

see also

p27

Group financial performance

p10

Our strategy in action

Ferrous Metals

Operating profit

2006
\$1,360m

2007
\$1,432m

EBITDA

2006
\$1,560m

2007
\$1,561m

- Highest ever iron ore production in 2007 at 32.4 Mtpa
- MMX Minas-Rio and Kumba expansions to lift Group iron ore production to 150 Mtpa by 2017
- Iron ore price to remain firm through to 2009

Business overview

Anglo Ferrous Metals' primary business is iron ore. It holds a 63.4% shareholding in Kumba Iron Ore in South Africa and a 49% interest, acquired in mid-2007, in the MMX Minas-Rio project in Brazil. Other interests principally comprise manganese ore and alloy operations and carbon steel products.

Kumba was created as a pure-play iron ore company, listed on the Johannesburg Stock Exchange (JSE) following its unbundling from Kumba Resources in November 2006. The transaction also resulted in the formation of Exxaro, South Africa's largest black economic empowerment (BEE) mining group.

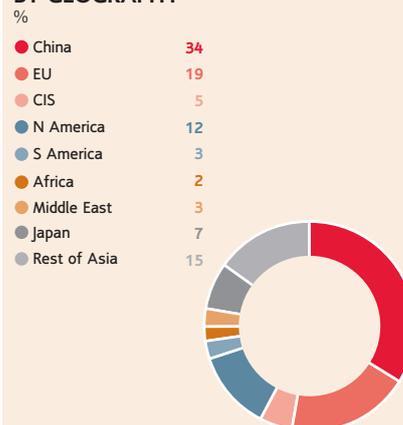
In 2007, Kumba exported more than 70% of its 32.4 million tonnes of iron ore production, mostly to customers in Europe and Asia. The company currently operates two mines in South Africa – Sishen in the Northern Cape, which achieved a record output in 2007 of 29.7 million tonnes per annum (Mtpa), and Thabazimbi, in Limpopo, which produced 2.7 Mtpa.

Scaw Metals is a global group that manufactures a diverse range of steel products. With principal operations in southern Africa, Chile, Peru, Canada and Mexico, it produces rolled steel products, steel and iron castings, cast alloy iron and forged steel grinding media and steel chain, wire rope and strand products. Scaw's products serve the construction, railway, power generation, mining, cement, marine and offshore oil industries worldwide. In March 2007, Scaw's South African operation completed a landmark empowerment transaction by including an employee trust and broad-based BEE consortium as owners in the company. Scaw is the first steel producer in South Africa to achieve a BEE rating.

Ferrous Metals also holds a 40% shareholding, with BHP Billiton having 60% and management control, in Samancor Manganese, the world's largest integrated producer, by sales, of manganese ore and alloys. Samancor has plants in South Africa and Australia, the manganese operations in the latter consisting of Groote Eylandt Mining Company (GEMCO) and Tasmanian Electro Metallurgical Company (TEMCO).

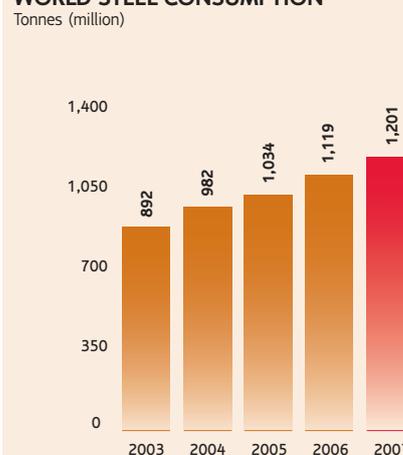
Ferrous Metals has a 37% voting interest in JSE-listed Tongaat-Hulett, an agri-processing business which includes integrated components of land management, agriculture and property development. Through its sugar and starch operations in southern Africa, Tongaat-Hulett produces a range of refined carbohydrate products from sugar cane and maize. The company balances the operational requirement for cane supplies to its sugar operations with the transition

2007 WORLD STEEL CONSUMPTION BY GEOGRAPHY



Source: International Iron and Steel Institute

WORLD STEEL CONSUMPTION



Source: International Iron and Steel Institute

Business unit overview continued

to property development. The unbundling of Hulamín from Tongaat-Hulett, and its separate JSE listing, was completed in June 2007 together with the simultaneous injection of broad-based BEE ownership into both companies.

Hulamín, in which Ferrous Metals has a 38% voting interest, is Africa's largest producer of aluminium rolled, extruded and other semi-fabricated and finished products, with its main operations situated in Pietermaritzburg, South Africa. As an independent niche producer of technically demanding and higher value products, Hulamín supplies customers spread among all the major aluminium consuming regions of the world.

Industry overview

Steel is the most widely used of all metals, with world crude steel production increasing by 7.5% in 2007 to reach a total of 1.34 billion tonnes.

The seaborne iron ore market, which is a critical component of the global steel industry, has grown from 454 Mtpa in 2000 to 782 Mtpa at the end of 2007. This increase has arisen mainly from Chinese demand growth. China is expected to continue being the main driver of global steel production growth and is forecast to increase production from 489 Mtpa in 2007 to 750 Mtpa by 2012. This level of production will require iron ore imports in excess of 730 Mtpa. Growth in steel production in the short to medium term will occur in former Soviet Union countries, supported by steady growth rates in the rest of Asia and Europe. Further support for iron ore demand will come from steel prices which have stabilised at historically high levels.

The global market for iron ore is expected to remain tight in the short to medium term, with major suppliers experiencing difficulties in bringing on new production in time to meet increasing demand, owing, *inter alia*, to the global shortage in engineering and construction resources. Logistical constraints associated with rail and port capacity and shortages in dry bulk vessel capacity at times, are expected to continue having an impact on the supply side of the seaborne iron ore market. As a result, spot prices are expected to remain near their historical highs in the short to medium term.

Manganese ore is smelted to produce manganese ferro-alloys (such as ferromanganese and silicomanganese). World consumption of manganese ore (based on International Manganese Institute statistics) increased by 7% in 2007, having declined by 0.5% the previous year. As 96% of manganese ore is consumed in ferro-alloy production, the performance of the manganese alloy industry is the key determinant of ore demand. Manganese alloy

prices in the coming year should remain underpinned by higher ore prices and expectations of reducing exports from China, as government there continues its efforts to curtail alloy production through such measures as increased export tariffs.

Strategy and growth

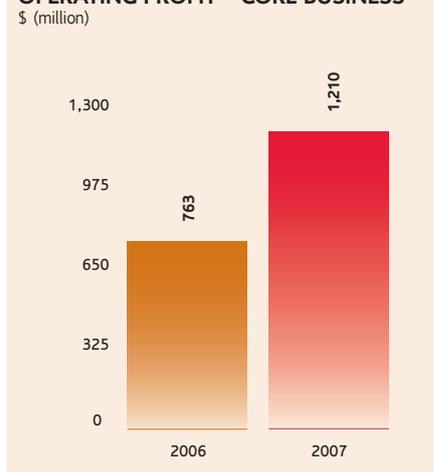
The core strategy of the business is to grow Anglo American's position in iron ore and make it the cornerstone of the Ferrous Metals portfolio.

As part of that process, in mid-2007 Anglo American acquired a 49% interest in the MMX Minas-Rio iron ore project in Brazil for an effective price of \$1.15 billion plus a potential payment of up to \$600 million if certain criteria are met. Planned annual capacity will be 26.5 Mtpa of iron ore pellet feed, for start-up during 2010 at an anticipated cost of \$3.46 billion. On 17 January 2008, Anglo American announced that it had entered into a period of exclusive discussions with the controlling shareholder of MMX Mineração e Metálicos S.A. (MMX) to acquire a 63.6% shareholding in a new company 'Newco' which will be demerged from MMX and will own MMX's current 51% interest in the Minas-Rio iron ore project and 70% interest in the Amapá iron ore mine. After the acquisition of the 63.6% stake, Anglo American will offer to purchase the Newco shares held by the minority shareholders of Newco at the same price per share, for a total of approximately \$5.5 billion on a 100% basis or approximately \$361.12 per Newco share (assuming one Newco share for each current MMX share), as well as royalty payments to MMX beginning in 2025 for the Minas-Rio project and 2023 for the Amapá mine.

Kumba, through the Sishen Expansion Project, will expand its iron ore production to 44 Mtpa by 2009, and further brownfield and greenfield opportunities will extend this to more than 70 Mtpa.

The process of selling down Anglo American's stake in Exxaro from 23% to 10% was completed in September, realising a profit of \$234 million in 2007. Anglo American will continue to hold a 10% shareholding until 2016.

OPERATING PROFIT – CORE BUSINESS



ANGLO FERROUS METALS IRON ORE PRODUCTION

