

# MINAS-RIO REVIEW

29 January 2013



Real Mining. Real People. Real Difference.

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# BUSINESS CASE AS PRESENTED AT TIME OF PURCHASE



## Minas Rio Business Case

**Rationale for acquisition**

- ❑ Iron ore is a structurally attractive market, in which Anglo has been looking to expand its presence for some time
- ❑ **Tier one asset opportunities are rare**
  - **Large long life resource**
  - **Expandable**
  - **Low cost with integrated logistics infrastructure**
  - **High quality ore body**
- ❑ Minas Rio ore has a complementary profile to Anglo's current high quality Sishen ore product offer
- ❑ Acquired a large and experienced iron ore team
- ❑ Anglo has a significant footprint in the Brazilian market dating back over 30 years

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*“Rationale for acquiring the project<sup>(1)</sup>*

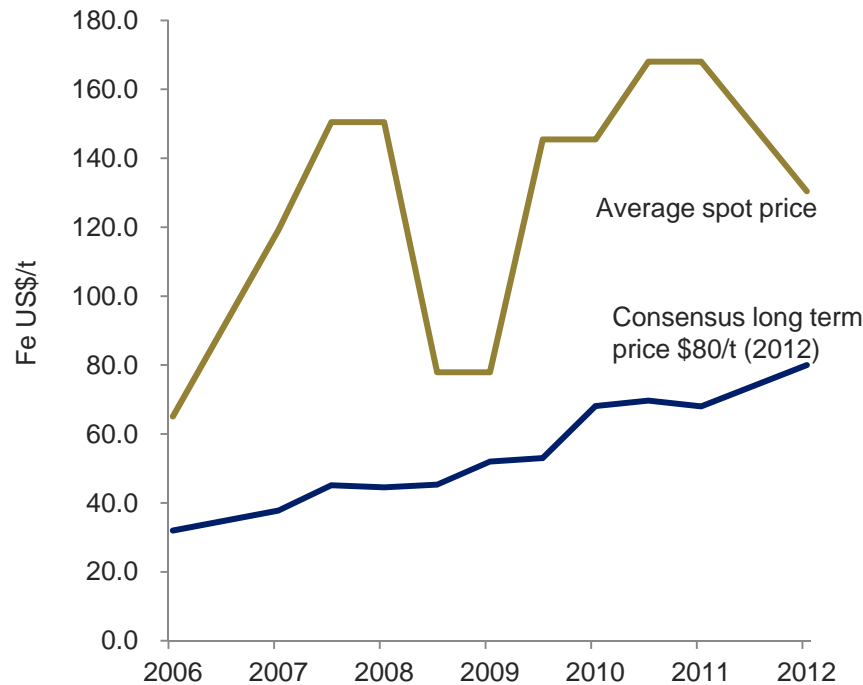
- *Board made a long term strategic decision to substantially grow our iron ore portfolio – one of the cornerstones of Anglo’s strategy*
- *Minas-Rio provides quality product on a huge scale*
- *Differentiated product in the market as a long term supplier of high volume quality iron ore*
- *Strong supporters of Brazil, operating in Brazilian market for over 30 years”*

(1) Presented at South American Analyst Site Visit in 2009

# BUSINESS CASE FOR MINAS-RIO REMAINS INTACT

## Good future fundamentals

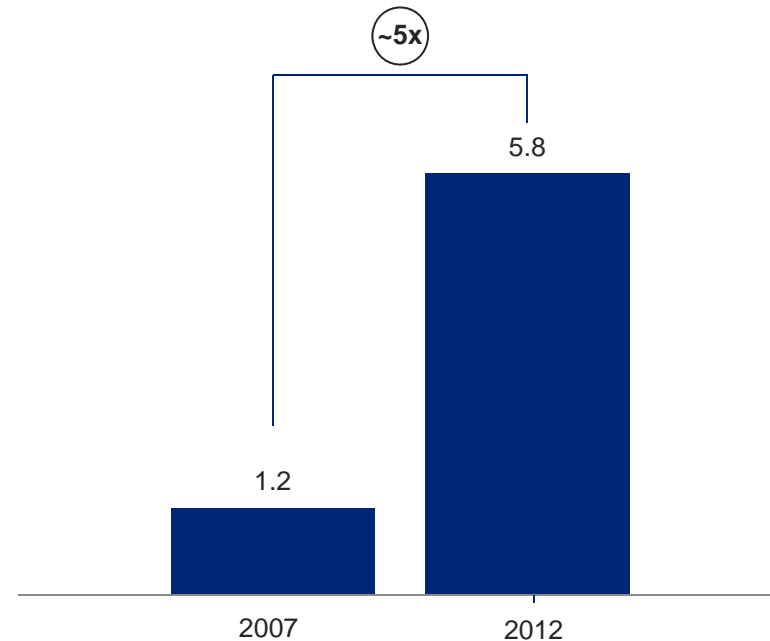
- Medium to long term fundamentals for iron ore remain robust



Source: UBS, Anglo American

## Significant increase in resource

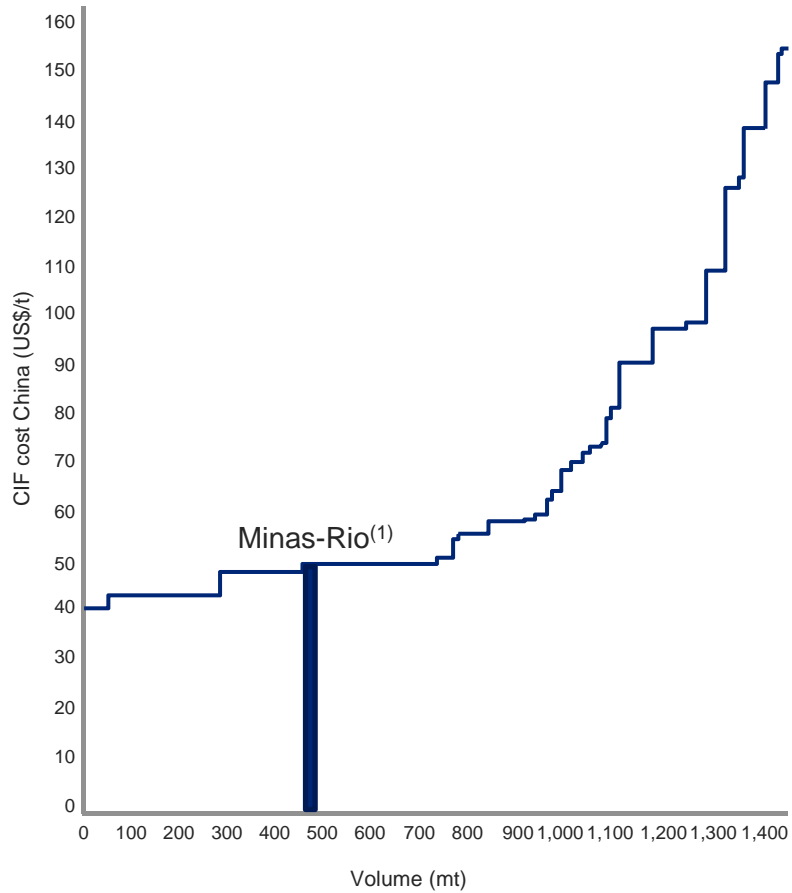
- Delineated 5.8 bn from 1.2 bn tonnes of Mineral Resources



Source: Anglo American Annual Reports and Competent Person Reports. Due to the uncertainty that may be attached to some Inferred Mineral Resources, it cannot be assumed that all or part of an Inferred Mineral Resource will necessarily be upgraded to an Indicated or Measured Resource after continued exploration. Minas-Rio project pipeline represents Itapahoacanga and Serra Do Sapó only

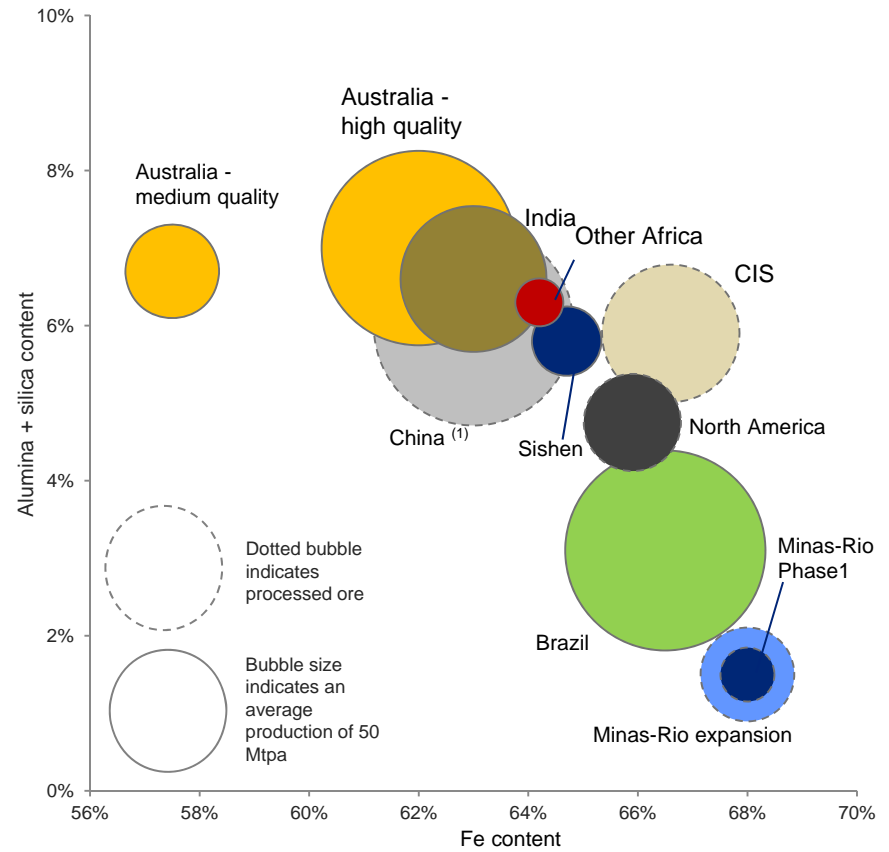
# BUSINESS CASE FOR MINAS-RIO REMAINS INTACT (CONT.)

## Maintains a low cost position



(1) Indicative position. \$20/t freight rate assumption  
Source: Macquarie, Anglo American

## High quality & low contaminant product



(1) Chinese production (rich ore equivalent) inferred from a small sample of mines  
Source: CRU, AME, Anglo American

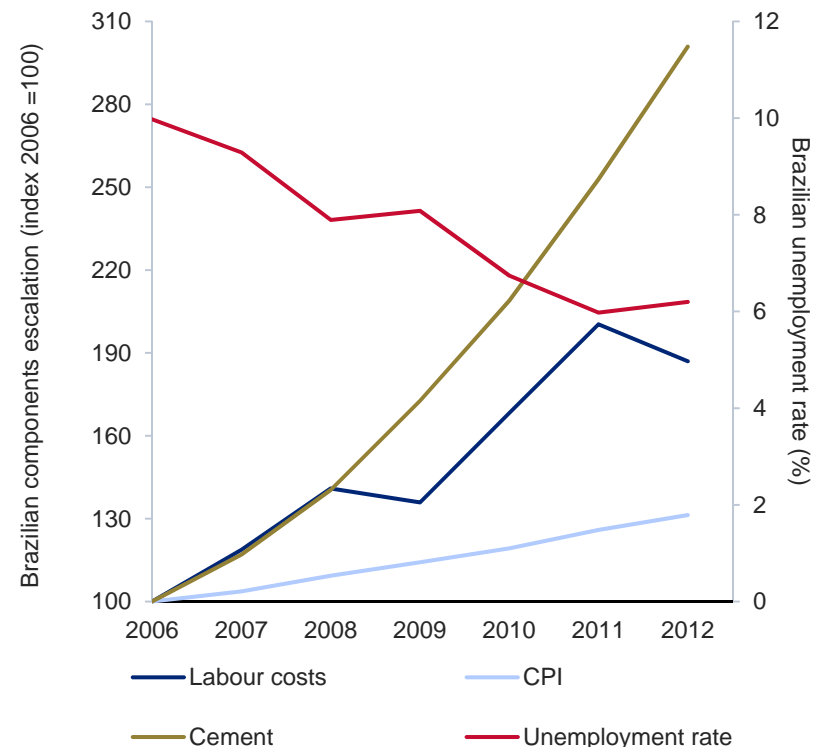
# ... BUT BRAZIL IS A DEVELOPING COUNTRY

## Evolving regulatory environment - a challenge for many projects in Brazil

Project	Capex escalation (%)	Delay (months)
Serra Sul (Vale, Iron ore)	72	54
Onça Puma (Vale, Nickel)	158	27
Salobo (Vale, Copper)	179	30
Ferrovía Norte-Sul (Government infrastructure - railroad expansion)	127	55
Transposicao do Rio Sao Francisco (Government infrastructure – river for irrigation)	56	55

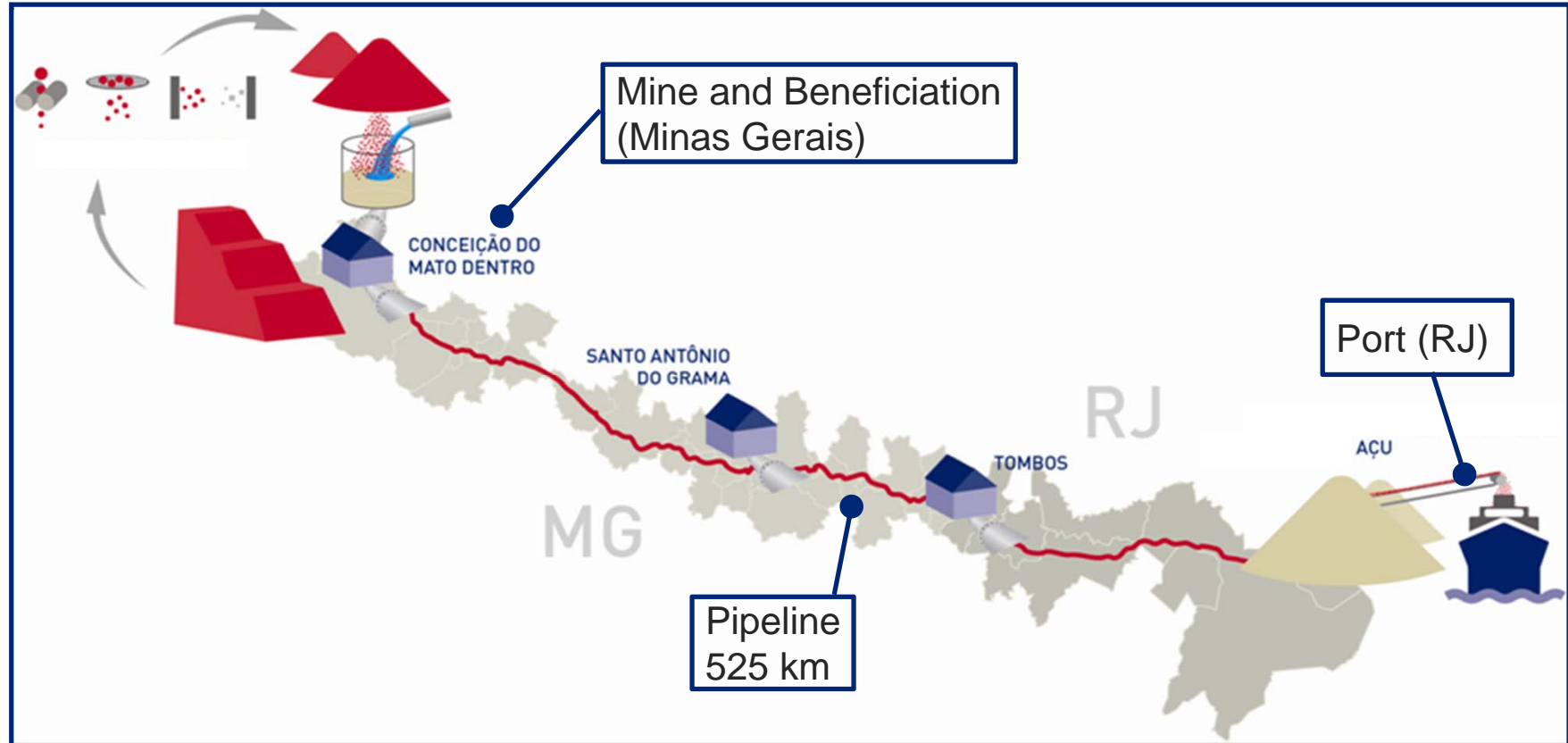
Source: Company information, broker notes, MEG, UBS

## Cost pressures and skill shortages in Brazil are real



Source: FGV: IBRE - Instituto Brasileiro de Economia, EIU Countrydata, UBS, Anglo American

# PROJECT OVERVIEW

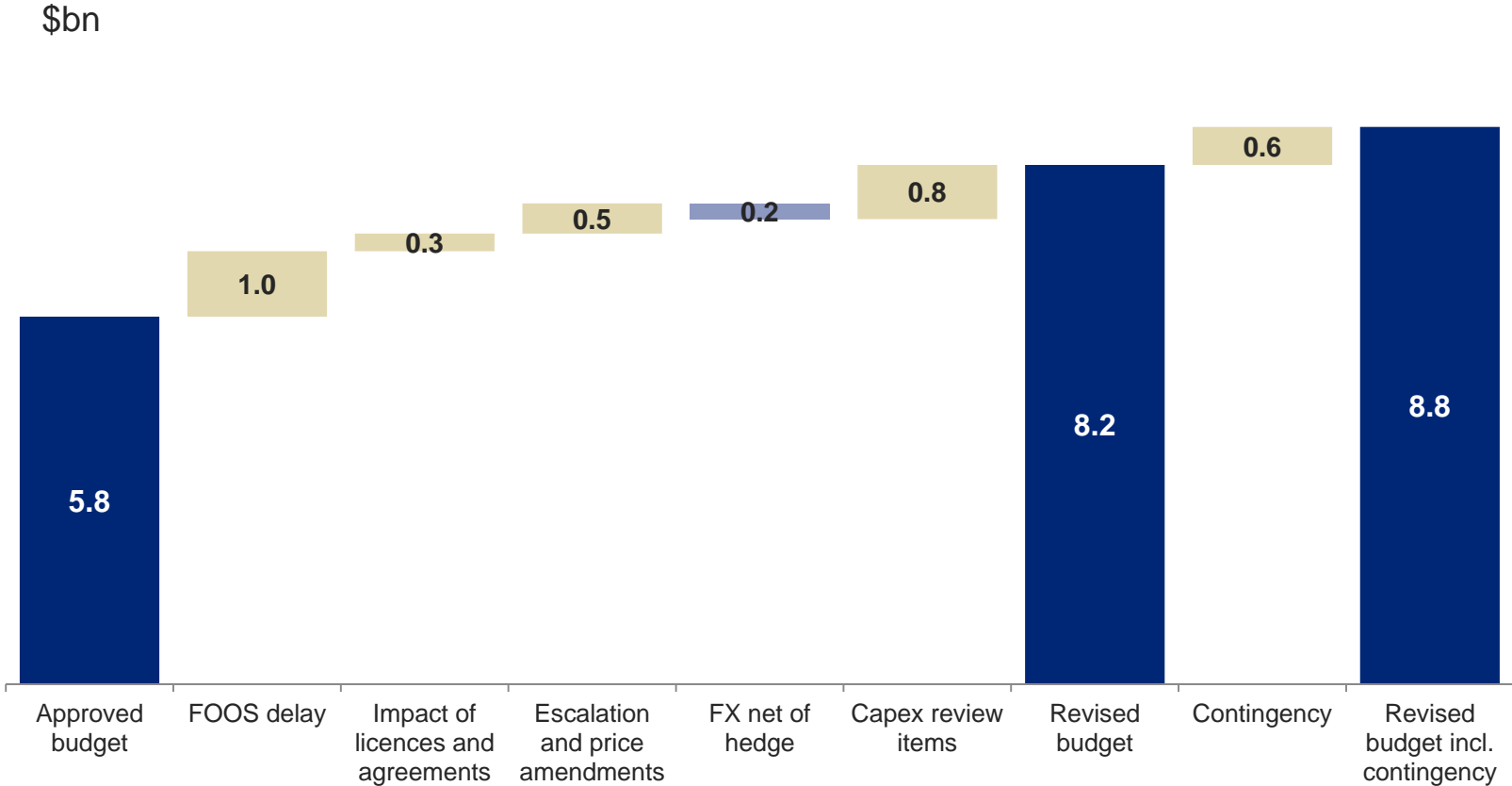


<p><b>5.8b</b> Resources</p>	<p><b>US\$c.30/t</b> Cash cost (FOB)</p>	<p><b>26.5 Mtpa</b> initially Up to 90 Mtpa in expansion</p>	<p><b>68% Fe</b> Pellet feed</p>
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# CONTINUING PROGRESS DURING THE PAST 12 MONTHS

	At end of 2012	At end 2011
<b>Beneficiation plant</b>		
<ul style="list-style-type: none"> <li>• Earthworks nearing completion</li> <li>• Concrete poured</li> <li>• Release of caves for construction</li> <li>• Tailings dam land access</li> <li>• 3 legal injunctions cleared</li> <li>• Transmissions line                             <ul style="list-style-type: none"> <li>• Installation licence</li> <li>• Towers available / in construction</li> </ul> </li> </ul>	<p>92%</p> <p>79,000 m<sup>3</sup></p> <p>4 of 4 (September 2012)</p> <p>21 of 21 secured</p> <p>✓</p> <p>✓ December 2012</p> <p>✓ 43</p>	<p>79%</p> <p>29,000 m<sup>3</sup></p> <p>2 of 4</p> <p>8 of 21 secured</p> <p>✗</p> <p>✗ outstanding</p> <p>0</p>
<b>Pipeline</b>		
<ul style="list-style-type: none"> <li>• Track released for construction</li> <li>• Landowners released</li> </ul>	<p>402 km; 247 km installed</p> <p>95%</p>	<p>219 km; 201 installed</p> <p>88%</p>
<b>Filtration plant and Port</b>		
<ul style="list-style-type: none"> <li>• Overall completion of filtration plant</li> <li>• Mechanical erection at port</li> <li>• Transmission line towers installed for port</li> </ul>	<p>77%</p> <p>65%</p> <p>85%</p>	<p>45%</p> <p>11%</p> <p>41%</p>
<b>Licences and Permits</b>		
<ul style="list-style-type: none"> <li>• Pending licences and permits</li> </ul>	<p>17 (to be issued up to FOOS)</p>	<p>78</p>

# CAPEX ESCALATION RECONCILIATION



# KEY SHORT TERM SCHEDULE RISKS

	Context	FOOS date impact	
		In the event of a 3-6 month delay (from cut-off date)	Comments
<b>Mine</b>			
<ul style="list-style-type: none"> <li>Cave 1 suppression and Mine Access</li> </ul>	<ul style="list-style-type: none"> <li>Cave impacts the pre-stripping activities</li> <li>New mine access being licensed</li> </ul>	<p><b>H1 2015</b> (rainy season)</p>	<ul style="list-style-type: none"> <li>Active engagement with authorities</li> <li>Authorisation anticipated in H1 2013</li> <li>Extension of LI</li> </ul>
<b>Beneficiation Plant</b>			
<ul style="list-style-type: none"> <li>TL 230kV land release (Beneficiation Plant)</li> </ul>	<ul style="list-style-type: none"> <li>Legal injunction lifted</li> <li>Release of land and access</li> </ul>	<p><b>H1 2015</b> (rainy season)</p>	<ul style="list-style-type: none"> <li>23% of towers released for construction since December 2012</li> <li>Contractor mobilised</li> </ul>
<ul style="list-style-type: none"> <li>Closure of Tailings Dam</li> </ul>	<ul style="list-style-type: none"> <li>Land access available (November 2012)</li> <li>Archaeological site recovery in progress</li> </ul>	<p><b>H2 2015</b> (dry season needed)</p>	<ul style="list-style-type: none"> <li>Archaeological recovery underway</li> <li>Sites identified and prioritised</li> </ul>
<b>Pipeline</b>			
<ul style="list-style-type: none"> <li>Front 1 access</li> </ul>	<ul style="list-style-type: none"> <li>Nova Era Silicon's (NES) Legal Reserves relocation</li> <li>National road - LMG 790 accesses</li> </ul>	<p><b>H1 2015</b> (rainy season)</p>	<ul style="list-style-type: none"> <li>53% of NES earthworks released</li> <li>25% of LMG 790 earthworks released</li> </ul>

# IMPROVING PROJECT DELIVERY

## Efficiency

- Group reorganisation to allow Iron Ore Brazil (IOB) team to solely focus on Minas-Rio project delivery
- IOB organisation streamlined to focus on delivery and productivity
- Forward planning - solutions for rainy season, pre-assembling activities and monitoring the contractors activities closely
- Validated and developed a comprehensive work program to convert plans into timely actions

## Licensing and Permitting

- Licence office established to monitor and track licences, permits and conditionings in advance of construction activities
- Government Relations strengthened
- Head of Government Relations appointed (extensive experience with government and multilateral institutions)
- Head of Licence Office appointed (12 years of experience working in the State environmental agency)

## Monitoring and Governance

- Project Management Office implemented and integrated (reports directly to CEO of IOB)
- Early warning system to escalate risks and issues
- Clear accountability and responsibility incorporated into individuals performance targets

## Securing future capabilities

- Clear exploration and definition of a world class resource to support current development and future expansions
- Local employment (technical training in collaboration with Brazilian educational entities - SENAI)
- Social programmes to assure the social licence to operate (MOVER, PROMOVA)
- Future expansions will adopt the Anglo American Project Way

# IMPAIRMENT CONSIDERATIONS

## Impairment considerations

- Base case valuation for impairment test does not include the potential value from future expansions to 90 Mtpa
- Full impairment test included sensitivity analysis based on various risk adjusted assumptions
- Downside scenario considered the impact of potential delay and capital cost increases
- The fair value of Minas-Rio is determined on a discounted cash flow basis using:
  - a real post-tax discount rate of 6.5%
  - quality adjusted long-term iron ore prices slightly above the median of US\$80 per tonne (as at December 2012)

## Carrying value

Carrying value at 31 December 2012	\$bn
Acquisition cost <sup>(1)</sup>	5.2
Capex to date	3.8
Other net assets	0.6
<b>Carrying value (excluding cash and debt)</b>	<b>9.6</b>

(1) Includes goodwill of \$1.1 billion

## Income statement

Income statement impact (special items)	\$bn
Impairment (pre-tax)	5.0
Tax	1.0
<b>Impairment (post-tax)</b>	<b>4.0</b>

# KEY MESSAGES

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- Medium and long term attractiveness and strategic positioning of Minas-Rio remains intact
- Cost and schedule review completed, including a detailed re-evaluation of all aspects of the outstanding schedule, with a focus on maximising value and mitigating risk
- Good progress made in 2012 – all three injunctions that had disrupted the project in 2012 have been lifted
- Disappointed that capital expenditure increased to \$8.8 billion (FOOS by the end of 2014)
- The delivery of Minas-Rio is dependent upon a number of development milestones being achieved in 2013 and other factors
- \$4.0 billion post-tax impairment charge recorded, based on risk adjusted assumptions



# APPENDIX

# BENEFICIATION PLANT

## Current status and points of attention

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Key stats **53%** complete

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**92%** of beneficiation plant earthworks completed

**43** of **187** transmission line towers released for construction

**79,000 m<sup>3</sup>** of concrete poured to date

**~4,000** people at site



- LICENSING** ▶
- Continuous focus on government relations
  - Active engagement and follow-up with forestry, environmental and archaeological agencies

- LAND ACCESS** ▶
- Conclude land access for transmission line towers
  - Strategic plan for future land requirements

- PROCUREMENT** ▶
- Focus on top contractors
  - Monitor escalation factors in the construction industry

# PIPELINE

## Current status and points of attention

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Key stats **66%** complete

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**76%** cleared for pipe laying

**> 247 km ; ~50%** of pipe laid

**95%** of **1,555** properties realised

**~6,000** people at site



### FRONT 1 LICENCES

- Complete relocation of legal reserves

### FRONT 1 LAND ACCESS

- Conclude final arrangements in partnership with Minas Gerais Roads Agency (DER) & Nova Era Silicon

### PROCUREMENT

- Finalise contract amendments with key pipeline contractors

### DELIVERY

- Maintain the sense of urgency
- Closely monitoring productivity and bottlenecks

# PORT

## Current status and points of attention

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Key stats **52%** complete

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**100%** stackers and reclaimer erected

**77%** of Filtration Plant completed

**~1,500** people at site



### BREAKWATER

- Mobilise breakwater construction

### CONSTRUCTION

- Complete electromechanical activities
- Installation of ship loader

### PORT OPERATIONS

- Prepare port for ramp up and operation

# PRE-OPERATIONS

Current status and points of attention

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Key stats **46%** complete

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**5.8 bn** tons of mineral resources

**1.4 bn** tons of ore reserves

**24h / 365d** work shift

**80 Mtpa** material handled

**5,400** employees



## CAVES / PRE-STRIPPING

- Integrated planning with licensing team
- Execute work plan to optimise stripping plan

## COMMISSIONING & RAMP-UP

- A dedicated team is being created for the commissioning
- Close monitoring of ramp up activities

## PEOPLE

- Employment of operators and engineers underway
- Retaining talent