



# ANGLO AMERICAN THERMAL COAL

Investor & Analyst Briefing

14 June 2012



Real Mining. Real People. Real Difference.

# DISCLAIMER

---

**Disclaimer:** This presentation has been prepared by Anglo American plc ("Anglo American") and comprises the written materials/slides for a presentation concerning Anglo American. By attending this presentation and/or reviewing the slides you agree to be bound by the following conditions.

This presentation is for information purposes only and does not constitute an offer to sell or the solicitation of an offer to buy shares in Anglo American. Further, it does not constitute a recommendation by Anglo American or any other party to sell or buy shares in Anglo American or any other securities. All written or oral forward-looking statements attributable to Anglo American or persons acting on their behalf are qualified in their entirety by these cautionary statements.

## **Forward-Looking Statements**

This presentation includes forward-looking statements. All statements other than statements of historical facts included in this presentation, including, without limitation, those regarding Anglo American's financial position, business and acquisition strategy, plans and objectives of management for future operations (including development plans and objectives relating to Anglo American's products, production forecasts and reserve and resource positions), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Anglo American, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding Anglo American's present and future business strategies and the environment in which Anglo American will operate in the future. Important factors that could cause Anglo American's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, levels of actual production during any period, levels of global demand and commodity market prices, mineral resource exploration and development capabilities, recovery rates and other operational capabilities, the availability of mining and processing equipment, the ability to produce and transport products profitably, the impact of foreign currency exchange rates on market prices and operating costs, the availability of sufficient credit, the effects of inflation, political uncertainty and economic conditions in relevant areas of the world, the actions of competitors, activities by governmental authorities such as changes in taxation or safety, health, environmental or other types of regulation in the countries where Anglo American operates, conflicts over land and resource ownership rights and such other risk factors identified in Anglo American's most recent Annual Report. Forward-looking statements should, therefore, be construed in light of such risk factors and undue reliance should not be placed on forward-looking statements. These forward-looking statements speak only as of the date of this presentation. Anglo American expressly disclaims any obligation or undertaking (except as required by applicable law, the City Code on Takeovers and Mergers (the "Takeover Code"), the UK Listing Rules, the Disclosure and Transparency Rules of the Financial Services Authority, the Listings Requirements of the securities exchange of the JSE Limited in South Africa, the SWX Swiss Exchange, the Botswana Stock Exchange and the Namibian Stock Exchange and any other applicable regulations) to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in Anglo American's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Nothing in this presentation should be interpreted to mean that future earnings per share of Anglo American will necessarily match or exceed its historical published earnings per share.

Certain statistical and other information about Anglo American included in this presentation is sourced from publicly available third party sources. As such it presents the views of those third parties, but may not necessarily correspond to the views held by Anglo American.

## **No Investment Advice**

This presentation has been prepared without reference to your particular investment objectives, financial situation, taxation position and particular needs. It is important that you view this presentation in its entirety. If you are in any doubt in relation to these matters, you should consult your stockbroker, bank manager, solicitor, accountant, taxation adviser or other independent financial adviser (where applicable, as authorised under the Financial Services and Markets Act 2000 in the UK, or in South Africa, under the Financial Advisory and Intermediary Services Act 37 of 2002).

## **Resources - Anglo American Share**

Coal Inventory: Occurrence of coal of economic interest which forms the physical envelope that encompasses a Coal Resource or Coal Reserve, or both, and includes Reconnaissance, Inferred, Indicated and Measured Coal Resources, together with any associated Probable and Proven Coal Reserves.

These data represent tonnage estimates compiled in accordance with the principles and guidelines of the South African Code for the Reporting of Exploration, Mineral Resources and Mineral reserves (The SAMREC Code, 2007) by a Competent (Qualified) Person or Persons.

Due to the uncertainty which may be attached to some Inferred Mineral Resources, it cannot be assumed, but normally would be expected, that a major part of an Inferred Coal Resource will be upgraded to an Indicated or Measured Coal Resource as a result of continued exploration.

# CONTENTS

- 1. OUR BUSINESS**
- 2. MARKETS & OUTLOOK**
- 3. STRATEGY & ASSET OPTIMISATION**
- 4. KEY PROJECTS**
- 5. SUMMARY**

# SUMMARY

---

- **World class assets in South Africa and Colombia**
- **Thermal Coal is a consistently performing business**
  - Stable cash generating business and consistent contributor to Anglo American operating profit
  - Positioned competitively on the industry seaborne margin curve
  - Leading EBIT margin relative to key peers
  - Responsible and sustainable miner
- **Positive long term market outlook for Thermal Coal**
  - Driven by increasing export demand in the Indo-Pacific region and domestic South African power demand
  - Export prices currently under pressure but expected to return to historically high levels in the medium term
- **Thermal Coal is positioned for strong growth**
  - Export portfolio optimisation with improved Transnet Rail performance
  - Ability to swing exports easily and profitably between Pacific and Atlantic basins
  - Strong organic growth pipeline in Colombia

# OUR BUSINESS

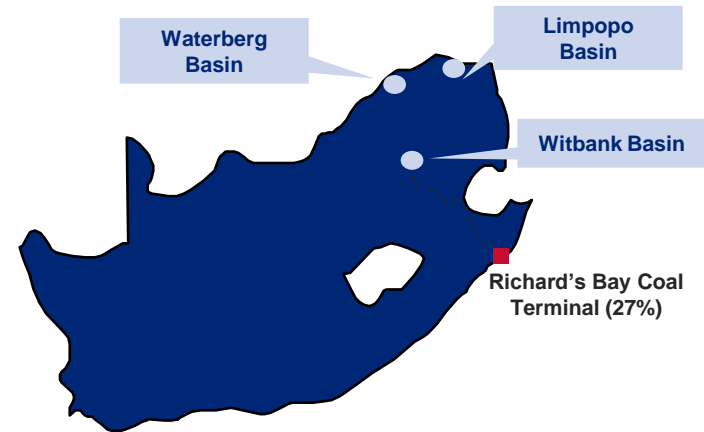


# OUR BUSINESS AT A GLANCE

## South Africa

Mine	Holding	Mine life (Years)	Export (Mt)	Domestic (Mt)	Total attributable production 2011
Goedehoop	100%	11	5.2	-	5.2Mt
Greenside	100%	11	2.9	-	2.9 Mt
Kleinkopje	100%	13	1.7	2.7	4.4 Mt
Landau	100%	9	3.8	0.4	4.2 Mt
Kriel	73%	14	-	8.2	8.2Mt
New Denmark	100%	23	-	4.8	4.8 Mt
New Vaal	100%	20	-	17.4	17.4 Mt
Isibonelo	100%	14	-	4.3	4.3 Mt
Mafube	50%	19	1.4	0.8	2.3 Mt
Zibulo	73%	19	2.4	1.0	3.4 Mt
<b>Total South African Production</b>			<b>17.5</b>	<b>39.5</b>	<b>57.0 Mt</b>

## Location of operations



## Colombia

Mine	Holding	Mine life (Years)	Export (Mt)	Domestic (Mt)	Total attributable production 2011
Cerrejòn	33%	20	10.7 <sup>1</sup>	-	10.7 Mt

La Guajira Puerto Bolivar (33%)



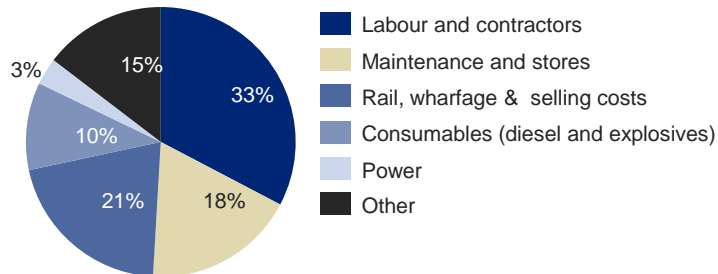
- Export
- Eskom
- Other Domestic

<sup>1</sup> Share of Anglo American attributable 2011 production

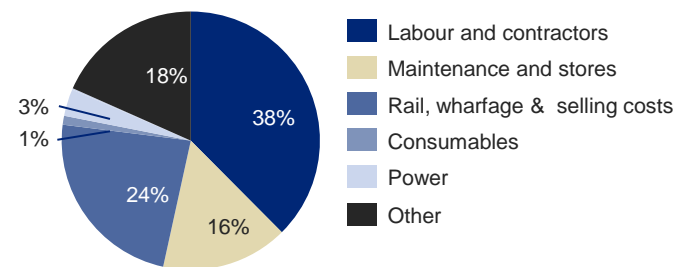
# MINING METHOD CHOICE IS CRITICAL TO RESERVE EXTRACTION OPTIMISATION



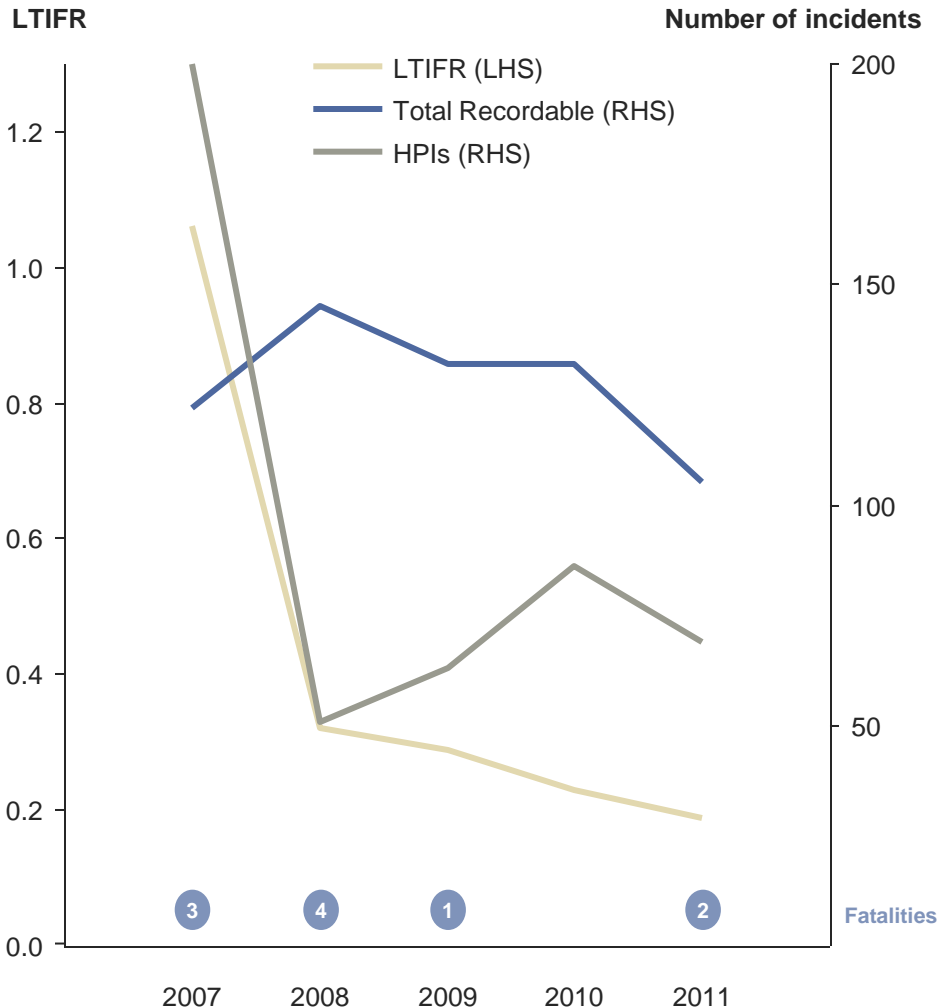
Cost distribution - 2011 RSA opencast export mines



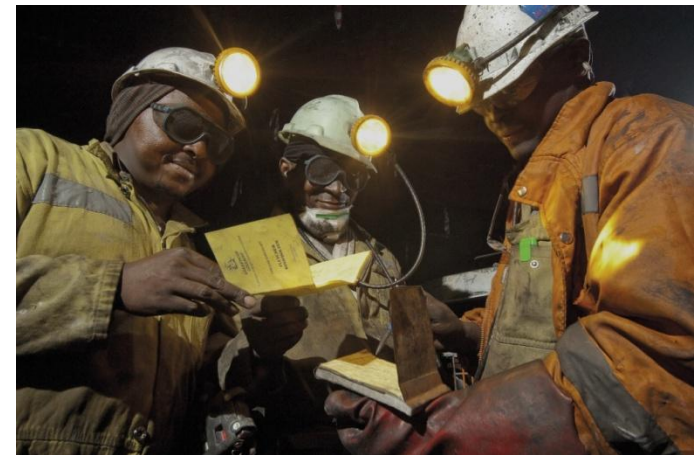
Cost distribution - 2011 RSA underground export mines



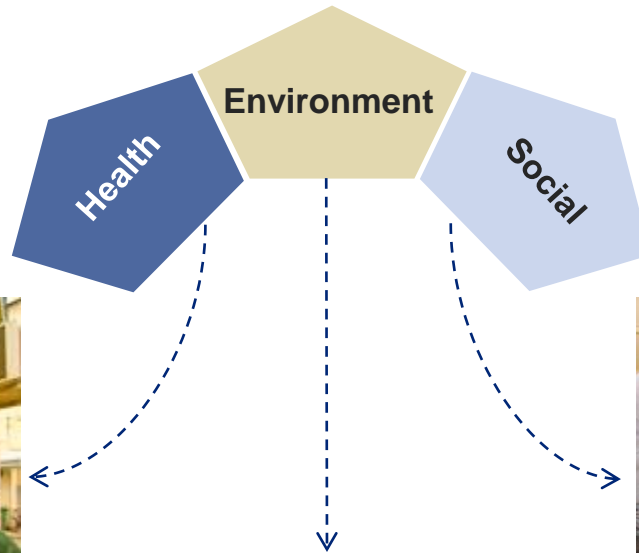
# CONTINUOUSLY STRIVING TO ENSURE A SAFER WORKING ENVIRONMENT



- A safe working environment positively contributes to productivity
- Isibonelo received South African National Safety Award in 2011
- Safety performance improved year on year from 2010 to 2011 with the reduction of the Lost Time Injury Frequency Rate (LTIFR) from 0.21 to 0.19
- The total amount of injuries also significantly reduced from a total of 221 in 2010 to 170 in 2011



# COMMITTED TO BEING A RESPONSIBLE AND SUSTAINABLE MINER



HIV – Voluntary Counselling and Testing was at record levels in 2011, with 97% of employees participating in the Thermal Coal programme.

Nedbank Green Mining Award 2011 for Thermal Coal's HIV/AIDS Workplace Programme.



The eMalahleni Water Reclamation Plant was awarded the Best Community Project in Africa (Asia Mining Congress's Global Mining Sustainability Awards).



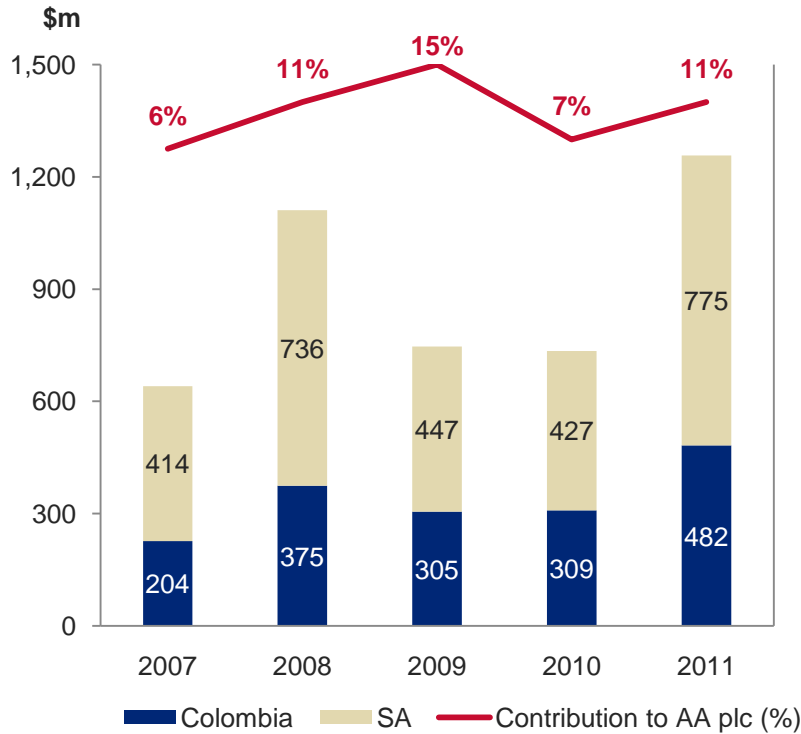
Winter school classes at Empucukweni Secondary School

In 2011, significant resources were invested in programmes that are aimed towards creating lasting benefits for our communities.

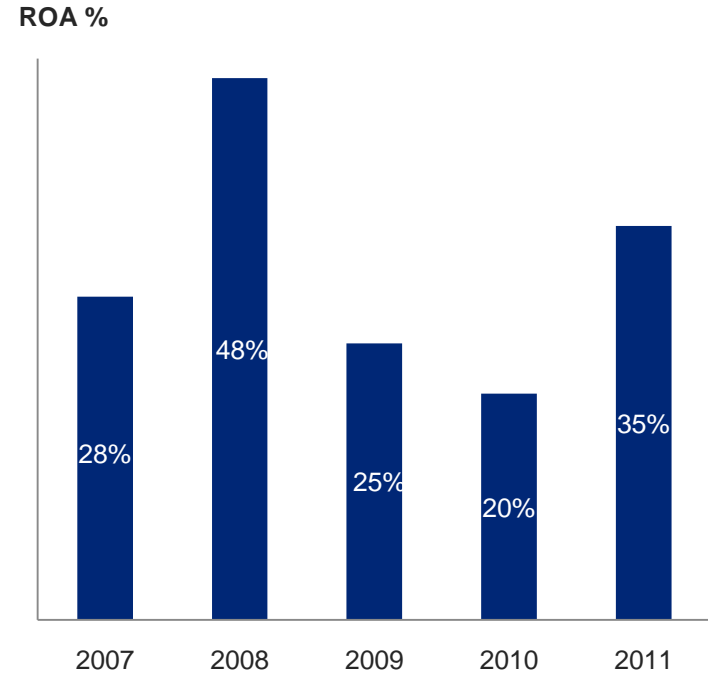
Nedbank Green Mining Award 2011 for Anglo American's Science, Career Guidance and Information and Communications Technology (ICT) Resources Centre.

# DELIVERING CONSISTENT RETURNS

**Thermal Coal EBIT**



**Thermal Coal return on assets<sup>1</sup>**

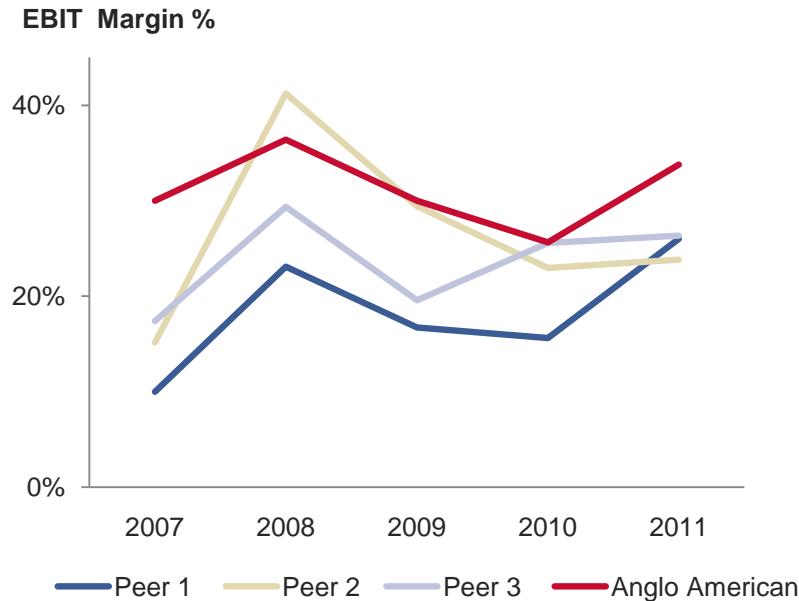


- In 2011, approximately 40% of Thermal Coal EBIT was generated in Colombia and is expected to grow with Cerrejón expansion projects

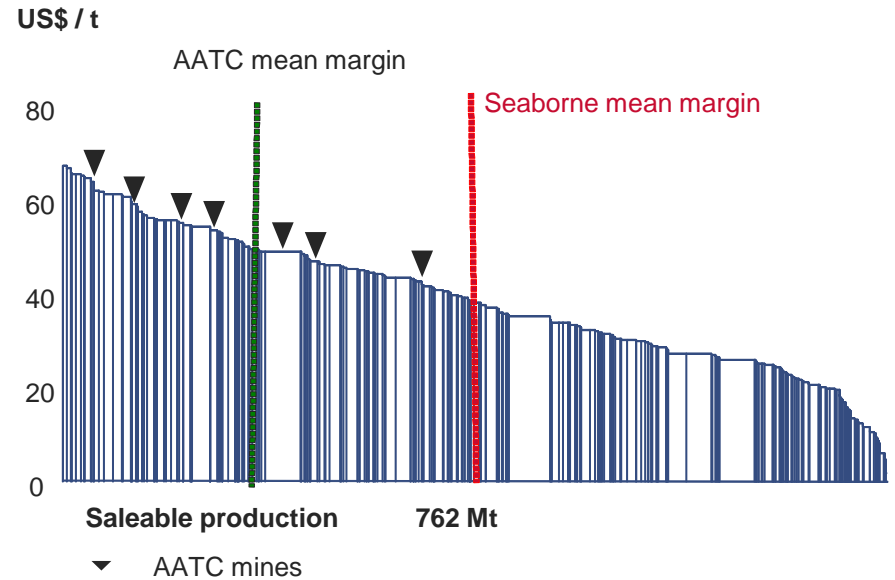
<sup>1</sup> Return on assets calculated as segment EBIT/segment assets (incl. investments in associates)

# LEADING EBIT MARGINS

Competitor analysis: EBIT margin



Competitor analysis: 2012 Seaborne margin curve

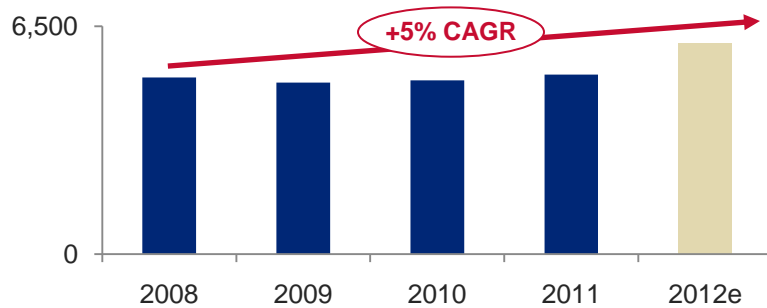


- We have a first quartile mean margin position, with all mines on the first half of margin curve
- We achieved the highest EBIT margin in the peer group for the last three years, and we are well positioned on the margin curve to sustain this performance

# PRODUCTIVITY IMPROVEMENTS AND ASSET OPTIMISATION HAVE CONTRIBUTED TO STRONG EBIT GROWTH

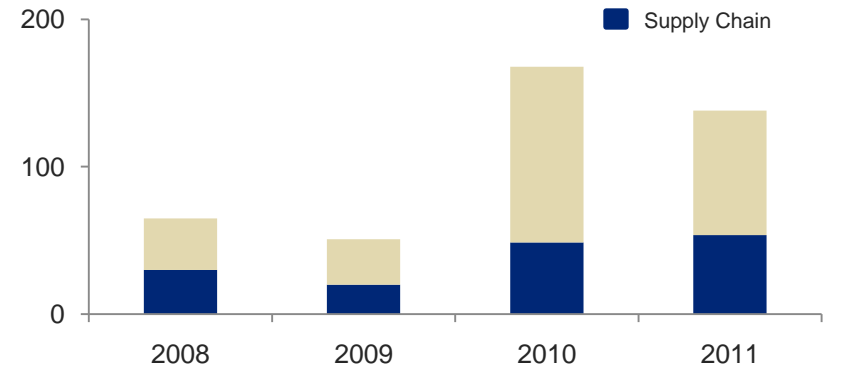
## Productivity (ROM production excl. Cerrejón)

ROM tonnes/FTE



## Incremental business improvement

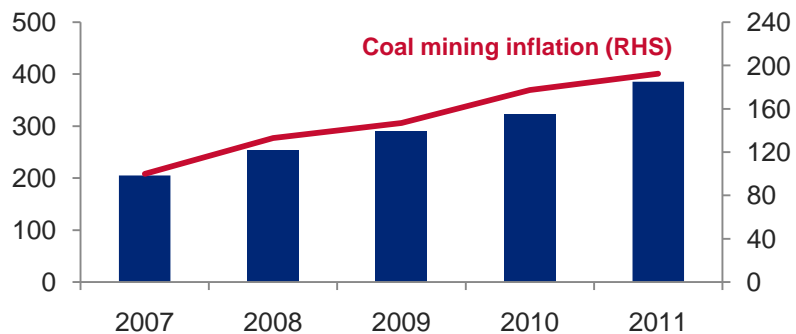
\$m



## Strong EBIT margins despite cost pressures

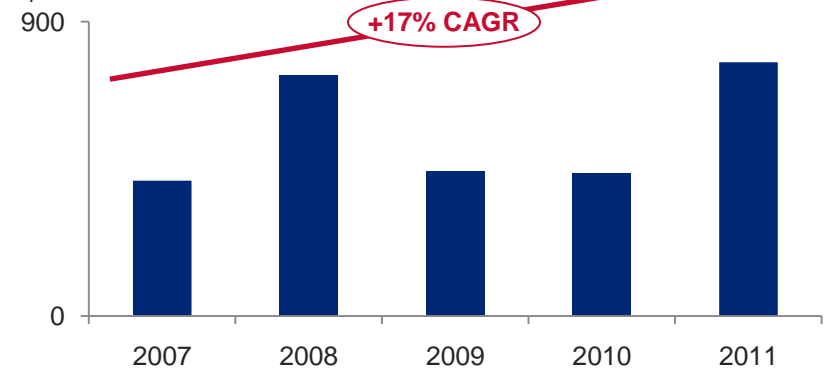
ZAR/Saleable tonnes

%

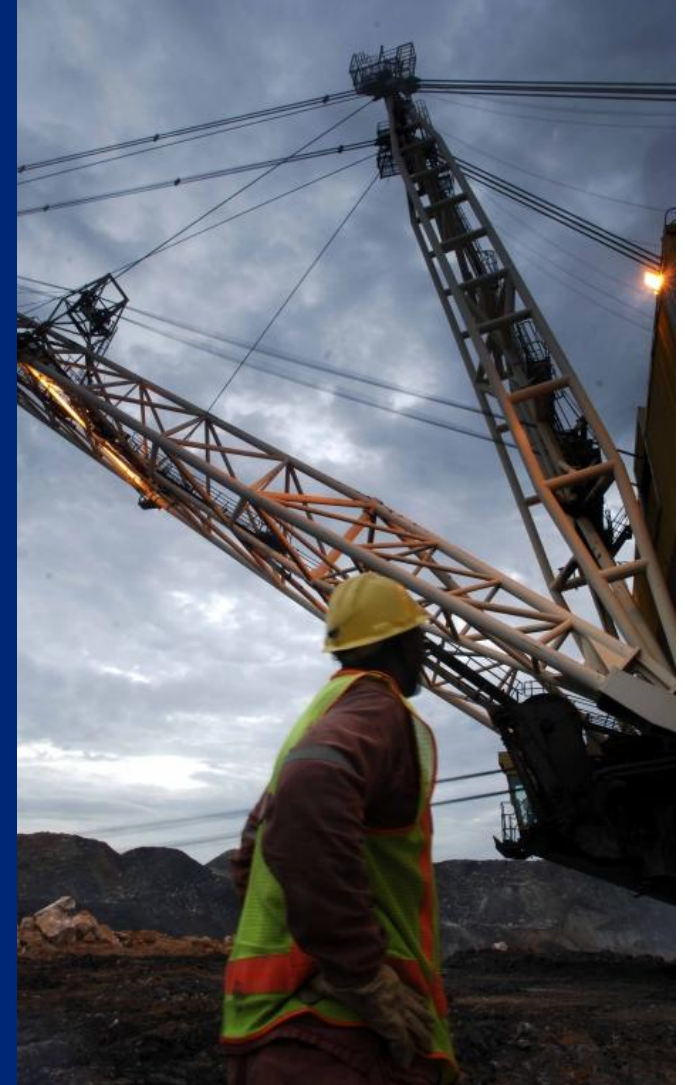


## Operating profit (EBIT)

\$m

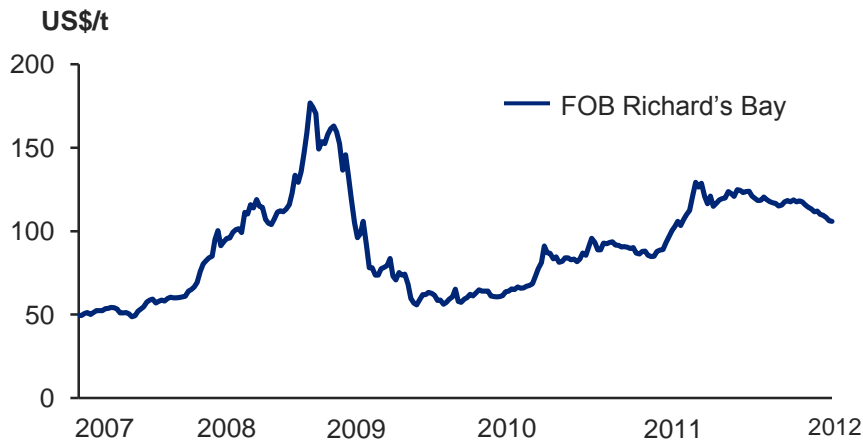


# MARKETS & OUTLOOK



# SHORT TERM STRUCTURAL WEAKNESSES ARE PLACING PRESSURE ON COAL PRICES

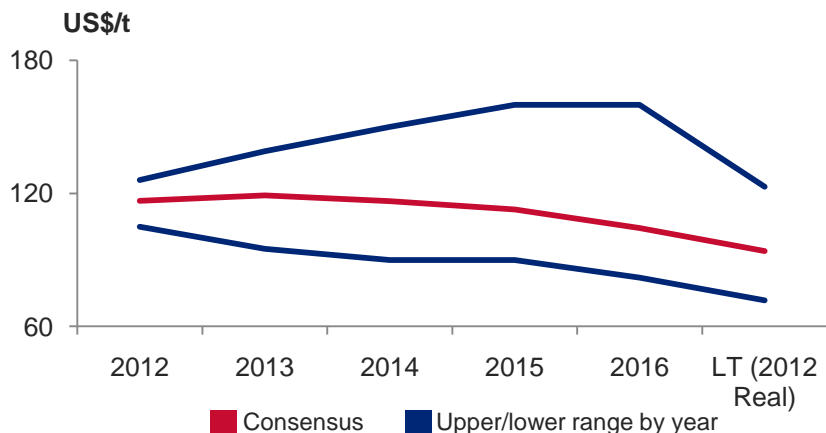
## API4 Richard's Bay



## Structural change: shale gas

- Extended period of low natural gas prices
- USA pushing excess supply of marginal coal into seaborne markets
- Natural gas prices in the USA are significantly lower than past years due to expanded shale gas resource base
- Longer term Henry Hub gas prices to increase as oil products from Shale gas reduces
- Coal still remains the most competitive energy source for India and China and no gas network exists

## Consensus thermal coal price forecast

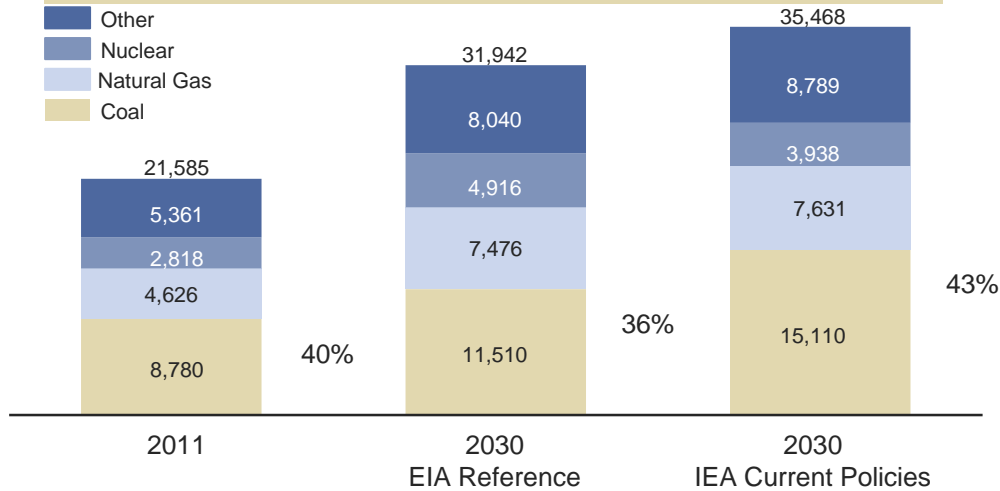


## Structural change: Europe

- Demand into Europe stagnant at best due to economic downturn, and energy substitution from gas and renewables
- New suppliers from USA into Europe from displaced domestic consumption
- Colombia faces long-term sluggish thermal coal demand in its primary market – Europe and USA (resulting in lower margins with Colombian coal traveling to Asia and elsewhere)

# BUT COAL STILL REMAINS AN ATTRACTIVE VEHICLE TO THE FUTURE GROWING GLOBAL ENERGY MARKET

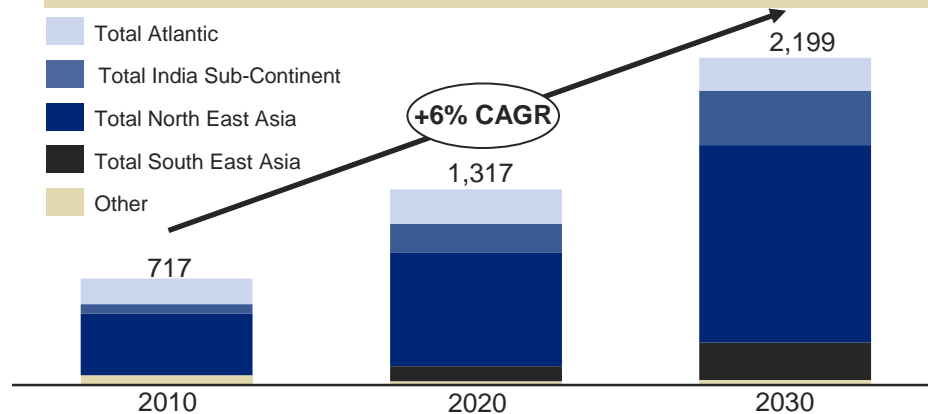
## Fuel Mix: Comparison of commentators (Electricity generation by fuel mix in TWhr)



## World will continue to depend on coal as source of energy

- World energy demand predicted to grow by more than 48% to 2030 (CAGR of 2.65%)
- Even though gas gains market share, coal remains dominant fuel source
- Coal provides excellent mechanism to participate in current and future energy markets.

## Seaborne thermal coal demand (Tonnes Millions)



## Drivers supporting growth in seaborne thermal coal

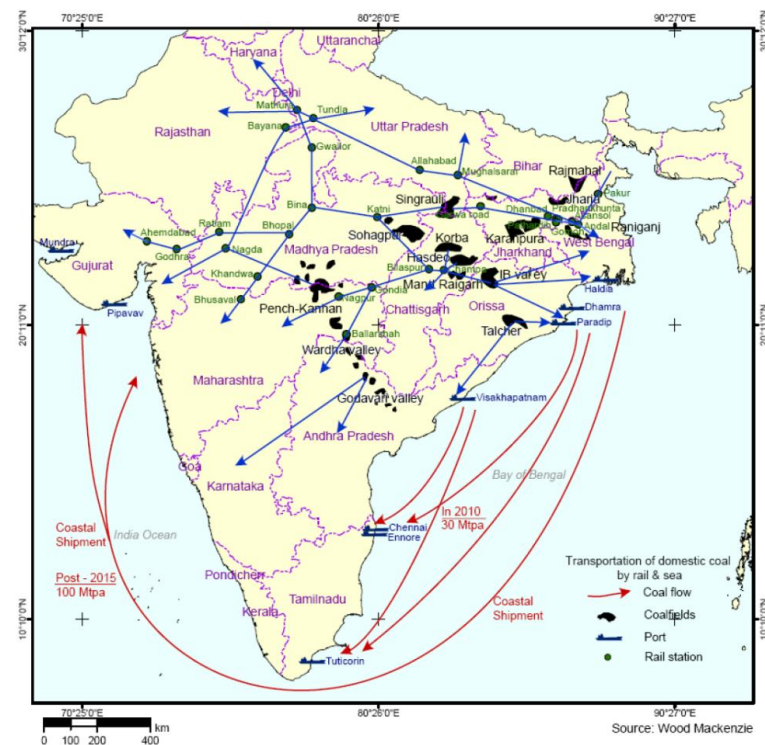
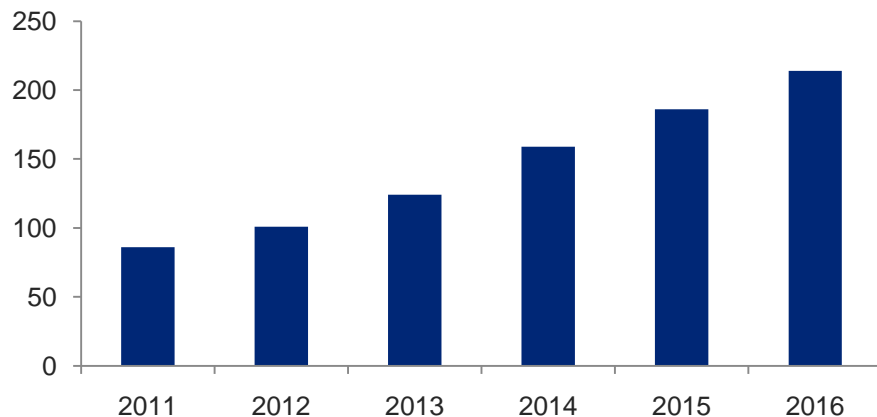
- Overall demand for seaborne thermal coal will be underpinned by economic growth in Asia
- In China and India coal will remain the lowest-cost source of energy
- Macro-economic uncertainty in the developed economies (Europe and North America) will impact demand of seaborne thermal coal imports in the Atlantic basin

# INDIAN POWER SECTOR GROWTH RELIANT ON THERMAL COAL AND IMPORTS

## Drivers supporting growth in Indian coal imports

- Coal-fired generation capacity is being developed in coastal locations in western and southern India, which will use 40-100% imported coal
- Chronically short of power, with a 'power deficit' of over 10% (36% of India's entire population have no access to electricity)
- Urbanisation supports long term economic growth
- Coal supply points and demand centres are in different regions (coalfields are in east and consumption located in western and northern parts) placing pressure on the already congested railway networks
- Domestic production capacity, demanding logistics and uncertainty in environmental constraints are driving medium term coal imports

## Forecasted coal imports (Mt)

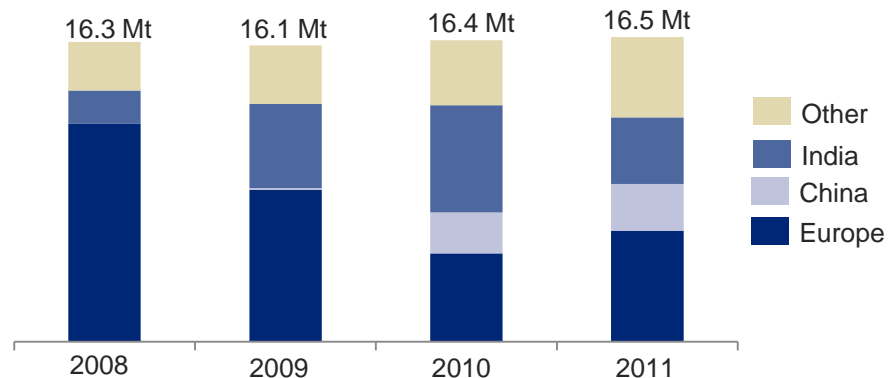


# FAVOURABLE GEOGRAPHICAL LOCATION

SA thermal coal exports can swing relatively easily and profitably between the Pacific and Atlantic basins

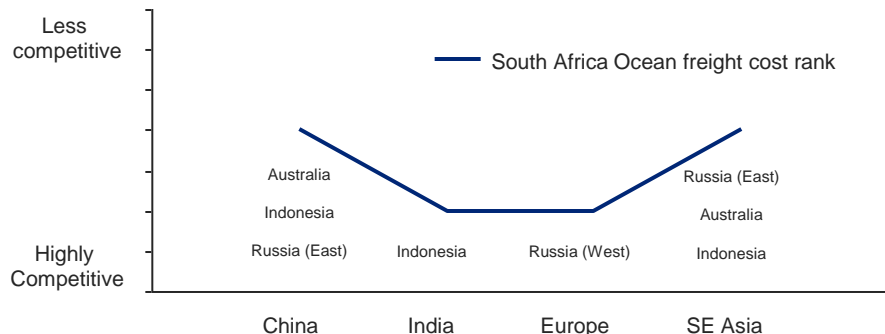


AATC Richard's Bay sales volumes by region

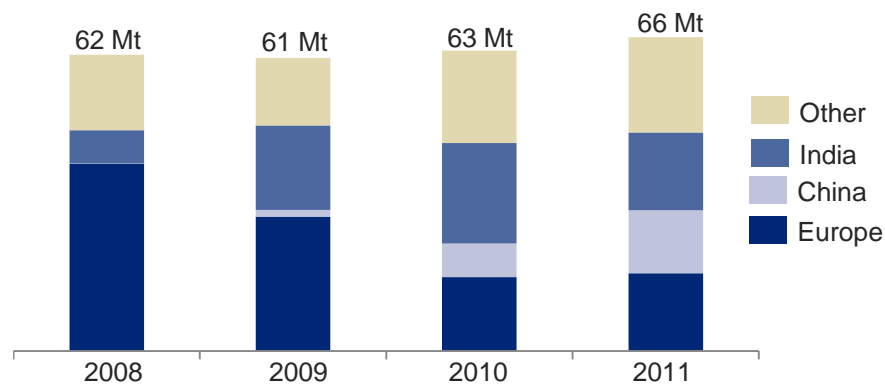


## Export ocean freight cost ranking

(7 major export regions considered into China, India, Europe and SE Asia)

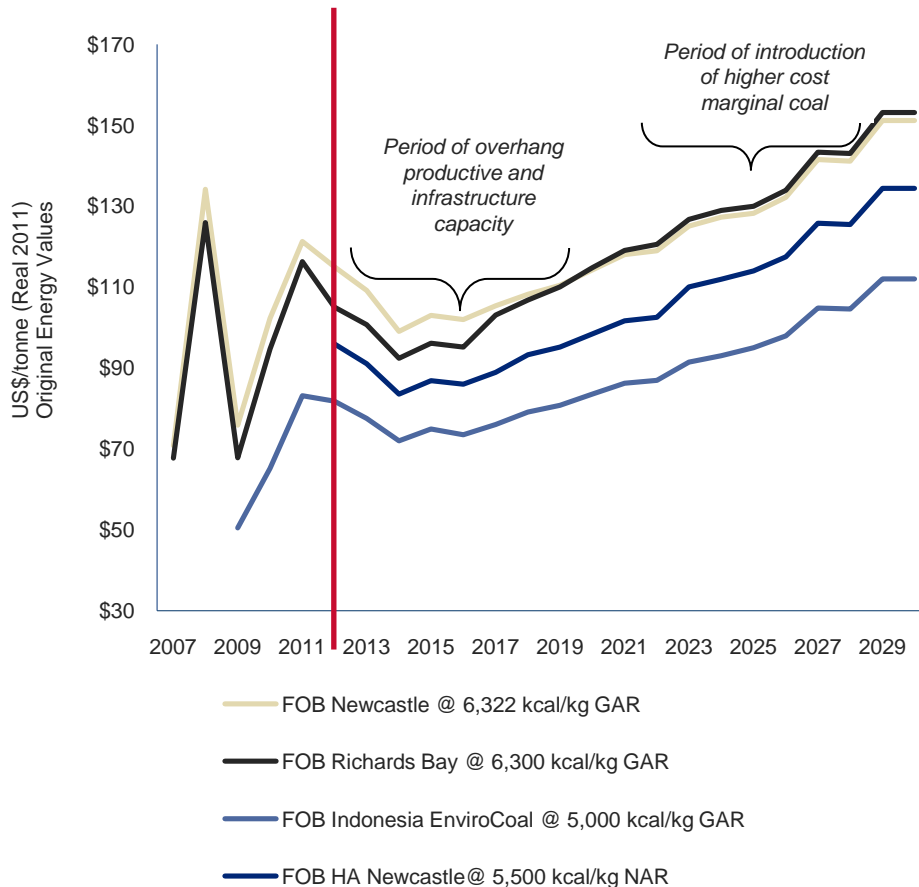


Richard's Bay total sales volumes by region



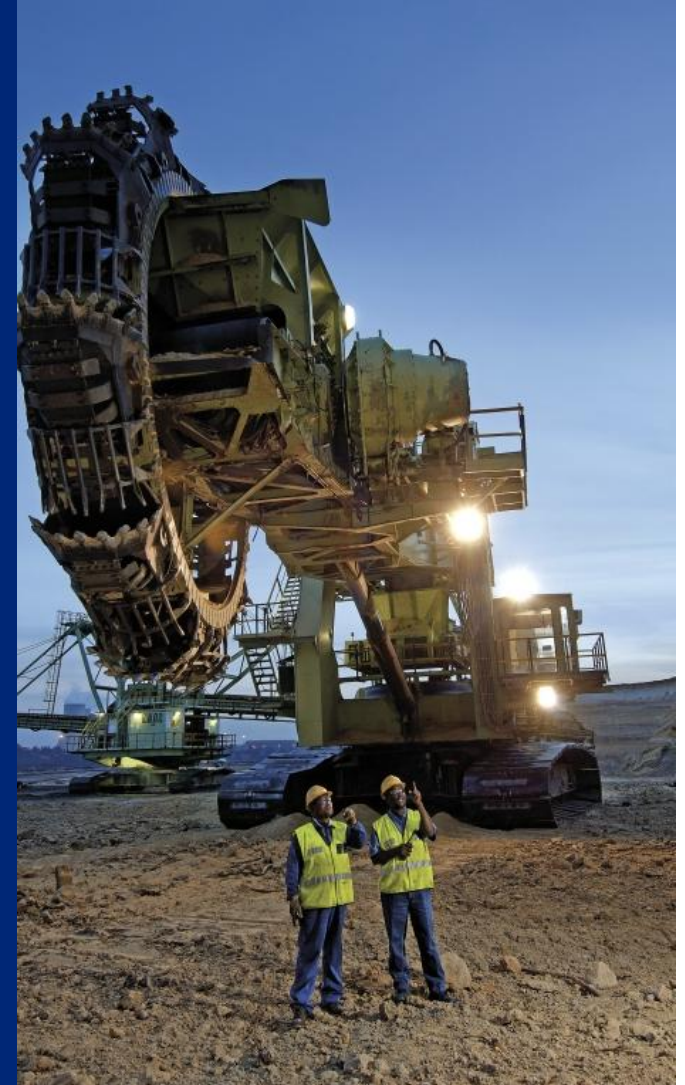
# OVERALL VIEW ON MARKET LONGTERM

Long term: thermal coal stabilises through continued Asian demand and rationalisation of supply



- China and India will drive this rebound with rapidly growing economies which are heavily reliant on coal
- Longer term fundamentals suggest the high demand growth trend will continue
- China and India in particular have little alternative but to expand coal use in the power sector
- Meeting the substantial demand growth will require expansion of existing supply basins and development of new reserves in more remote regions, exerting price pressure across the entire global supply chain
- New mining projects, at current pricing levels and capital intensity, likely to be shelved.

# STRATEGY & ASSET OPTIMISATION



# OUR STRATEGY

Be the most profitable thermal coal producer, with a global growth strategy that targets participation in the most attractive supply regions

Business  
of  
Today



- Zero harm and achieve 'Resilient' safety maturity
- Ensure impact of operational excellence
- Export portfolio optimisation through Enterprise valuation tool

Business  
of  
Tomorrow



- Delivery on approved project pipeline
- Implementing 6 Technology Strategy initiatives

Proactive product  
stewardship



- Climate change leadership in key industry groups
- Improve stakeholder perception of the coal industry

Growing margin on the  
margin

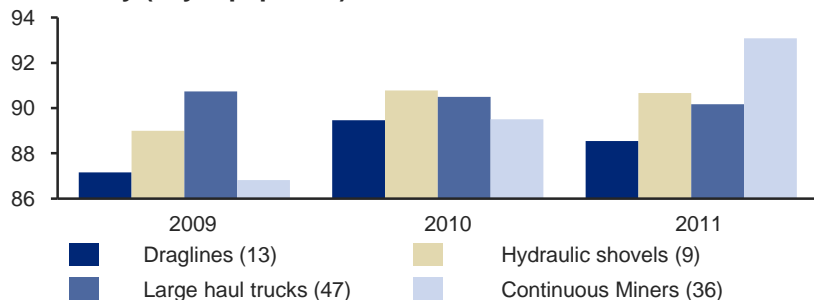


- Develop new products and business models for key growth markets
- Transforming into a strategic marketer

# THERMAL COAL HAS A CULTURE OF CONTINUOUS IMPROVEMENT AND TECHNOLOGY ADOPTION

## Asset optimisation

### % Availability (key equipment)



### Project Khulisa in 2011 benchmarked all operations and key equipment targeting world-class performance by 2015

- Benchmarked specific KPIs on trucks, draglines, longwall and continuous miners
- Achieving benchmark levels requires a high-performance culture
- 88 key projects identified, tracked and monitored

**Project 'Khulisa' means growing to full potential**

### Examples of 88 key projects across 11 mines

- Zibulo incline downtime targeting + 200 ktpa ROM
- Goedehoop and Greenside flexible conveyor trains targeting +350 ktpa each
- New Vaal dragline improvement + 1000 ktpa ROM



## Technology strategy and adoption

### Implementing 6 technology projects in 2012 focused on AATC business processes

- Underground: equipment automation
- Opencast: autonomous hauling and automation
- Waterless processing and discard product retreatment
- Energy efficiency technologies

### Examples of key projects across 11 mines

- Remote drilling, dozing and ADT (trucks)



Safety, productivity and consistency concerns have created an opportunity for automation of ADTs and dozers in Thermal Coal operations.

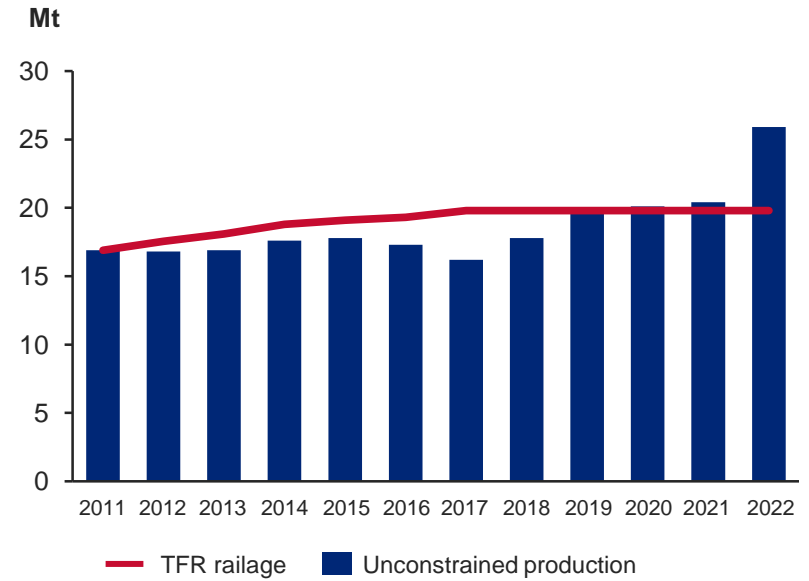
- Discard management (retreatment) and briquetting



Establish a plant to process 700,000 tonnes per year using discard 'slimes' material from Goedehoop Colliery

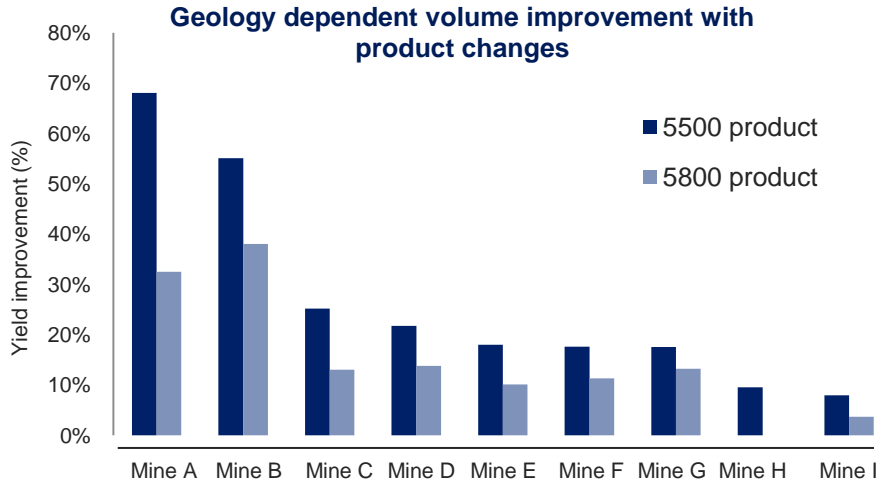
# UTILISING ADDITIONAL INFRASTRUCTURE CAPACITY

- Opportunity for additional export volume exists with improved Transnet performance
- We are making best use of rail capacity and railed 16.9 Mt during the 2011 calendar year, 4% more than entitlement due to:
  - Superior loading terminal efficiency
  - Stock at hand
- The additional rail capacity allows for further margin improvement opportunities and we are actively managing this opportunity.
- Further potential alternatives for this additional value creation include:
  - Unwashed coal exports and various quality and blending models
  - Discard retreatment
  - Joint venture structures



# OPTIMISING OUR EXPORT PORTFOLIO

## Improving overall margin through yield improvement



Enterprise optimisation and planning allows Thermal Coal to manage the dynamic interaction between:

- Rail capacity;
- Product quality and yield improvement; and
- Price penalties associated with lower quality coal

## Success story 1: Zibulo Colliery

Zibulo Colliery converted earlier to produce a 5850 kcal/kg (6000 kcal/kg previously) and increased production from minipit.

Associated yield and volume improvement creating an additional 600,000 tonnes of export product.

## Success story 2: Goedehoop Colliery

Goedehoop Colliery will convert to producing a 5850 kcal/kg (6000 kcal/kg previously) from H2 2012.

Associated yield and volume improvement creating an additional 160,000 tonnes of export product.

# REVENUE DRIVERS

## Export sales

- Key drivers are sales volumes and spot pricing
- Sensitive to pricing and exchange rates
- Since 2007, Thermal Coal has moved from 24% of indexed based contracts to a projected 98% in 2012
- Thermal coal has the ability to flex export sales volumes and product qualities in order to maximise revenue from available rail capacity
- Resource optimisation through multi-stage product washing capability

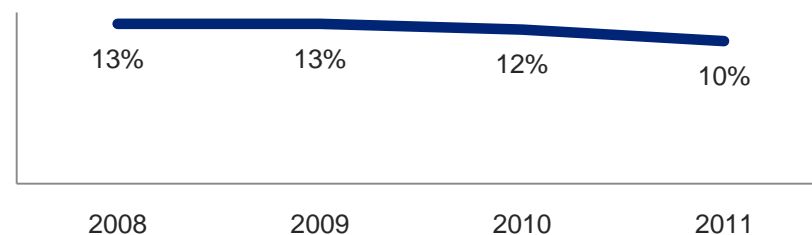
## Domestic sales

- Generate stable cash flows and profits with low capex and working capital requirements
- Provides economies of scale and reduces cost base
- Low fluctuations of revenue streams due to cost+ or fixed margin contracts
- Profit determined by fixed and variable return on investment with operating costs (incl. SIB capex) recovered
- Additional return elements
  - Management fee
  - Resource fee (for access to the resource)
  - Bonuses and penalties (quantities and qualities)

## Price/exchange rate sensitivity<sup>1</sup>

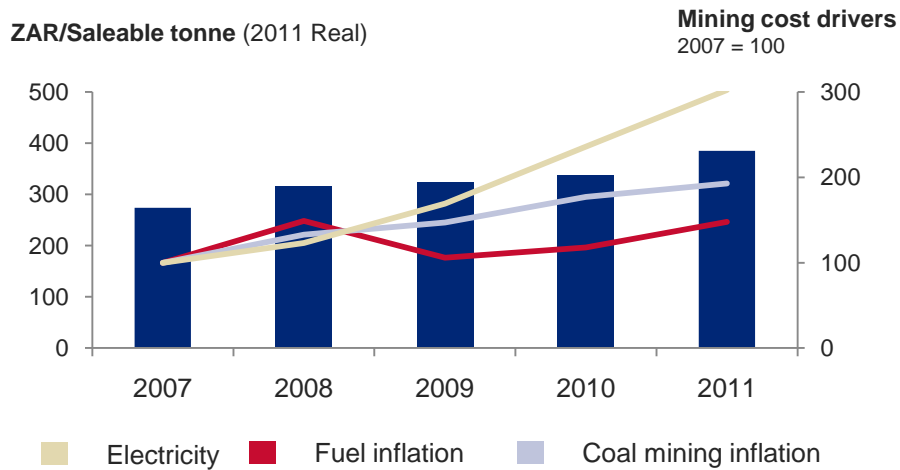
Change	Underlying impact US\$m
\$10/t	210
10%	239

## Domestic EBIT margin

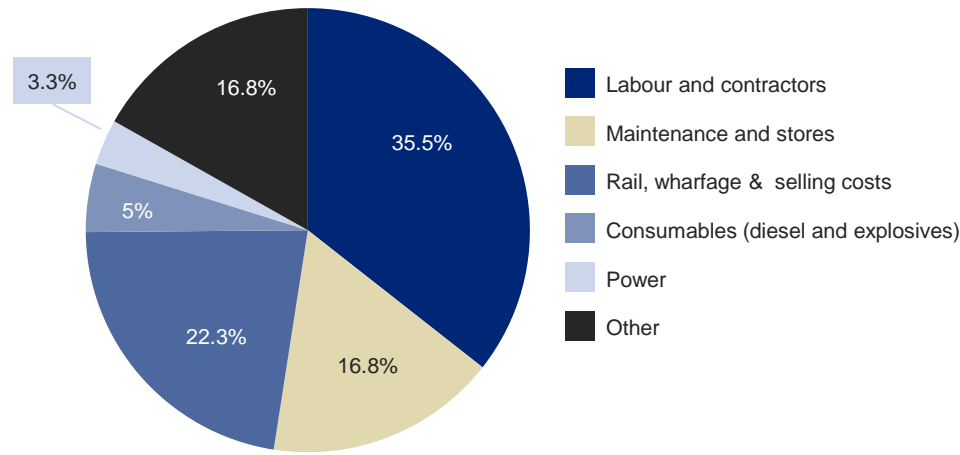


# COST DRIVERS

## Cost vs. mining cost drivers



## Cost distribution 2011 (South African export mines)



- Cost pressures in South Africa largely driven by above inflation electricity and labour increases
- Supply chain and asset optimisation initiatives will help to mitigate mining-related inflation increases

# CARBON TAX MANAGEMENT

**Final carbon tax legislation in South Africa is expected to be finalised by July 2013 and implemented in 2014.**

- Tax is likely to be levied on methane emissions originating from coal mining activities
- Proposal is for carbon tax to be levied on all our mines – domestic coal cost impact is marginal as the tax will be passed through.
- In terms of export coal, the current estimate of additional cost is approximately \$1.3m

## **New Denmark Colliery methane flaring project**

Flaring methane renders it 18.5 times less harmful to the environment – significant when considering the gas has 21 times the global warming potential of carbon dioxide.

The mine, as a result of the initiative, has reduced its annual methane emissions by 15%



# KEY PROJECTS



# SOUTH AFRICAN ORGANIC GROWTH DELIVERY

## Zibulo Colliery capital investment of \$500m

- The 6.6 Mtpa Zibulo mine reached commercial operating levels in the fourth quarter of 2011, ahead of schedule
- Significant contribution to BEE, as this is the first major project developed by Anglo American Inyosi Coal
- Reaching final capacity by H2 2012

## New Largo to deliver 12 Mtpa to Kusile power station

- Currently undergoing technical review and project approval expected in Q4 2012
- The coal supply agreement is currently in negotiation
- Environmental applications and licenses are submitted and approvals awaited



# STRONG ORGANIC GROWTH OPTIONS IN COLOMBIA

## Cerrejón P500 Phase 1 - approved

- The US\$1.3 billion expansion project will increase Cerrejón's production and export capacity by 8 Mtpa to 40 Mtpa (100% basis)
- Anglo American approved its US\$437 million share of the project with joint venture partners
- Construction is scheduled to be completed in 2013, with production progressively ramping up to reach 40 Mtpa by the end of 2015
- The project includes increasing coal production and coal handling capacity at the Cerrejón mine and coal handling and ship-loading capacity at its 100% owned and operated port, Puerto Bolivar

## Cerrejón P500 Phase 2

- Currently in pre-feasibility project phase
- This expansion project has the potential to increase production to 50 to 60 Mtpa (100% basis), which may require a river diversion in order to access additional reserves.



OPENCAST TRUCK AND SHOVEL OPERATION



OWN 150KM RAILWAY



OWN PORT

# SUMMARY



# SUMMARY

---

- **World class assets in South Africa and Colombia**
- **Thermal Coal is a consistently performing business**
  - Stable cash generating business and consistent contributor to Anglo American operating profit
  - Positioned competitively on the industry seaborne margin curve
  - Leading EBIT margin relative to key peers
  - Responsible and sustainable miner
- **Positive long term market outlook for Thermal Coal**
  - Driven by increasing export demand in the Indo-Pacific region and domestic South African power demand
  - Export prices currently under pressure but expected to return to historically high levels in the medium term
- **Thermal Coal is positioned for strong growth**
  - Export portfolio optimisation with improved Transnet Rail performance
  - Ability to swing exports easily and profitably between Pacific and Atlantic basins
  - Strong organic growth pipeline in Colombia