

## Business unit overview continued

### Projects

In October 2007, the \$754 million, 13 Mtpa Sishen Expansion Project commenced commercial production, with ramp up to full design capacity expected to be achieved in 2009.

The Sishen South Project, which involves the development of a new opencast operation some 70 kilometres south of Sishen mine, is currently being considered for development. A decision to proceed with this 9 Mtpa new mine is imminent, and is dependent on finalising logistical arrangements and the granting of mining rights. A pre-feasibility study on a further expansion at the Sishen mine of 10 Mtpa by beneficiating lower grade resources is due to be completed during 2008.

The \$183 million GEMCO expansion project in Australia's Northern Territory is on target to increase the company's annual manganese ore production capacity from 3.0 dry metric tonne units (dmtu) to 4.0 dmtu by the first half of 2009.

### Outlook

Global demand for steel is expected to remain strong through 2008, underpinning demand for iron ore and manganese products. 2008 also promises to be a year of healthy steel production growth, with year on year global output forecast to rise by 6.8%. With iron ore producers struggling to bring on new capacity, China and other major steel producing regions remain undersupplied. As a result, the annual iron ore price increase with effect from 1 April 2008 is expected to be significant.

Demand for manganese ore and alloy is forecast to remain firm which, together with supply constraints in manganese ore, should result in the record ore prices seen in the latter part of 2007 continuing well into 2008. Manganese alloy prices will be supported by higher iron ore and other production costs. Scaw's volumes in the South African market are expected to grow, driven by infrastructural expansion and construction and mining industry activity.

Demand for Scaw's products is forecast to remain strong, driven by mining demand and infrastructure growth. Increasing input costs will, however, place further pressure on margins.

## Coal

### Operating profit

2006  
**\$862 m**

2007  
**\$614 m**

### EBITDA

2006  
**\$1,082 m**

2007  
**\$882 m**

- **Anglo Coal is one of the world's biggest coal producers and exporters**
- **Current expansion programme to raise consolidated coal production to 115 Mtpa by 2010**
- **Coal is likely to remain an essential part of the energy mix well into the future**

## Business overview

Anglo Coal is the world's sixth largest private sector coal producer and exporter, with operations in South Africa, Australia, South America and Canada.

In South Africa, Anglo Coal owns and operates eight mines and has a 50% interest in Mafube mine. Four mines are in the Witbank coalfield which supplies some 20 million tonnes per annum (Mtpa) of thermal coals to the export and local markets and a small volume of metallurgical coal to the export market. Coal is exported through Richards Bay Coal Terminal, in which Anglo Coal has a 27% interest. In addition the New Vaal, New Denmark and Kriel mines supply some 35 Mtpa of thermal coal to Eskom, the South African state-owned electric power utility. Anglo Coal's Isibonelo mine produces some 5 Mtpa for Sasol Synthetic Fuels under a 21 year supply contract.

Anglo Coal is the fourth largest producer of coal in Australia, with one wholly owned mine and a controlling interest in another four, as well as significant undeveloped coal reserves. Its mines are located in Queensland and New South Wales and produce some 34 Mtpa (25 Mtpa attributable). It also owns an effective 23% interest in the Jellinbah mine in Queensland.

In South America, Anglo Coal has a 33% shareholding in Cerrejón Coal, which has the capacity to produce at a rate of more than 28 Mtpa, with approved expansion plans to increase production to 32 Mtpa. Cerrejón produces thermal coal for export to Europe and the Americas. In addition, Anglo Coal has a 25% interest in Carbones del Guasare (CDG) which owns and operates the Paso Diablo mine in northern Venezuela. CDG produces around 6 Mtpa of thermal and metallurgical coal for pulverised coal injection (PCI).

Anglo Coal has a 66% interest in Peace River Coal, which has one operating metallurgical coal mine and significant coal resources in western Canada. Peace River Coal is expected to produce approximately 1.5 Mtpa in 2008. Anglo Coal also has a 60% interest in the Xiwan coal mine lease area in China, where the feasibility of developing the mine is under evaluation in conjunction with Anglo Coal's joint venture partners, the Shaanxi Coal Geological Bureau.

Anglo Coal signed shareholder agreements with Inyosi, a broad-based black economic empowerment (BEE) company, in November 2007, to create an empowered coal company housing key current and future domestic and export-focused coal operations in South Africa. In terms of the agreements, Inyosi will acquire, subject to certain conditions precedent, 27% of

see also

**p27**

Group financial performance

**p10**

Our strategy in action

Anglo Inyosi Coal, creating a company valued at R7 billion and incorporating several key Anglo Coal assets; namely Kriel Colliery, which is an existing mine, and the Elders, Zondagsfontein, New Largo and Heidelberg projects.

## Industry overview

Coal is the most abundant source of fossil fuel energy in the world, considerably exceeding known reserves of oil and gas. The bulk of coal produced worldwide is thermal coal used for power generation. Thermal coal is also supplied as a fuel to other industries such as the cement sector. Metallurgical coal is a key raw material for 70% of the world's steel industry.

Approximately 5 billion tonnes of hard coal is produced globally each year, with the majority used in the country of production. A small volume is traded across land borders such as those between the US and Canada or between the former Soviet Union countries. The international seaborne coal market comprises some 0.8 billion tonnes, of which some 0.6 billion tonnes is thermal coal and 0.2 billion tonnes is metallurgical coal.

Produced in a relatively limited number of countries, metallurgical coal is primarily used in the steelmaking industry and includes hard coking coal, semi-soft coking coal and PCI coal. The chemical composition of the coal is fundamental to the steel producers' raw material mix and product quality. The market for this coal has a majority of larger volume, longer term, annually priced contracts, but with some steel companies increasingly using short term contracts to meet their requirements.

Demand in this sector is fundamentally driven by economic, industrial and steel demand growth, but the Med-Atlantic and Indo-Pacific markets have their own particular supply and demand profiles. Price negotiations between Australian suppliers and Japanese steel producers generally, but not always, set the trend that influences settlements throughout the market. Anglo Coal is a significant supplier to virtually all the major steel producing groups in the world.

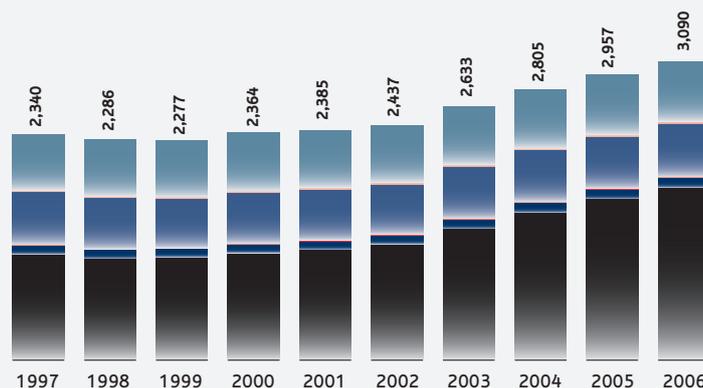
The thermal coal market is supplied by a larger number of countries and producers than the metallurgical coal market, spread across the world. Production companies vary in size and operate in a highly competitive market.

Demand for thermal coal is driven by demand for electricity and is also affected by the availability and price of competing fuels such as oil and gas, as well as nuclear power. Driven by varying degrees of deregulation in electricity markets, customers focus increasingly on securing the lowest cost fuel supply at any particular point in time. This has

### WORLD COAL CONSUMPTION\*

Tonnes oil equivalent (million)

- N America
- S/C America
- Europe/Eurasia
- Middle East
- Africa
- Asia Pacific



\*Commercial solid fuels only

Source: BP Statistical Review of World Energy 2007

resulted in a move away from longer term contracts towards a mix of short term contracts, spot pricing, the development of various price indices, hedging and derivative instruments. However, the extent to which the full range of pricing instruments is used, varies across the world.

Anglo Coal exports thermal coal from South Africa, South America and Australia to customers throughout the Med-Atlantic and Indo-Pacific markets. The balance of Anglo Coal's production is sold domestically in Australia and South Africa. In South Africa a large portion of domestic sales are made to the domestic power utility, Eskom, on long term (i.e. life of mine) cost-plus contracts. Sales also take place to domestic industrial sector consumers. In Australia, domestic sales are predominantly to power utilities under long and shorter term contractual arrangements.

Coal produced in Colombia and Venezuela is marketed by the respective companies.

**“Coal is the most abundant source of fossil fuel energy in the world, considerably exceeding known reserves of oil and gas”**