Xstrata Coal South Africa and ARM Coal Site Visit

6 November 2006
Introduction

Steve Mashalane
(Chief Executive Officer - ARMCoal)
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• Xstrata Coal South Africa (XCSA)

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Xstrata Coal Profile

The second largest of Xstrata plc’s commodity businesses post the Falconbridge transaction (19% of enlarged Xstrata Plc EBIT)

One of the world’s largest producers of export thermal coal and a significant exporter of coking coal

Interests in over 30 operating coal mines located in South Africa, Columbia and Australia, employing around 10,000 people

Top 5 Thermal Export producers

- Enlarged Xstrata
- BHP Billiton
- Anglo American
- PT Bumi Resources
- Drummond Co.

Top 5 Coking Coal producers

- BHP/Mitsubishi
- Fording
- Anglo
- Enlarged Xstrata
- Rio Tinto

1- Includes 1/3 share of Cerrejon coal for 2005
Our Vision

We have an absolute commitment to leadership in the areas of health, safety, environment and the community.

We are a fatality free business which operates beyond compliance in our HSEC obligations.

Our participation and presence in the communities in which we operate is valued by both those who live there and the wider community.
Structure 2006
Xstrata Coal employs 10,000 people worldwide

2005 Total Managed Production: 75.6 Mt
(XCSA – Attributable production)
World’s major export thermal coal company
Headquartered in Australia
Operating in Qld, NSW, South Africa, Colombia

Source: AME
# Organic Growth Optionality

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<th>2006</th>
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| - Oaky Creek (Coal)  
- Wollombi (Coal)  
- Ravensworth West (Coal)  
- Southstock 5 seam open cut (Coal)  
- Ulan and Liddell (Coal) | - Glendell (Coal)  
- Goedgevonden (Coal)  
- Rolleston expansion (Coal) | - Bulga UG – Blakefield (Coal)  
- Cerrejón expansion (Coal)  
- Southstock 5 seam underground (Coal)  
- Donkin (Coal) | - Ulan West (Coal)  
- Togara North (Coal) | - Wandoan (Coal) |
Xstrata Coal South Africa
Overview – XCSA (Including GGV JV)

- Third largest exporter in South Africa (13.5Mt in 2005)
- Operations
  - 10 managed mines integrated into 3 complexes
  - 2 mines managed by Bhpbilliton (16% JV)
  - Goedgevonden complex JV with ARMCoal
- Substantial increase in productivity since moving to more mechanised mining methods
- 65% of production from underground operations*
- 73% of production exported *
- Xstrata owns 20.9% of RBCT
- Total domestic sales in 2005 of 6.9 Mt *

*Note: Managed = 100% of all Xstrata managed operations including GGV but excluding DTJV
# Consolidated Xstrata and ARMCoal combined interest in exports
ARM Coal
South Africa’s 3rd Largest Exporter of Thermal Coal

*Xstrata marketed sales
Note: Figures based on 2005 RBCT throughput
2005 Production Statistics

Note: Figures reflect XCSA proportionate share of DTJV (16%), ATC/ATCOM (50%) and GGV (100%)
### The Operating Strategy

**Tweefontein**
- Waterpan
- Boschmans
- Witcons

**Southstock**
- South Witbank
- Tavistock
- 5 Seam

**iMpunzi**
- ATC
- ATCOM
- Phoenix

**Mpumalanga**
- Tselentis
- Spitzkop
- Verkeerdepan

**Goedgevonden**
- Goedgevonden

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We strive for zero harm at our operations

- 14 months fatality free
- South Witbank - after a record of more than 9000 Fatality Free Shifts sustained a fatality on 10 October 2006
- Mpumalanga Opencast – 7200 Fatality Free Shifts
- Goedgevonden – 2000 Fatality Free Shifts
- Waterpan – 3000 Fatality Free Shifts

We are committed to progressive rehabilitation and the highest standards of environmental management

- Comprehensive HIV and AIDS testing, counselling and treatment provided; extended to community
- Extensive community support and social development projects for communities associated with operations
Xstrata is involved in the implementation of integrated development plans for communities where mining takes place.

Company officials serve in various local community structures (government as well as civil) including Local Economic Development forums in Witbank and Ermelo.

With regard to labour sending areas, Xstrata shares in the TEBA social development initiatives.
HIV/AIDS Programme

- Award winner for Testing and Counselling from the Global Business Coalition. PEPFAR awarded XCSA $600 000 which will be used in co-funding our PPP initiatives with Government.

- In excess of 80% of Xstrata employees know their HIV status.

- Employees and their families have access to clinics and ART.

- XCSA established a HIV/AIDS clinic in Breyten in 2005 for employees and the community.

- Currently setting up a PPP with Local and Provincial Government with the purpose of capacitating Primary Health Care clinics with the objective of registering them as ART roll out sites.
Productivity Enhancements

**Managed** ROM Production 2000: 21.9Mt  
Managed ROM Production 2005: 28.2Mt

*Managed = 100% of ATC/ATCOM and GGV excludes DTJV*
Productivity Enhancements

- Reduction of 1200 employees over four years while managed production increased by 26%
- In 2000: CMs produced only 16% of coal, now CMs produce 58% of managed production *
- In 2001 added new mine with zero increase in total employee numbers
- CM output increased from 0.55mtpa to >1.0mtpa
- Systematically re-engineering of operations
- Vigorous mine planning standards implemented through XC

* Managed = 100% of ATC/ATCOM, GGV and excludes DTJV
Reserves: Proved and Probable (Mt) (XCSA Managed Operations)
• 2001 to 2004: RBCT expansion stalled resulting in significant threat to long-term throughput as a result of lack of access for BEEs to export market

• 2004 / 5 Xstrata led rethink of expansion strategy

• 2006 announcement of 91Mtpa expansion

• 2006 Ingwe announce inability to utilise their port entitlement

• Opportunity for Xstrata and ARM Coal to grow export business beyond above curve
Market Review

Murray Houston
(General Manager Marketing – Atlantic Markets)
World Energy Consumption by Fuel and Region

- **World Energy Consumption by Primary Fuel 1900-2025**
  - Oil shocks decouple Energy and GDP: EJ/GDP improving 1.2%/y since 1980, and 0.85% to 2025
  - Oil, gas gaining market share, at expense of coal and nuclear
  - Carbon intensity (MtC/EJ) declined 30% over the last 100 years, but forecast to increase +1% in next 25
  - Coal grows, but slower than other fossil fuels

- **World Energy Consumption by Region 1965-2025**
  - Global energy use 70 GJ/capita, rising to 88 GJ/capita
  - China accounts for 21% of future energy growth, US 21%, India 6%
  - IEA: $16 Trillion needed to fund energy supply

Who owns fossil energy reserves and how long might they last?

The Location of the World’s Main Fossil Fuel Reserves (Gtce)

- **North America**: 258 Gtce
- **Central and South America**: 258 Gtce
- **USSR and Successor Countries**: 218 Gtce
- **Africa**: 35 Gtce
- **Western and Southern Europe**: 97 Gtce
- **Central and Eastern Europe**: 21 Gtce
- **Middle East**: 179 Gtce
- **China**: 115 Gtce
- **India**: 84 Gtce
- **Asia and Oceania**: 17 Gtce

Reserve/Production Ratios

- **Coal**: 200, 60, 40
- **Oil**: 25, 11, 22

Source: BP2003, wci 2005

Non-traditional reserves are large but recovery is questionable
- Oil related: ~440 Gtce (2x Oil)
- Methane clathrates ~1,000-8,000 Gtce (4-30x Gas)
In 2003:
- World primary energy consumption increased by 2.9%
- For the second year running, coal was the fastest growing fuel, increasing by 6.9%, driven by China, Russia, Japan and North America

More generally:
- Coal fuels almost 40% of the world’s power generation
- Coal as a raw material underpins some 70% of the world’s steel industry

Virtually all serious commentators now recognise that coal will have a critical role to play for at least the next 30 years and very likely (reserves) for much longer
* The world and in particular, the developing world (Asia, Latin America, Africa) is going to demand more energy – much of it will come from (cost-effective) coal

Source: IEA World Energy Outlook 2004

* Transition economies are those of Eastern Europe, Russia and the FSU
Global Power Generation World Electricity Demand

Power generation from coal is set to double in the next 25-30 years, with export coal set to grow faster than this to feed fast-growing Asia

Source: IEA World Energy Outlook 2004
Overview of Global Coal Market

Production: 4.000 Mt (est.)

- **Domestic**: 3,340 Mt
  - **Thermal**: 2,940 Mt
  - **Coking**: 400 Mt
- **Traded**: 660 Mt
  - **Seaborne**: 615 Mt
    - **Thermal**: 443 Mt
    - **Coking**: 172 Mt
  - **Land Trade**: 45 Mt

Source: IEA, McCloskey & various 2004
XCSA - Geographical Distribution of Exports - 2005

* Including 100% of GGV and XCSA share of DTJV
South African Coal Sales

- 43% (105Mt)
- 17% (41Mt)
- 29% (69Mt)

XCSA Coal Sales

- 66% (13.5Mt)
- 11% (2.2Mt)
- 23% (4.6Mt)

Note: XCSA coal sales reflect XCSA share of DTJV (16%), ATC/ATCOM (50%) and GGV (100%)
RB prices and NEWC prices have come off the peaks of mid-2004, in US$ terms.
Both RB and NEWC prices are in contango on the forward curve.

* GlobalCOAL Index and API#4 Forward Curve prices are basis 6000kcal/kg NAR
Lower Freight Rates: the “China Effect”

- Newc/SA Spot freight rate differential into Europe is currently at +-US$6.00/T
- 6-month forward curve suggests a relatively flat freight market through 2006 onwards, however may have some volatility due to:
  - new ship additions and switching
  - Ship-scrapping rate (may increase as freights reduce)
  - Queue reductions and shorter shipping distances
  - Bunker prices (linked to oil)

Source: Freight Investor Services; McCloskey Coal Report; Xstrata
Xstrata Coal’s Export Thermal Coal Business: Spot vs. Contract

- The split of XCA’s and XCSA’s export thermal coal sales reflect the differing nature of the European and Asian markets (Europe traditionally more of a spot market)
- Although XCA’s sales are still mostly on a term contract basis, there has been a (buyer-driven) shift towards shorter-term deals and spot purchases by most major Asian power utilities, particularly over the last 2-3 years
Atlantic Thermal Coal Market: 1998-2005 (Key Markets and Suppliers)

- Demand growth has been steady in the major Atlantic markets
- The USA is now a net importer of thermal coal, while Poland’s exports are stagnant and likely to reduce.
- Note that Russia which supplies +-25% to Pacific and +-75% to the Atlantic market increased exports from 7.25MT in 1998 to 37.9MT in 2005.

Source: National Statistics/Giag
• Continued growth in European and Mediterranean market (± 4.8%)
• Market is undersupplied, swing supply will have to come from the Pacific (+-24Mt)
  • Indonesian growth countered by lower Australian expectations and Chinese reductions
• Declining domestic production/phase out of subsidies
  • U.K., Germany, Spain and Poland
• Market drivers
  • Physical coal fundamentals:
    • Supply: Infrastructure (rail & ports), production (weather related, equipment availability, mining capacity and production costs)
    • Demand: reducing domestic production, seasonal effects ~ temperature, hydro & wind, and alternative energy costs/availability
  • Energy complex fundamentals:
    • Robust oil, gas & electricity prices as well as freight and CO2 costs coupled with exchange rates
    • Trading utilities, forward power sales and derivatives/spread trading
• Freight rates – showing signs of “normalising” albeit with volatility (China effect & port queues)
• Growth in Colombian supply more than offset by US & Americas import growth (+-15.6%)
  • European destined volumes flat in 2005
• South African exports remain constrained (mine capacity, rail & port)
  • Rail efficiency improved in second-half 2005 resulting in annual exports of ± 69Mt.
Transformation in Xstrata Coal South Africa
Key Legislation:

- Mineral & Petroleum Resources Development Act
- Charter and Scorecard for Broad Based Socio-Economic Development in Mining
- Royalties Bill

Xstrata response:

- Formation of Xstrata Transformation Committee
  - Ownership & JVs
  - Human Resources & Employment Equity Strategy
  - Housing and Accommodation
  - Social & Community Development
  - BEE procurement
Background to BEE ownership deal

• The Minerals and Petroleum Resources Development Act (MPRDA) provides for the conversion of old order mining rights into new order mining rights

• One of the requirements defined in the MPRDA to achieve conversion is the transfer of 26% ownership of mining industry assets in 10 years by each mining company

• BEE deal with African Rainbow Minerals Limited (“ARM”) concluded in February 2006

• Effective date 1 July 2006

• 10% option to increase shareholding in XCSA was exercised by ARM on 1 September 2006

• Structured to maximise growth opportunities for both ARM and XCSA through a new jointly owned company ARM Coal.
ARM Coal was incorporated and ARM and Xstrata subscribed for their interests in the newly issued shares of the company.

ARM Coal subscribed for a 20% interest in Xstrata South Africa in the form of participative preference shares, giving ARM Coal the right to participate in Xstrata’s existing South African coal business excluding GGV.

ARM Coal acquired a 51% controlling stake in the Goedgevonden (unincorporated) Joint Venture.

ARM exercised its option and acquired a further 10% directly into Xstrata’s existing South African coal business excluding GGV.
Mentoring JVs

**Liketh**
BEE supplying coal to Eskom from Xstrata operations
- Started off as JV
- Then Liketh managed contractors
- Now Liketh owns equipment and is the principle in the relationship with Eskom

**Zingisa**
Female led HDSA empowerment company:
- JV with Xstrata to supply coal to Eskom
- Eskom want to expand and extend agreement
- The JV agreement provides for significant development opportunities for this BEE.
Human Resource Development & Employment Equity

**Organic Development**
- Employee evaluation systems
- Career path system
- Employee Development & Training systems
  - ABET / Skills training
  - Management training
  - Individualised programmes

**Inorganic Development**
- Sponsorship of training & education:
  - Learnerships (108)
  - Pre-university (15)
  - College & University (16)
- Recruiting systems

**EE Targets**
- % by level
- No. by skill / profession

**Fast Track System**

**Succession Planning System**

**Evaluation**
- Six-monthly review
- Reporting

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Coal
11.9% of XCSA employees and 12% of management are female.
Xstrata provides adult basic education & training (ABET) to both employees and community members from basic literacy to computer skills.

- 26% of XCSA employees are illiterate.

- Employees are interviewed individually in order to encourage ABET uptake – 972 employees indicated they would like the opportunity to do ABET. There are currently 54 employees attending full-time ABET classes.

- XCSA and the Emlalahleni Local Council are jointly developing a community-based learning and trade centre with a capacity of 258 students – this will be available to employees and community members with effect from January 2007.
Career paths

• Career paths are discussed with all employees during career development interviews – this is a one on one process.
• To date more than 80% (3250) employees have been exposed to this process.
• Over 400 employees are now in the career development programme.
• High-flyers enter the Fast Track programme:
  • Individual development programmes
  • Annual review in front of development panel chaired by COO
Housing, Accommodation

- Xstrata has eliminated hostels except for Boschmans – and unsustainable “mine villages” – currently 116 residents in hostel.
- XCSA pays industry leading “living out allowances” (minimum R1847 per month) which are based on affording employees the opportunity to live in normalised social circumstances.
- XCSA educate and train all employees during annual induction training on how to access and the merits of living in formal housing as opposed to informal housing.
Access to the land - BEE Farming

• Large scale commercial farm management training for 4 HDSAs
• 476 hectares – 226ha maize and 270ha Soya
• This will increase to 1235 hectares in 2007
• “Bumper” season in 2005/2006
Procurement

• HDSA supplier companies enjoy a preferred supplier status with XCSA and a policy is in place.
• The company has identified its base level of procurement from HDSA companies.
• XCSA increased its HDSA spend from a base of 10% of discretionary expenditure in 2002 to 39% in September 2006.
• The target for 2007 is 50% of discretionary.

Tselentis mine – BEE opencast mining contractor
ARMCoal has the potential to significantly grow in the South African coal industry

- Currently already holds the following investments
  - 20 % in Xstrata Coal South Africa
  - 51% interest in Goedgevonden
- First right of refusal on any new projects generated by ARM or Xstrata in SA
- Various prospecting rights have been converted by XCSA for future development
Goedgevonden Joint Venture Project
• Approval will be sought from the ARM and Xstrata Boards for capital expenditure of R2.9bn (nominal terms) to construct a new open cut complex at Goedgevonden (GGV)

• GGV will be a long life producer and one of the lowest cost export coal mines in South Africa

• Part of the strategy of providing a low cost “anchor” to the existing XCSA business and into ARMCoal

• GGV is set up as a JV with ARM Coal – ARM Coal 51% / Xstrata South Africa 49%

• Potential for significantly increasing scale
Goedgevonden Project

• Potential 12.3 Mtpa ROM Multi-Product mine
  – 3.1 Mtpa Export
  – 3.6 Mtpa Eskom
• 33 year LOM
• Feasibility Study completed 2005
• Murray & Roberts as Managing Consultants
• Detailed design completed
• Tenders received for construction of CHPP and expression of interest for mine equipment.
+/- 24 Month construction program with mine fully operational in 2009
GGV Indicative ramp-up

Note- indicative ramp-up subject to approvals, rail capacity and other factors.
2006 Export Thermal FOB Cash Cost Curve
Energy Adjusted to 6350kcal/kg gar

- Australia
- Indonesia
- China
- Sth africa
- Russia East
- Russia West
- New Zealand
- Norway
- Canada
- Colombia
- Venezuela
- Vietnam
- USA
- Poland

GGV on Export Thermal Cost Curve
ATCOM Site Visit
Sectional presentation of coal seams

- **Overburden (0 – 25m)**
- **4l Seam (ave 2m)**
- **Interburden (20 – 25m)**
- **Buffer**
- **2 Seam (4 - 5m)**
- **Spoil**
- **Previously mined areas**
“Empowered growth”