Risk and Assurance Reviews' being conducted for the Dawson and Lake Lindsay projects. The reviews focused on the governance framework surrounding the project management systems including the management of risk.

Mark West

Head of Growth and Strategy





A view of the Saddlers Creek project area.



PEOPLE

At December 2006, there were 90 employees or full time equivalent contractors involved in ACA's Growth and Strategy activities. During the year, a SHEC Coordinator was appointed to assist the Growth and Strategy Group to further implement the Safety, Health, Environment and Community Management System within our activities.

When practicable, local contractors are employed to provide support services to exploration activities, such as line clearing and rehabilitation. Local Traditional Owner groups are employed to provide cultural heritage clearance prior to the commencement of exploration activities.

Accommodation for both short-term and long-term employees has been a significant issue facing our development projects. Our project teams are improving planning and seeking innovative ways to resolve the issues.

COMMUNITY AND STAKEHOLDERS

Regular consultation with the community, government, landholders and leaseholders is an integral component of project development and implementation. Engagement with members of the local community, focusing on regular phone calls, meetings and briefings with landholders, continued on active exploration sites in 2006. In addition to meetings with landholders, group meetings were held periodically to update local communities on the progress of exploration or project development.

A Rural Fire Plan was developed and implemented at the Saddlers Creek project. This initiative will be rolled out to other ACA operations and projects as required. The Saddlers Creek project also donated money to the Rural Fire Service to purchase a prime mover to transport a water tank in an emergency.

A Rural First Aid Program in the Dawson district enabled local landowners and ACA property lessees to gain first aid qualifications. This initiative will be expanded to other sites in 2007 and include members of the Growth and Strategy Group.

ENVIRONMENTAL MANAGEMENT

Our Queensland exploration activities are required to comply with the Queensland Environmental Protection Agency's (EPA) Code of Environmental Compliance for Exploration and Mineral Development Projects. Pre and post exploration audits confirm compliance with the Code. Through our 'Permit to Disturb' process we also work with the EPA to ensure all cultural heritage requirements are controlled.

The projects have had no identified or reported breaches of licence requirements in 2006. Conformance of the projects to environmental regulations is confirmed through monthly inspections by operational personnel.

WATER

Growth and Strategy projects are seeking ways to improve our management of water use and reduce our environmental footprint for new projects. Water re-use and recycling is being incorporated into the design of our new projects.

LAND USE AND REHABILITATION

At the end of 2006, ACA had exploration rights over approximately 126,800 hectares of land, excluding operating mines. These exploration rights cover areas with existing land use categories ranging from uncleared forest, through various classes of grazing land, to areas with cropping potential. Disturbance is minimised by using existing access routes or alternative routes agreed with landholders. Rehabilitation involves backfilling excavations, re-spreading topsoil and re-seeding.

Installing a water pipeline to the Dawson expansion project.





Right: Trucks used for overburden removal at the Dawson project.



A summary of the key Growth and Strategy activities in 2006 is as follows:

- Commissioning of the German Creek Power Station, generating electricity from coal seam methane at Capcoal operations;
- Progressing the Lake Lindsay project which incorporate designs to reduce emissions, energy consumption and hazard exposure;
- Progressing the Dawson project with the implementation of water and energy conservation measures and rehabilitation programs;
- The Saddlers Creek project completing pre-feasibility studies and a 3D seismic program;
- The RiverCare project at the Saddlers Creek project continuing with completion of a fencing and weed eradication program;
- Adoption of a risk management approach during the pre-feasibility stage of the Grosvenor project determining the optimal layout for longwall panels;
- Undertaking a cultural heritage survey at Moranbah South project;
- The Moranbah South project establishing study programs for exploration, SHEC and mining studies including monitoring of water flows, dust, air and noise emissions; and
- The Dartbrook mine being placed under care and maintenance with the ACA project team evaluating the future potential of Dartbrook mine's remaining assets and resources.

Project Overview

DAWSON PROJECT

The Dawson project involves the expansion of the existing Dawson operations to include a Dawson North and a Dawson South mine and construction of new mine infrastructure. When fully completed, current annual production will double to almost 13 million tonnes of thermal and coking coal per year. It is expected that the first coal will be railed in mid 2007.

Some initiatives achieved by the Dawson project during 2006 include:

- Over 1 million work hours LTI free;
- Minimising energy consumption by using conveyors instead of trucks to move coal and thus reducing the amount of water required for dust suppression;
- Minimising raw water consumption by installing a 'backbone' water pipeline to enhance water recycling and conservation;
- Improving biodiversity by adopting modern standards in environmental management and establishing a nature refuge; and
- Improving long-term sustainability of rehabilitated land by re-mining areas where coal was left by past mining operations.

ACA recognises that the expansion will have a major impact upon the neighbouring towns and communities. Substantial investment has been made through contributions to local council and community organisations. Funding has been provided to:

- Upgrade the Moura Theodore road connecting local farming and mining communities;
- Fund local State Emergency Service activity;
- Construct 10 houses and five duplex units and upgrade the single persons' quarters;
- Access an additional 120 mega litres of water for use in the town of Moura; and
- Seal the rural airstrip.

The Dawson project team completed a review of the Cultural Heritage Implementation Management Agreement with the Gangulu people, completed surveys of all sites requiring cultural heritage clearance, and handed over the ongoing management to operations and corporate functions. A process of monitoring and audit is in place with the Traditional Owners.





Left: Preliminary earthworks at Lake Lindsay.

Below: A severely eroded gully that has been reshaped at the Saddlers Creek project.

LAKE LINDSAY PROJECT

The Lake Lindsay project will be adjacent to the existing Oak Park mining area of ACA's Capcoal mine in Central Queensland. The expanded operation will add 4.0 mega tonnes per annum of saleable coal to Capcoal Surface Operation's annual production, extending the life of the mine to approximately 2027.

Approval of the Mining Lease was obtained in April 2006. During the approval process preparation for the construction phase commenced, including design of haul roads, water management infrastructure and environmental protection works. Project and contractor construction management facilities were established, including contractor accommodation units in the nearby town of Middlemount.

Two Lake Lindsay project initiatives will significantly improve the sustainability of operations at Capcoal mine:

- Instead of haul trucks, an overland conveyor will move coal from the new Lake Lindsay pit and adjacent Oak Park pit, reducing diesel particulate emissions and water consumption for dust suppression; and
- The world's first AC-powered conventional dragline is expected to be 7% more energy efficient than current draglines powered by DC systems. This improved efficiency will save energy over the entire operating life of the machine.

Two LTIs were sustained in the early phases of the project, and intensive management efforts to learn from the incidents have followed. The project is pursuing a cultural change approach to safety management by incorporating the Beyond Zero Harm and Anglo Coal Safety Leadership Programs.

SADDLERS CREEK PROJECT

In 2006, pre-feasibility studies into a potential combined open-cut and underground mine at Saddlers Creek were completed. The resource, near ACA's Drayton mine in New South Wales (NSW), contains thermal and soft coking coal suitable for the export market.

During the year, a 3D seismic program over the potential underground mine area was completed to assess the geological structures while large diameter and slim core drilling programs assessed the coal quality of both the potential open-cut and underground deposits.

A critical issue for development of the project is community concern about the impact of the operations. A Community Engagement Plan will include discussions with stakeholders about the mine operations and its impacts on the local community.

The RiverCare project, a joint program between the NSW Government's Catchment Management Authority (CMA) and ACA, continued rehabilitating the banks of the Hunter River along the Saddlers Creek landholdings.

The Saddlers Creek project team also continued working with the CMA rehabilitating a severely eroded tributary of Saltwater Creek. This program included battering back and reshaping the tributary and constructing rock flumes. Revegetation work, scheduled for 2007, will include the planting of local shrub and tree species. After inspecting the work in late 2006, ACA received positive feedback from the CMA.

The Saddlers Creek project was LTI and Medical Treatment Case free throughout the year.

GROSVENOR PROJECT

Pre-feasibility studies of the Grosvenor project recommended a large underground mine with surface infrastructure located to the north of the lease. Options for Grosvenor coal to be conveyed to the existing Moranbah North mine, reducing the need for a washplant and some associated infrastructure on site are being considered. Grosvenor and Moranbah South projects will produce high quality export coking coal, similar to the coal Moranbah North mine currently produces.

A risk management approach is being used to determine the optimal layout for the longwall panels. This was integrated with a Sustainability Opportunities and Threats Analysis evaluation and the outcomes will be used by the Project Studies Group.

Options for both raw and recycled water supplies for the project are being investigated. Water storage options and waste co-disposal methods are also being studied.

ACA has contributed funding to the Moranbah High School to assist with the establishment of a regional technical hub. The hub will be used by students when studying mining related subjects. ACA looks forward to maintaining these links with the local school community.



MORANBAH SOUTH PROJECT

The Moranbah South project is a joint venture between ACA and Exxaro Australia Pty Ltd. Exploration using two drilling rigs continued throughout 2006.

Using locations determined with representatives of the Belyando Shire Council, a monitoring program has been developed to specifically assess water flows, dust, air and noise emissions.

ACA is an active member of the Moranbah Growth Management Group (MGMG). The MGMG consists of government and local stakeholders, including the Belyando Shire Council and mining company BMA. The Group's main focus for 2006 was to revise the town plan and secure a sustainable water supply, a process that will continue throughout 2007.

ACA continues to utilise its Community Engagement Plan to guide its community engagement strategy under which consultation continues between ACA and community groups. Extensive engagement with various stakeholders has occurred on the Moranbah South and Grosvenor projects in relation to conflicting land use, where infrastructure or industries that overlie or are adjacent to the mining tenures. In 2006, a cultural heritage survey was undertaken in the project area.

GERMAN CREEK POWER PROJECT

The German Creek Power Station, adjacent to the Grasstree underground mine at Capcoal operations was commissioned in 2006. The project was completed slightly ahead of schedule with zero LTIs. In bringing the project to fruition, extensive consultation was carried out with two local councils, two state governments and the Federal Government to maximise the project's benefits.

The power station uses methane from the Grasstree underground mine to power 16 x 2 megawatt engines. The project has made a significant contribution to the growth of ACA's Gas Business and is one of the most significant environmental projects undertaken within Anglo American publicly listed corporation during the year.

At full capacity, the power station will reduce greenhouse gas emissions by at least 1 million tonnes of carbon dioxide equivalent (CO₂-e) annually.



Methane collection infrastructure at German Creek.



German Creek Power Station, generating electricity from coal seam methane.



Township of Aberdeen from Browns Mountain.



Drill rigs continue to explore future reserves at Dartbrook mine.

DARTBROOK

Due to geological difficulties, Dartbrook underground mine was placed under a 'care and maintenance' regime in May 2006. A major consideration in this decision was the impact on the people who worked at the mine. As a result, a phased reduction was instigated with staff offered work elsewhere in the organisation or retraining and placement services for those that did not wish to leave the region and could not be placed in roles at our other Hunter Valley operation, Drayton mine.

An ACA project team has been established to evaluate the future potential of the remaining assets and resources. The estimated open-cut mineable resources are significant and could support a mine life in excess of 25 years.

Dartbrook mine has undertaken major rehabilitation and forestation projects in recent years, including protection of the second largest population of the threatened River Red Gum Community in the Upper Hunter Valley. Dartbrook mine will continue to manage its environmental responsibilities and actively engage with the community while the mine is under care and maintenance.

Dartbrook mine has supported many community projects and organisations over the years, including providing a house for the Youth Off The Streets program. The house is used as a base for 'troubled kids' seeking a new start in life. Dartbrook mine, through ACA, will continue to support this program.

