

Part I

# Information on the Group



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## Part I Information on the Group

This Part assumes that the Acquisitions and the Merger have become effective and the transactions relating to the Acquisitions and the Merger have been completed. See "Presentation of information – Presentation of business information".

Investors should read the whole of this document and not just rely upon key or summarised information.

### Overview

The Group comprises three major businesses:

- **Coal.** The Group's Coal Business, which is comprised of the Australian and South African operations, is one of the world's largest export thermal coal producers with interests in 28 operating coal mines, 14 of which are located in Australia and 14 of which are located in South Africa.
- **Zinc.** The Group's Zinc Business, which consists of a zinc mining and smelting operation in Spain, is one of the largest (in terms of capacity) and among the lowest cost producers of zinc metal in the world.
- **Ferroalloys.** The Group's Ferroalloys Business, which is comprised of the chrome and vanadium operations, is the world's largest producer of ferrochrome (in terms of both attributable production and attributable sales) and among the lowest cost producers of ferrochrome and the Directors believe that the Group is one of the world's leading producers of primary vanadium, with integrated production facilities in South Africa and Australia.

The Group's additional activities are comprised of the magnesium operation, consisting of a magnesium recycling facility in North America and the forestry operation, consisting of a *eucalyptus globulus* forestry plantation in Chile.

### History and development of the Group

Xstrata AG, which prior to the Merger becoming effective, has been the holding company of the Xstrata AG Group, was established in Switzerland in 1926 to invest in infrastructure and power projects in Latin America. Between 1926 and 1990 Xstrata AG invested in various companies. In 1990, Glencore International became a substantial shareholder of Xstrata AG, following which Xstrata AG built a portfolio of businesses operating in the natural resources sector.

Over the last 10 years, the Xstrata AG Group has acquired:

- substantially all of the issued share capital of Asturiana, which comprises the Group's Zinc Business;
- Chromecorp and CMI, which form part of the chrome operations in the Group's Ferroalloys Business;
- Rhovan, Vantech and Windimurra, which comprise the vanadium operations in the Group's Ferroalloys Business;
- the process technology for converting magnesium scrap into high purity secondary magnesium alloys, used by the Group's magnesium operation; and
- FLL, which comprises the Group's forestry operation.

Since 1992, Xstrata AG has acquired and, pursuant to its strategy of disposing of its non-core assets, subsequently disposed of interests in oil and gas fields, a coal mine, an aluminium reduction facility and a forestry trading operation. The acquisitions and disposals that have occurred since 1 January 1999 are described in more detail in "Operating and financial review – Factors affecting comparability – Acquisitions and disposals" in Part V.

Prior to the Acquisitions, Enex and Duiker were wholly-owned subsidiaries of Glencore International. Since 1994, Glencore has undertaken a number of significant acquisitions in the Australian and South African coal sectors and the assets acquired now form part of the Enex and Duiker Groups. The acquisitions and disposals that have occurred since 1 January 1999 are described in more detail in "Operating and financial review – Factors affecting comparability – Acquisitions and disposals" in Part V.

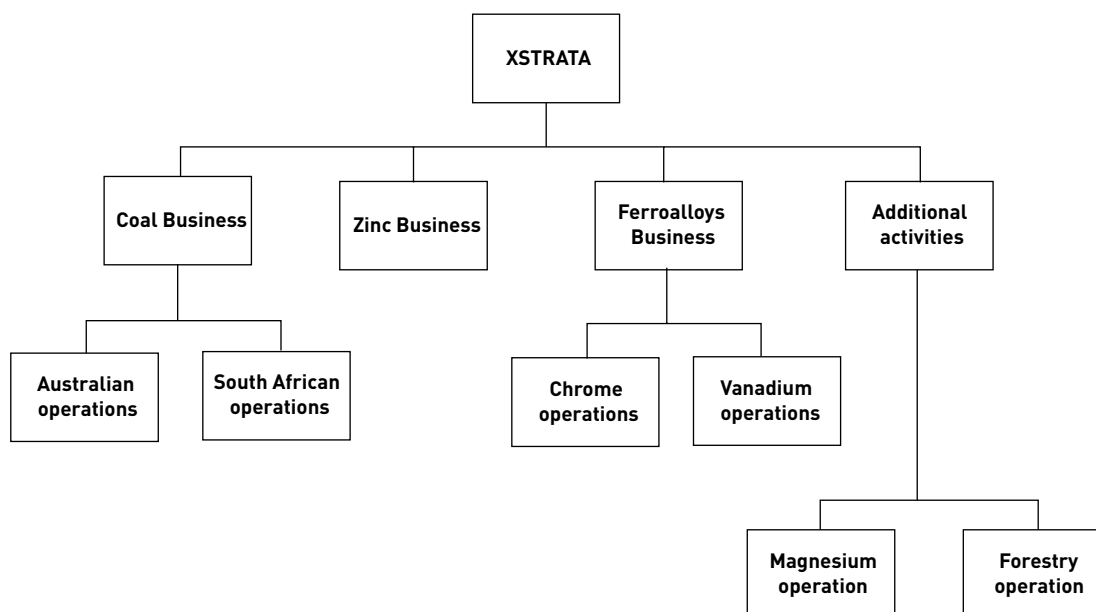
Following the Acquisitions and the Merger, the Company will be the holding company of a group comprising the existing Xstrata AG Group, the existing Enex Group and the existing Duiker Group.

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### Description of the business

The Group comprises three major businesses: Coal, Zinc and Ferroalloys. The Group's additional activities comprise the magnesium and the forestry operations.

The following chart summarises the Group's business structure:



The table below provides unaudited combined constructed illustrative financial information in relation to the Group for the year ended 31 December 2001. The information, which has been extracted without material adjustment from the pro forma unaudited combined constructed financial information set out in Part VII, has been prepared using information extracted from the Accountants' Reports set out in Part VI and has been prepared on the basis set out in the footnote to the table and explained in more detail in "Presentation of information – Pro forma unaudited combined constructed illustrative financial information".

Businesses/operations	Year ended 31 December 2001					
	Turnover <sup>(1)</sup>		EBITDA <sup>(1)</sup>		EBIT <sup>(1)</sup>	
	US\$ million	As a percentage of the Group	US\$ million	As a percentage of the Group	US\$ million	As a percentage of the Group
Coal	1,145	61%	416	71%	311	80%
Zinc	383	20%	101	17%	67	17%
Ferroalloys						
Chrome	258	14%	64	11%	59	15%
Vanadium	63	3%	9	2%	(42)	(11)%
Additional activities	26	2%	(3)	(1)%	(4)	(1)%
Group combined before common costs	1,875	100%	587	100%	391	100%
Less: common costs	N/A	N/A	(10)	N/A	(12)	N/A
<b>Group combined</b>	<b>1,875</b>	<b>N/A</b>	<b>577</b>	<b>N/A</b>	<b>379</b>	<b>N/A</b>

(1) Includes share of joint ventures and associates.

Basis of preparation: The above table is for illustrative purposes only and is not intended to give a true picture of financial information relating to the Group. This information has been prepared to illustrate the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of the Group as if the Acquisitions and the acquisitions undertaken by the Xstrata AG Group and the Enex Group in that year had occurred on 1 January 2001 and includes the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of Oakbridge and Asturiana from 1 January 2001 to their respective dates of acquisition together with an adjustment to reflect the amortisation of goodwill on the acquisition of Asturiana.

# Part I Information on the Group

## Coal Business

### Summary of the Business

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#### Introduction

The Coal Business is the Group's largest business in terms of profit and turnover, accounting for 80% of EBIT, 71% of EBITDA and 61% of turnover in the year ended 31 December 2001 on an unaudited combined constructed illustrative basis. See further "– Coal Business – Summary of the Business – Financial information" in this Part I.

The Group is one of the world's largest export thermal coal producers with interests in a portfolio of cost competitive mines, comprising 14 operating coal mines in Australia and 14 operating coal mines in South Africa. In the year ended 31 December 2001, the Enx and Duiker Groups' combined attributable sales were approximately 36.5 million tonnes, with approximately 53% of those sales coming from the Enx Group. The Group focuses primarily on the export of thermal coal for use in electricity generation. The Group also exports semi-soft coal for use in steel manufacturing and supplies thermal coal for use in domestic electricity generation and, in South Africa, for use in various industrial applications. The Company estimates that in 2001, the Australian operations supplied approximately 20% of Australia's thermal coal exports and approximately 15% of its total semi-soft coking coal exports and the South African operations supplied approximately 20% of South Africa's thermal coal exports. The Group's Australian operations export primarily into Asia, particularly Japan. The majority of the exports of the Group's South African operations are to Europe. Semi-soft coal production represents approximately 20% of the Australian operations' output and is exported predominantly to the Asian steel industry. Approximately 11% and 25% of the combined Enx and Duiker Groups' attributable sales in the year ended 31 December 2001 were sold into the Australian and South African domestic markets, respectively. The Group has an economic interest in the three major coal port facilities used to load its coal for export, two in Australia (the Port Waratah Coal Terminal and the Port Kembla Coal Terminal) and one in South Africa (the Richards Bay Coal Terminal).

The Group manages the majority of its mining capacity. In some cases, the Group employs mining contractors and, in other cases, its mining interests are operated by the Group's joint venture partners. In the latter case, the Group participates on management committees. A number of the Group's mines have minority participants, which in Australia are primarily Japanese companies or subsidiaries of Japanese companies.

The Group's Proved and Probable Reserves exceed 1.4 billion tonnes of coal and, at the current rate of production, the Company estimates that those reserves will support mining in excess of 20 years. The Group's Measured and Indicated Resource base exceeds 5.4 billion tonnes of coal, which provides numerous expansion opportunities for additional production.

The Coal Business's marketing strategy is to take advantage of its three key marketing strengths:

- *Substantial production volume from a diversified asset base which is enhanced by selective blending at port and supply flexibility.* The Company believes that the Coal Business is benefiting from an increasing trend among major coal buyers to purchase from larger coal producers in order to reduce logistical and administrative expenses. In this respect, the Group's volume of production is a significant competitive advantage. The Coal Business, through selective blending, is also able to enhance the value of lesser quality coals, to minimise production costs by producing coals according to its optimal beneficiation yield and to realise significant operational and geological synergies among its mines;
- *Its relationship with Glencore, a leading coal trader.* Glencore, which has a network of 69 field offices in over 50 countries, prepares detailed supply and demand models which facilitate the marketing of the Coal Business's coal with the objective of achieving a superior price. Glencore also provides opportunities for selling the Coal Business's coal onto the shorter term coal market; and
- *The ability to offer major buyers generic branded coal (rather than coal sourced from a single mine).* In the past, coal producers and customers marketed and bought coal from individual mines. This practice reflected the wide diversity of mine ownership. In conjunction with industry rationalisation, major customers are increasingly receptive to producers marketing "generic" branded coals. These are coals that meet the customers' specifications irrespective of the source mine. This creates significant efficiencies for both producers and customers, which are available to the Coal Business because of its diverse asset base and co-ordinated management.

See "– Australian operations – Sales and marketing of the Australian operations' coal" and "– South African operations – Sales and marketing of the South African operations' coal" in this Part I.

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The primary focus of the Coal Business's marketing strategy is to maximise sales of its thermal and semi-soft coking coals into the export market. Sales to the domestic market will continue to be pursued when attractive, both through the renewal of existing contracts and the identification of new selling opportunities. The Coal Business will continue to seek to maximise sales into the premium end of the export market, which for its Australian operations is the large Asian power industry. The Directors consider that this sector of the market will continue to be the major growth area for Australian thermal coals and has traditionally paid a premium over other coal buyers to ensure secure sources of supply.

The Coal Business's semi-soft production is exported predominantly to the major steelmakers in Japan, Korea and Taiwan. New markets are also being developed in India, Brazil and Europe. Given the current financial position of the Asian steel industry, there is an increased impetus on cost reduction which is causing these mills to maximise the usage of lower priced semi-soft coking coals, both through the replacement of hard coking coal in the coke blend as well as further increases in the Pulverized Coal Injection ratio.

The main goods and services purchased by the Coal Business are mining equipment and replacement parts, explosives, fuel, tyres and lubricants and freight, rail and port handling services. The supplier base providing these goods and services has been relatively consistent in recent years and the Company believes the Group has established strong relationships with key suppliers in both Australia and South Africa.

The Enx and Duiker Groups have been active acquirors of coal mines and have been actively involved in the consolidation of the coal industry in Australia and South Africa. The Directors believe that there is scope for further consolidation of the Australian coal sector and the Group will continue to consider acquisition opportunities as they arise. Although the Directors do not expect significant acquisition opportunities to arise in South Africa, the Group has identified opportunities for consolidation of the South African operations' reserves through reserve swaps with other producers. In addition, other countries, such as Colombia, may offer the Group growth opportunities.

The Coal Assets are being acquired by the Purchasers pursuant to the Acquisition Agreement. For further information relating to the terms of the Acquisitions, and certain related matters in connection with the Acquisitions, see "– The acquisition of the Coal Assets and the Merger" in this Part I.

### Resource and reserve base

The table below sets out the Group's attributable coal resource and reserve base, as extracted without material adjustment and combined from the Minarco and Weir International Mining Consultants competent persons' reports contained in Part IX:

	Reserves (Mt)			Resources (Mt)	
	Proved Reserves	Probable Reserves	Marketable Reserves	Measured and Indicated Resources	Inferred Resources <sup>(1)</sup>
Australia <sup>(2)</sup>	323	461	617	2,652	1,130
South Africa <sup>(3)</sup>	354	283	381	2,770	1,818
<b>Total Coal Business</b>	<b>677</b>	<b>744</b>	<b>998</b>	<b>5,422</b>	<b>2,948</b>

(1) See "Presentation of information – Inferred Resources" for an explanation of the basis of calculation of Inferred Resources.

(2) Reserves are a subset of resources and are included in the resource estimate. The resource and reserve figures tabulated for Australia are attributable resources and attributable reserves as at 30 November 2001 other than for the Ravensworth Group mines which is as at 28 February 2002. See "Presentation of information – Ore reserve and mineral resource reporting – basis of preparation" for an explanation of the basis of preparation of reserve amounts.

(3) Reserves are a subset of resources and are included in the resource estimate. The resource and reserve figures tabulated for South Africa are attributable resources and attributable reserves and for the Duiker Group managed mines are as at 31 December 2001 and for Ingwe managed joint venture mines are as at 31 December 2000. See "Presentation of information – Ore reserve and mineral resource reporting – basis of preparation" for an explanation of the basis of preparation of reserve amounts.

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### Production

The tables below sets out the mine production and attributable production of the Coal Business (broken down between the Australian and South African operations) for the year ended 31 December 2001. Mine production and attributable production figures have been extracted without material adjustment and combined from the Minarco and Weir International Mining Consultants competent persons' reports contained in Part IX:

	Year ended 31 December 2001
<b>Mine Production<sup>(1)</sup></b>	<b>(in Mt)</b>
Australia	31.5
South Africa	42.9
<b>Total Coal Business</b>	<b>74.4</b>

(1) See "Presentation of information - Resources and reserves, production and sales" for an explanation of the basis of preparation of the production amounts.

	Year ended 31 December 2001
<b>Attributable Production<sup>(1)</sup></b>	<b>(in Mt)</b>
Australia	20.2
South Africa	17.8
<b>Total Coal Business</b>	<b>37.9<sup>(2)</sup></b>

(1) See "Presentation of information - Resources and reserves, production and sales" for an explanation of the basis of preparation of the production amounts.

(2) Due to rounding, numbers in table may not add up.

### Financial information

The table below provides pro forma unaudited combined constructed illustrative financial information in relation to the Coal Business for the year ended 31 December 2001. The information, which has been extracted without material adjustment from the pro forma unaudited combined constructed financial information set out in Part VII, has been prepared using information extracted from the Accountants' Reports set out in Part VI and has been prepared on the basis set out in the footnote to the table and explained in further detail in "Presentation of information - Pro forma unaudited combined constructed illustrative financial information".

Coal	Year ended 31 December 2001 (US\$000)	As a percentage of the Group
Turnover <sup>(1)</sup>	1,144,626	61%
EBITDA <sup>(1)</sup>	416,014	71%
EBIT <sup>(1)</sup>	311,465	80%

(1) Includes share of joint ventures and associates.

Basis of preparation: The above table is for illustrative purposes only and is not intended to give a true picture of financial information relating to the Group. This information has been prepared to illustrate the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of the Coal Business as if the Acquisitions and the acquisitions undertaken by the Xstrata AG Group and the Enex Group in that year had occurred on 1 January 2001 and includes the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of Oakbridge and Asturiana from 1 January 2001 to their respective dates of acquisition together with an adjustment to reflect the amortisation of goodwill on the acquisition of Asturiana.

### Cost curve

A cost curve provided by AME for 2000-2001 ranks the Group's Australian and South African coal operations, on a weighted average basis, in the second quartile among major export producers of thermal and semi-soft coal world-wide. While primarily based on 2000 production, the mines have been costed and weighted for the purposes of this cost curve using exchange rates and equity ownership interests prevailing in 2001. See "Presentation of Information - Cost curves".

### Industry overview

#### Background

Coal is one of the world's most extensive, affordable and geographically diverse natural sources of energy. The black or hard coal industry is divided into two key markets: coking and thermal coal. Thermal coal is also referred to as steaming coal and is used in the combustion processes by electricity producers and industrial users to produce steam for electricity and heat. Coking coal is principally used to produce coke, which is then used as a reductant in blast furnaces for the production of steel. Semi-soft coking coal exhibits some coking properties and

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is blended with hard and semi-hard coking coals to produce coke. Some semi-soft coking coals are also used for Pulverized Coal Injection for direct feed into the blast furnace. Certain grades of semi-soft coking coal can be economically processed for use as thermal coals.

Coal is currently the cheapest fossil fuel on a contained heat basis and prices have historically remained significantly below the price of oil or natural gas. Coal retains a number of other advantages, namely less volatile prices, stable supply from a wide range of politically secure geographic locations and easy and safe storage and transportation by rail or ship. These factors are expected to secure the long-term demand for coal.

In 2000, approximately 3.6 billion tonnes of coal were produced globally, of which approximately 2.9 billion tonnes was thermal coal. A similar quantity of thermal coal is estimated to have been produced in 2001. Of this production of thermal coal, approximately 84% was used for domestic consumption, primarily in China and the United States.

The key coal exporting nations are Australia, China, Colombia, Indonesia and South Africa, which generally ship coal to the Pacific market (Asia) and the Atlantic market (primarily Europe). The seaborne thermal coal market (accounting for approximately 92% of total thermal coal exports in 2000) is the most rapidly growing segment of the global coal industry, having expanded by an average of 6.6% per annum over the five year period to 2000. It is estimated that in 2001 the global seaborne thermal coal market grew by 10% to 368 million tonnes and that over the five year period to 2000 the Pacific and Atlantic export thermal coal markets grew at an average annual rate of 8.6% and 3.0%, respectively.

### **Supply and demand**

Growth in thermal coal demand is closely related to growth in electricity consumption, with approximately 38% of the energy used for global electricity generation accounted for by coal. OECD electricity demand and coal-fired electricity generation increased at an average rate of 2.9% per annum between 1990 and 2000 and total OECD electricity demand is projected to continue increasing from 2000 to 2020, with the highest growth rates expected in Asia. The Company expects that seaborne thermal coal imports will increase to satisfy this growing demand.

Semi-soft coal supplies about 45% of the coal required for the steel making process in Asian steel mills. The consumption of semi-soft coal has been increasing as Asian steel mills strive to reduce raw material costs. When steel demand falls, the steel companies can also extend coking times and use a larger proportion of lower cost semi-soft coking coal in the coke blend.

Continuing strong growth in demand for thermal coal in Asia, particularly in Japan, Korea and Taiwan, is expected. At the same time, imports have been increasing into Europe, particularly into the UK and Germany. Germany has committed to phase out its uneconomic domestic mines between 2002 and 2010. This may lead to a further increase in German imports of thermal coal. Demand has also been affected by the United States, which was traditionally an exporter of thermal coal, but has since the beginning of 2001 become a net importer of thermal coal.

On the supply side, there has been significant consolidation in the coal industry over the last four years. In 1998, approximately 44% of the thermal coal exported from Australia, South Africa and Colombia was produced by four exporters. In 2002, this percentage has increased to approximately 73%. Further consolidation is expected as the last of the oil companies operating in the thermal coal industry exit the industry.

In South Africa, expansion opportunities are limited due to the majority of economic reserves in South Africa being fully exploited and the ability to expand the Richards Bay Coal Terminal being restricted. The Richards Bay Coal Terminal currently has a capacity of 72 million tonnes per annum with plans in place to expand it to 82 million tonnes per annum over the next five years. It is unlikely that any further expansion of the Richards Bay Coal Terminal will take place.

The Asian thermal coal market has historically been supplied by Australia. However, the last decade has seen growth in two further supply countries, Indonesia and more recently China.

China's domestic electricity consumption is forecast to grow at an average of 5% per annum over the next 20 years. Coal currently accounts for 68% of China's electricity production and this percentage is not expected to decrease. Despite the growth in exports of thermal coal out of China over the last couple of years, domestic growth is forecast at a rate beyond that at which China will be able to maintain its export growth.

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### **Pricing and costs**

The price of thermal coal is largely driven by the prevailing coal supply and demand balance and market outlook. In addition, different qualities of thermal coal attract different prices according to their specific heat, ash, sulphur and chemical contents. Exported thermal coal has a higher heat value, lower sulphur content (1% or less) and lower ash content (15% or less) than that sold into the domestic market. A significant proportion of export coal needs to be washed in order to meet the higher quality requirements of the export market. Due to the fact that semi-soft coal is effectively a high quality thermal coal, its price is largely driven by the thermal coal market but is also influenced by its use in the steel industry.

Costs associated with coal mining can be broadly categorised as labour costs, other on-site costs, royalty payments, freight costs and port loading costs. Export coal is generally sold FOB at the loading port with producers paying transport costs to, and loading costs at, the port. Accordingly, producers selling into the export market with mines close to port with good transport (principally rail) systems have significant cost advantages.

The Australian coal industry is one of the lowest cost producers and, due to its large, high quality reserves located close to its export ports, has significant advantages over many of its major competitors in the export thermal coal trade. In the past, these advantages have been partially offset by relatively high costs of labour, energy, materials and transport (both rail and port). Improvements in each of these areas, together with the recent depreciation of the Australian dollar against the US dollar, have made Australia's export coal industry one of the most cost competitive in the world.

The South African coal industry is the lowest cost export producer. It has relatively low labour and capital costs, low transport costs (which compensate for the relatively long distance to port), shallow mining depths and uncomplicated geology. The depreciation of the Rand against the US dollar has also helped to enhance South Africa's global competitiveness.

### **Market and outlook**

There has been consistent and predictable growth in demand for coal, which has not been significantly impacted by economic cycles or depressed Asian economies. Seaborne coal trade has grown at an average rate of approximately 6% per annum, between the years of 1996 and 2000 and an average rate of approximately 5% per annum growth is expected between the years 2000 and 2005.

**Atlantic market.** In 2000, coal prices in the Atlantic market rose as a result of a number of factors, including increased thermal coal demand in the United States, a reduction in domestic production due to subsidy cutbacks in Europe and high levels of economic activity. Prices remained strong in early 2001, but declined in the second half due to falling oil and gas prices, the impact of the September 11 terrorist attacks on the United States and increased Chinese exports. Prices have started to recover in early 2002, but have not yet reached the levels experienced in early 2001.

Atlantic coal demand is expected to grow in 2002 and continue to grow in 2003 particularly from the Americas, Spain and Germany.

**Asian market.** The Asian market experienced significant growth in 2001, with seaborne coal demand growing by approximately 15 million tonnes. This was driven by the high level of economic activity in the United States, which represents a significant market for Asian products. 2001 saw a rapid increase in exports from China which by the third quarter began to have an impact on Asian market prices.

The surge of Chinese exports is not expected to be repeated in 2002 and China is expected to have to significantly increase the level of its coal imports. This, coupled with decreased production and supply by the Australian producers is expected to lead to recovery in prices in 2002 which it is anticipated will be sustained into 2003.

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## Australian operations

### Overview

In the year ended 31 December 2001, the Enex Group's attributable production was 20.2 million tonnes of coal, approximately 87% of which was exported. The Company believes that this represents approximately 9% of all coal exported from Australia. Approximately 67% of the Enex Group's export production was thermal coal. The Group owns interests in 14 operating coal mines and a number of development projects, most of which are located in or close to the Hunter Valley of New South Wales.

The Group has a 13.4% interest in the operator of the Port Waratah Coal Terminal, located at the port of Newcastle, New South Wales which is the world's largest export coal handling operation. The Group also has a 17% interest in the Port Kembla Coal Terminal, located at the port of Wollongong, New South Wales.

The Group holds most of its interests in mines through joint ventures, in which it generally holds a controlling interest. Given the relationships between its joint venture partners and its customers, the Company believes that these joint ventures provide the Group with a valuable link to its customer base.

In Australia the Group has, either on its own account or through its interests in joint ventures, all underlying mining tenements and it has access (whether under freehold, leasehold or otherwise) to all land that is required for the Group's current coal mining operations.

### Description of the Australian operations' assets

The following table sets out certain information about each of the Group's operating Australian coal mines extracted without material adjustment from the Minarco competent person's report contained in Part IX:

Coal mine	Type of mine <sup>(1)</sup>	The Group's attributable interest (%)	2001 Production (Mt) <sup>(2)</sup>		2001 Sales (Mt) <sup>(3)</sup>	
			Mine production	Attributable production	Total mine sales	Attributable sales
<b>Oakbridge Group</b>						
Bulga	OC	58.2	3.9	2.2	3.7	2.1
South Bulga	UG	58.2	2.5	1.4	2.4	1.3
Baal Bone	UG	63.2	2.4	1.4	2.4	1.4
<b>Macquarie Coal Joint Venture</b>						
West Wallsend	UG	80.0	2.7	2.2	2.3	1.9
Westside	OC	80.0	0.7	0.5	0.7	0.5
Teralba	UG	80.0	0.2	0.2	0.3	0.2
<b>Liddell Group</b>						
Liddell	OC	67.5	2.7	1.8	2.4	1.6
<b>Cumnock</b>	UG	84.0	1.4	1.1	1.5	1.2
<b>Mount Owen</b>	OC	100.0	4.4	4.4	4.4	4.4
<b>United<sup>(4)</sup></b>	UG	95.0	0.8	0.3	0.8	0.3
<b>Ulan<sup>(5)</sup></b>						
Ulan Underground	UG	90.0	3.5	2.8	3.4	2.9
Ulan Open Cut	OC	90.0	2.3	1.8	2.0	1.6
<b>Ravensworth Group<sup>(6)</sup></b>						
Narama	OC	50.0	2.4	0.0	2.4	0.0
Ravensworth East	OC	100.0	1.7	0.0	1.7	0.0
<b>Total</b>			<b>31.5</b>	<b>20.2</b>	<b>30.3</b>	<b>19.5</b>

Note: Numbers in the above table may not add up due to rounding.

(1) OC = Opencut, UG = Underground.

(2) For the year ended 31 December 2001. See "Presentation of information – Resources and reserves, production and sales" for an explanation of the basis of preparation of production amounts. This includes production of the Teralba mine in 2001, which is currently on care and maintenance. This table does not include production of Cook which is classified as an investment.

(3) For the year ended 31 December 2001. See "Presentation of information – Resources and reserves, production and sales" for an explanation of the basis preparation of sales amounts.

(4) The acquisition was completed by the Enex Group on 31 July 2001. Attributable production and attributable sales do not include production and sales for the period prior to acquisition by the Enex Group when the mine was owned by the Xstrata AG Group.

(5) Ulan was acquired by the Enex Group with effect from 31 January 2001.

(6) The Ravensworth Group was acquired by the Enex Group on 13 March 2002.

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### **Oakbridge Group**

**Bulga.** Bulga is located in the southern part of the Hunter Coalfield, 18 kilometres south of Singleton. Since acquiring Bulga, the Enex Group has implemented a new operating strategy designed to reduce unit operating costs and forecasts an increase in coal production. To achieve these objectives, the Enex Group purchased new equipment which is supported by maintenance contracts. Sufficient reserves have been planned and scheduled to maintain opencut operations for approximately 11 years.

**South Bulga.** The South Bulga underground mine is located adjacent to the Bulga opencut mine. Production at South Bulga is scheduled to cease in March 2003. Development operations will be scaled down from March 2002. Additional reserves in a new area of Bulga's lease have been identified and the Company expects a new underground mine, Beltana, to commence longwall operations following South Bulga's completion of longwall mining in 2003. See "– Projects and developments – Beltana" below.

**Baal Bone.** Baal Bone is located in the Western Coalfield on the western edge of the Sydney Basin and is within 20 kilometres of the Wallerawang and Mt Piper power stations, both of which are important strategic customers. The mine is primarily an export mine but also has a coal supply contract to a domestic electricity generator, ending in 2003. Since Baal Bone was acquired by the Enex Group, underground productivity per employee has more than doubled as a result of detailed mine planning, equipment modifications, improved operating standards and higher equipment utilisation. Sufficient reserves have been planned and scheduled to maintain operations for between four and five years. Current exploration and planning is targeting the conversion of remaining resources to reserves, potentially increasing mine life.

### **Macquarie Coal Joint Venture**

**West Wallsend.** West Wallsend is located in the Newcastle Coalfield, near Lake Macquarie. West Wallsend is the closest of the Group's export coal operations to the Port Waratah Coal Terminal facility and, as a result, attracts the lowest transportation cost for the Group to the port of Newcastle. In 2001, the Enex Group upgraded West Wallsend's coal clearance system. Sufficient reserves have been planned and scheduled to maintain operations for approximately 19 years.

**Westside.** Westside is located south of West Wallsend. The mining operations are managed under a mining contract. All of its production is sold under contract to domestic power stations. Sufficient reserves have been planned and scheduled to maintain operations for approximately eight to nine years.

### **Liddell Group**

**Liddell.** Liddell is located approximately 107 kilometres north-west of Newcastle. The mining operations are conducted under contract until March 2003. The mining contractor has increased production in accordance with the current contractor terms. Sufficient reserves have been planned and scheduled to support the production plan for approximately 21 years.

### **Cumnock**

Cumnock is located in the Upper Hunter Valley, approximately 105 kilometres north-west of Newcastle. Underground productivity at Cumnock has increased over the four years to 31 December 2001. The Company expects to re-open the opencut operations in 2003. Sufficient reserves have been planned and scheduled to maintain operations for approximately nine years, and significant resources exist to extend the current operations beyond that, which will require further exploration and mine planning.

### **Mount Owen**

Mount Owen is located in the Upper Hunter Valley, approximately 105 kilometres north-west of Newcastle. The Company believes that Mount Owen is one of the most efficient and productive truck and excavator mines in the world. Sufficient reserves have been planned and scheduled to maintain output of the mine for approximately 19 years. The mining operation is conducted under contract by an independent contractor, under a 15-year contract reviewable every five years.

### **Cook**

Cook is located in Queensland's Bowen Basin. The mine is managed and operated by a third party. Cook is currently producing on a limited basis. The Company considers this mine a long-term strategic investment due to its extensive resource base. Current reviews of the exploration information and preparation of geological models are directed at delineating future mining reserves in excess of those currently Proved.

## Part I Information on the Group

### **United**

United is located in the Upper Hunter Valley, approximately 30 kilometres west of Singleton. Production at United decreased in 2001 in preparation for the transition from bord and pillar to longwall mining. The Company expects the mine to begin its longwall mining operations in May 2002 and expects performance to improve when compared to 2001. Sufficient reserves have been planned and scheduled to maintain operations for approximately seven years. Additional resources are being evaluated to extend mine planning beyond the currently planned area.

### **Ulan**

**Ulan Underground.** Ulan is located in the Western Coalfield, approximately 40 kilometres north-east of Mudgee. Unit operating costs have been reduced through reductions in management and support staff. Pre-feasibility studies are currently underway to examine whether a production increase or second longwall is feasible. Sufficient reserves have been planned and scheduled to maintain operations for approximately 19 years.

**Ulan opencut.** The mining operations at the Ulan opencut are conducted by a contractor under a six-year contract. The currently planned mine life of seven years coincides with the Group's current domestic coal supply contract. Additional opencut resources beyond this period are being evaluated which would increase the mine life. Unit costs have been reduced through a programme of voluntary redundancies and expanding output.

### **Ravensworth Group**

**Narama.** Narama is located in the Hunter Coalfield, approximately 107 kilometres north-west of Newcastle. The Narama coalmine is a large scale operation which commenced operation in 1992. Coal is mined from the opencut pit and is transported by truck to a receival and crushing facility, then to the Liddell and Bayswater power stations via a series of overland conveyors. Sufficient reserves have been planned and scheduled to maintain operations for approximately 11 years to satisfy existing contracts.

**Ravensworth East.** Ravensworth East is located in the Upper Hunter Valley, approximately 107 kilometres north-west of Newcastle. Ravensworth East is the former Swamp Creek operation. Production recommenced in 2000 as a truck and shovel operation, targeting the Bayswater and Ravensworth Seams for supply to the local domestic power stations. Sufficient reserves have been planned and scheduled to maintain operations for approximately 16 years.

### **Projects and developments**

**Beltana.** The Beltana underground mine is located adjacent to the Bulga opencut mine. This operation, which is currently classified as a development, accesses reserves from selected current opencut highwalls utilising underground mining equipment. Longwall production is scheduled to commence in June 2003, following completion of production at South Bulga and an overhaul of the longwall. The Company expects that at full capacity mining costs will be competitive with those of the lowest cost producers in Australia. Ongoing underground mining operations in the Bulga Complex are planned to continue from planned reserves for in excess of 15 years. These operations will extract coal from the other major seams within the current mining lease area.

**Bulga Long Term, Glendell, Running Stream, Cardiff Borehole, Mitchells Flat, Togara North, Ravensworth West.** The Group has significant tracts of undeveloped resources. Although these resources have not been sufficiently evaluated on an economic basis to be classified as reserves, the Company believes that they have potential value in the future, either in the form of stand-alone development projects or as expansion areas for existing mines. The attributable Measured and Indicated Resources relating to these projects and developments as at 30 November 2001 (which have been extracted without material adjustment from the competent person's report prepared by Minarco contained in Part IX) were as follows: Bulga Long Term – 380 million tonnes; Glendell – 63 million tonnes; Running Stream – 58 million tonnes; Cardiff Borehole – 12 million tonnes; Mitchells Flat – 247 million tonnes; Togara North – 379 million tonnes; Ravensworth West – 80 million tonnes. For further information see section 2.3 of the Minarco competent person's report contained in Part IX.

### **Sales and marketing of the Australian operations' coal**

Marketing managers for each mine in Australia are responsible for marketing total mine production in conjunction, where appropriate, with the Group's joint venture partners. The export coal from Australia (other than that produced at Cumnock) will also be subject to the Market Advisory Agreement between Duiker Marketing AG, Xstrata (Schweiz) AG and Glencore International. See "Relationship with Glencore – Commercial relationship – Coal Business" in Part II. As such, except where stated otherwise, the sales figures in this section refer to the sale of total mine production.

## Part I Information on the Group

The typical quality of the coals mined by the Group in Australia for the export market vary in ash content from 8% to 16% on an air-dried basis and the Group's domestic coal varies in ash content from 22% to 39% on a gross air-dried basis. The typical gross calorific value of the Group's washed coals is in the range of 6,300 to 7,300 kilocalories per kilogramme on an air-dried basis. These qualities provide a range of coals to meet customers' needs and also provide an opportunity to blend coals to meet the specifications of particular customers.

In Australia, the Group's key marketing focus is to maximise sales of its thermal and semi-soft coking coals into the export market. Sales to the domestic market are pursued when attractive, both through the renewal of existing contracts and the identification of new selling opportunities.

In 2001, approximately 87% of the Australian operations' attributable sales were to the export market. The major market for the Australian operations' production is Asia, particularly Japan. Coal is sold primarily to the Japanese, Korean and Taiwanese power and steel industries, although coal is also occasionally sold into India, Brazil and Europe when prices support such sales. The Group is one of Australia's largest suppliers of semi-soft coking coal to the Japanese steel industry and the second largest supplier of thermal coal to Japan in terms of attributable sales. Of all the Australian operations' coal sales in 2001, both domestic and export, approximately 59% was sold for use in electric power generation, 24% for use in steel mill applications and 17% to general industry (which includes third parties that on-sell to various users).

The Australian operations' coal sales are diversified among most of the major power companies and steel mills in Japan, Korea and Taiwan. In 2001, the Australian operations' six largest thermal coal customers represented approximately 37% of the Australian operations' total exported thermal coal sales while its six largest semi-soft coal customers purchased approximately 80% of the Australian operations' total exported semi-soft coal. Domestic coal sales are predominantly to electricity generators in New South Wales.

The following table sets out the geographical breakdown of sales of the Australian operations' mines in 2001 based on total mine production:

	Sales
Japan	50%
Other	22%
Australia	11%
Taiwan	10%
Korea	7%
<b>Total</b>	<b>100%</b>

In 2001, the Australian operations sold approximately 78% of their total export sales volume under annually renewable long-term and term coal supply agreements.

The Company expects to continue to sell a significant portion of its coal under annually renewable and long-term supply agreements, particularly in Asia. However, over the next few years the Company anticipates an increasing proportion of the global thermal coal trade will be conducted in the short-term or spot market. Owing to the Australian operations' current product and market sales mix, and its planned increase in production over the medium-term, the Company believes that it is well positioned to secure more attractive sales opportunities as they emerge.

### **Transportation of the Australian operations' coal**

All coal that the Australian operations export is transported to port by rail. Freightcorp provides the New South Wales mines with all freight services. Freight contracts are negotiated with Freightcorp by producers individually, rather than on an industry basis. Queensland Rail provides freight services to the Cook mine in Queensland.

Coal from Mount Owen, Bulga, South Bulga, West Wallsend, Liddell, Ulan, Cumnock and United is exported through the Port Waratah Coal Terminal, which is the world's largest export coal handling operation. The terminal facility is operated by Port Waratah Coal Services Limited (in which the Group has a 13.4% interest) and is located in the port of Newcastle, approximately 125 kilometres north of Sydney. The annual shiploading capacity is approximately 89 million tonnes per annum. The Group's interest in the Port Waratah Coal Terminal does not give rise to an entitlement to throughput capacity because it is a common user terminal. Coal from Baal Bone is exported through the Port Kembla Coal Terminal, located in the port of Wollongong, New South Wales and is operated by Port Kembla Coal Terminal Ltd (in which the Group has a 17% interest). This gives rise to an entitlement to export through the Port Kembla Coal Terminal. Port Kembla Coal Terminal has an annual shiploading capacity of approximately 15 million tonnes per annum.

## Part I Information on the Group

For further information regarding the Coal Business's Australian operations see the Minarco competent person's report contained in Part IX.

### South African operations

#### Overview

The Group is South Africa's third largest exporter of thermal coal in terms of attributable sales. In the year ended 31 December 2001, the Duiker Group's attributable production of coal was 17.8 million tonnes and of the Duiker Group's attributable sales of 17.0 million tonnes, approximately 75% was exported. The Company believes that during 2001 the Duiker Group produced approximately 20% of all thermal coal exported from South Africa and supplied approximately 3% of all coal supplied to the South African market. The Group owns and manages nine operating coal mines and has interests in a further five joint venture operating coal mines, two of which the Group manages. The Group also has a 20.91% interest in the Richards Bay Coal Terminal. The Company believes its economic interest in the Richards Bay Coal Terminal provides the South African operations with a strategic advantage due to the associated rights it has to use the coal loading facility, which is for use by shareholders only.

The 11 mines the Group manages in South Africa fall into three operating divisions:

- the Tweefontein Division, consisting of the Waterpan, Boschmans, Witcons and South Witbank mines;
- the iMpunzi Division, consisting of the Phoenix, Tavistock, ATC and ATCOM mines; and
- the Mpumalanga Division, consisting of the Strathrae, Tselentis and Spitzkop mines.

The Group's major holdings are located within two of the major coalfields of South Africa – the Witbank and Ermelo Coalfields. All of the mines that the Group operates as well as the Group's non-managed joint venture mines fall within the Witbank Coalfield with the exception of Tselentis and Spitzkop, which are in the Ermelo Coalfield. Production and planning across all the Group's mines is co-ordinated so as to manage the capacity constraints in exporting coal from South Africa.

The South African operations use more labour-intensive mining techniques and less capital-intensive technology in multi-section mechanised underground operations than the Australian operations because there are less complex mining conditions and the South African operations have access to a more cost effective work force. The Company believes that the Group's South African operations have the potential for improving productivity through the introduction of additional modern mining equipment technology, using mining contractors where appropriate and improving mine operating procedures. As the productivity of its people is a key performance driver in the South African operations, the Duiker Group has introduced employee training programmes to achieve improvements in this area, including programmes aimed at improving team work and communication and identifying operational bottlenecks.

The Group owns the mineral rights for all of its operations other than certain rights held by Ingwe and certain rights relating to the iMpunzi Division, the Klippoortjie reserves at South Witbank Colliery and a minor tract at Spitzkop which it leases or, in the case of Spitzkop, expects to lease, from the holders of the mineral rights in these areas. In addition, the Group owns the surface rights in freehold for most of the mines in the Tweefontein, iMpunzi and Mpumalanga Divisions.

#### Description of the South African operations' coal assets

The following table sets out certain information about each of the Group's operating South African coal mines, extracted without material adjustment from the Weir International Mining Consultants competent person's report contained in Part IX:

## Part I Information on the Group

Coal mine	Type of mine <sup>(1)</sup>	The Group's attributable interest (%)	2001 (Mt) <sup>(2)</sup>		
			Mine production <sup>(2)</sup>	Attributable production <sup>(2)</sup>	Attributable sales <sup>(3)</sup>
<b>Tweefontein Division</b>					
Waterpan	OC/UG	100	1.1	1.1	1.1
Boschmans	UG	100	2.0	2.0	1.8
Witcons	UG	100	1.0	1.0	1.0
South Witbank	UG	100	0.4	0.4	0.3
<b>iMpunzi Division</b>					
Phoenix	UG	100	0.8	0.8	0.8
Tavistock	UG	100	1.3	1.3	1.2
ATC	UG	50	1.8	0.9	0.9
ATCOM	OC	50	2.3	1.1	1.2
<b>Mpumalanga Division</b>					
Strathrae <sup>(4)</sup>	UG	100	0.6	0.6	0.6
Tselentis	OC	100	1.2	1.2	1.1
Spitzkop	OC/UG	100	1.4	1.4	1.4
<b>Mines operated by Ingwe</b>					
DTJV <sup>(5)</sup>	OC/UG	16	25.3	4.0	3.9
Rietspruit	OC/UG	50	3.8	1.9	1.6
<b>Total</b>			<b>42.9</b>	<b>17.8</b>	<b>17.0<sup>(6)</sup></b>

Note: Numbers in the above table may not add up due to rounding.

(1) OC = Opencut, UG = Underground.

(2) For the year ended 31 December 2001. See "Presentation of information – Resources and reserves, production and sales" for an explanation of the basis of preparation of production amounts.

(3) For the year ended 31 December 2001. See "Presentation of information – Resources and reserves, production and sales" for an explanation of the basis of preparation of attributable sales.

(4) Operations at the Strathrae mine ceased at the end of February 2002 and the mine is currently on care and maintenance. However, the mine will continue to generate income while unwashed coal is processed and stockpiled coal is sold.

(5) DTJV comprises the Douglas and Middelburg mines.

(6) Includes approximately 52,000 tonnes traded through the Duiker Group's RBCT entitlement.

### **Tweefontein Division**

The Tweefontein Division consists of four wholly-owned mines: Waterpan, Boschmans, Witcons and South Witbank. These mines are all operating in the Witbank Coalfield and are located in the Mpumalanga Province near the town of Ogies, which is approximately 130 kilometres from Johannesburg. The railing distance to the Richards Bay Coal Terminal is approximately 590 kilometres. The Group is planning to develop a fifth colliery within this division, Goedgevonden, which it expects to begin production in 2004.

**Waterpan.** The Group operates the underground mine and dump reclaim at Waterpan, while the opencut mine is operated by an independent contractor. Sufficient reserves have been planned and scheduled to maintain operations for approximately 16 years and current mine plans anticipate that this operation will be expanded in the future.

**Boschmans.** Boschmans is the largest underground operation in the Duiker Group. The Company expects the second and third continuous miner sections to be commissioned in 2002 to replace two of the existing four drill and blast sections. Sufficient reserves have been planned and scheduled to maintain operations for in excess of 20 years.

**Witcons.** Since acquisition of this underground mine by Glencore, relocation of mining equipment within the mine and a revision to the medium-term mine plan have led to an improvement in productivity. The replacement of one of the three drill and blast sections with a continuous miner section in 2003 will allow the recovery of additional pillar reserves in the No. 4 Seam, thereby extending the life of the mine. Sufficient reserves have been planned and scheduled to maintain operations for approximately 11 years.

**South Witbank.** Historically, South Witbank supplied low-grade coal to both the export and domestic markets. However, due to market weakness it was decommissioned in 1999. The mine was recommissioned in June 2001 and is currently producing coal for the export market. The recommissioning included new underground equipment and infrastructure as well as a new beneficiation plant capable of producing up to 1.8 million tonnes per annum. This mine has the highest underground productivity in the Duiker Group as a result of the implementation of advanced proven technologies in the recommissioning process. Sufficient reserves have been planned and scheduled to maintain operations for approximately 20 years.

## Part I Information on the Group

### *iMpunzi Division*

The iMpunzi Division consists of two wholly-owned mines – Phoenix and Tavistock – as well as two mines the Group owns in a 50% joint venture with TOTAL Exploration South Africa (“TESA”), known as the TAV/TESA Joint Venture (“TAV/TESA”). The TAV/TESA operations are the Arthur Taylor Colliery (“ATC”) and the Arthur Taylor Colliery Opencast Mine (“ATCOM”).

The iMpunzi mines are all located in the Mpumalanga Province, south of Witbank and south-east of Ogies, approximately 570 kilometres from the Richards Bay Coal Terminal. The iMpunzi Division is located directly east of, and is contiguous to, the Tweefontein Division in the central portion of the Witbank Coalfield.

**Phoenix.** This underground mine currently produces coal from the Witbank Coalfield No. 1 Seam. The sized fraction of the beneficiated product is sought after by the ferroalloy industry because of its low phosphorus content and thus earns a premium in the domestic market. The balance of production is exported as thermal coal. When the No. 1 Seam is depleted this mine will extract the No. 2 and 4 Seams producing standard thermal product, largely for the export market. Sufficient reserves have been planned and scheduled to maintain operations for approximately 10 years.

**Tavistock.** The Tavistock underground bord and pillar operation is one of the Duiker Group’s lowest cost producers. Tavistock’s continuous miner was relocated from Strathrae and is now producing ROM coal at more than twice the previous rate. Through improved performance management and training, the Company expects this unit to increase its output further. Additional beneficiation plant capacity has been realised in 2001 through the addition of an extra treatment module. Sufficient reserves have been planned and scheduled to maintain operations for approximately 15 years and current mine plans anticipate that this operation will be expanded in 2003.

**ATC.** The underground bord and pillar ATC mine operates under the TAV/TESA joint venture. This mine has embarked on a programme to increase the productivity of its continuous miners, which the Company expects to enable full production requirements to be met without using the two labour intensive drill and blast sections that were used in the past. Sufficient reserves have been planned and scheduled to maintain operations for approximately 14 years.

**ATCOM.** The open pit ATCOM mine also operates under the TAV/TESA joint venture. Mining currently takes place in the East Pit. As the reserves in the East Pit are nearing depletion, the Company intends that opencut operations will start to relocate to the North Pit in 2002, with the dragline relocating in 2003. Detailed planning for the move is advanced. Sufficient reserves have been planned and scheduled to maintain operations at the North Pit for approximately 14 years.

### *Mpumalanga Division*

The Mpumalanga Division consists of three wholly-owned operating mines: Strathrae, Tselentis and Spitzkop. These mines are located in the areas of Carolina, Breyten and Ermelo respectively, in the Mpumalanga Province. They are approximately 470 kilometres from the Richards Bay Coal Terminal. Strathrae is located in the Witbank Coalfield, while Tselentis and Spitzkop are located in the north-central portion of the Ermelo Coalfield.

**Strathrae.** In order to improve the overall profitability of the Duiker Group, operations were stopped at Strathrae at the end of February 2002 and the mine was placed on care and maintenance. The mine will continue to generate income while unwashed coal is processed and stockpiled coal is sold. If a purchaser can be found, the mine will be sold. The underground production equipment has been redeployed at other mines within the Group.

**Tselentis.** Tselentis is an opencut truck and excavator operation. The Company expects underground operations to commence in 2003 utilising continuous miners. As the production from underground increases, the output from the opencast will be reduced. Sufficient reserves have been planned and scheduled to maintain operations for approximately 20 years.

**Spitzkop.** This mine has historically produced from open pit and underground operations, the latter consisting of six cut, drill and blast sections and one continuous miner section. The open pit operation will be phased out during 2002 and it is the Company’s intention to increase the number of underground continuous miners from one to four and reduce the number of cut, drill and blast sections from six to four. Sufficient reserves have been planned and scheduled to maintain operations for approximately nine years.

### *Joint venture mines managed by Ingwe*

The Rietspruit, Douglas and Middelburg mines are operated by the Duiker Group’s joint venture partners.

## Part I Information on the Group

**Rietspruit.** Rietspruit is managed by Ingwe. The Group and Ingwe each market their own share of production. Production is scheduled to cease in May 2002, on depletion of current reserves. The Company intends to dispose of equipment that is not required once production ceases but expects to retain some equipment for mine rehabilitation purposes. Sufficient funds for rehabilitation have been allocated.

**Douglas.** Douglas consists of both underground and open pit operations and is managed by Ingwe under the Douglas/Tavistock Joint Venture ("DTJV"). Since January 2000, the mines have commissioned a truck and shovel open pit operation, a dragline pit, a contractor-operated pit and have redeployed an underground continuous miner fleet. This, combined with a reduction from a three-shift to a two-shift operation, has maintained consistent output. Douglas operates a preparation plant which has recently been upgraded and debottlenecked, resulting in an increase in capacity of approximately 45%. Sufficient reserves have been planned and scheduled to maintain operations for in excess of 20 years.

**Middelburg.** Middelburg opencut mine is also managed by Ingwe under the DTJV. Middelburg resulted from the merger of two mines in 1994 – the Duvha Opencast, which was a dedicated ESKOM power station supplier, and Middelburg Mine, an export mine, and is now operated as a single multi-product mine utilising five draglines, making it one of the largest dragline operations in the world. In 2001, approximately 62% of production was sold to the ESKOM power station. Sufficient reserves have been planned and scheduled to maintain operations for in excess of 20 years.

### Projects and developments

**Goedgevonden, Zonnebloem, Paardekop, Elandspruit, Consbrey and Strathrae South.** The Group has significant tracts of undeveloped resources. Although these resources have not been sufficiently evaluated on an economic basis to be classified as reserves, the Company believes that they have potential value in the future, either in the form of stand-alone development projects, as expansion areas for existing mines or to trade for property adjacent to existing operations. The Measured and Indicated Resources attributable to these projects and developments as at 31 December 2001 (which have been extracted without material adjustment from the competent person's report prepared by Weir International Mining Consultants contained in Part IX) were as follows: Goedgevonden – approximately 266 million tonnes; Zonnebloem – approximately 104 million tonnes; Paardekop – approximately 444 million tonnes; Elandspruit – approximately 33 million tonnes; Consbrey – approximately 251 million tonnes; Strathrae South – approximately 47 million tonnes; and other – approximately 43 million tonnes. For further information see section 2.3 of the Weir International Mining Consultants competent person's report contained in Part IX.

### Sales and marketing of the South African operations' coal

The marketing of the South African operations' coal will be managed through Duiker Marketing AG with the exception of (a) domestic sales which will be managed by Duiker (other than domestic sales from the DTJV, which are managed by Ingwe); and (b) export sales from the TAV/TESA joint venture, which are managed by TESA. Duiker Marketing AG and Xstrata (Schweiz) AG have entered into a Market Advisory Agreement with Glencore International in respect of the South African coal exports that it manages. See "Relationship with Glencore – Commercial relationship – Coal Business" in Part II.

On an air-dried basis, the export coals produced by the South African operations have a relatively low sulphur content and low moisture levels. The ash content of the South African operations high grade export coals is approximately 14% (on an air-dried basis) and have a gross calorific value ranging from 6,400 to 6,700 kilocalories per kilogramme, whereas its low grade export coals have an ash content of approximately 20% (on an air-dried basis) and have a gross calorific value ranging from 5,600 to 6,100 kilocalories per kilogramme. The South African operations' coal produced for domestic customers generally has a higher sulphur and ash content and a comparatively lower calorific value than the South African operations' typical export product.

All sales figures in relation to the South African operations refer to attributable sales. The South African operations' principal marketing strategy is to maximise sales of high margin export coal, using all of its Richards Bay Coal Terminal entitlement. The South African operations sell their incremental tonnage into the domestic market.

Of the South African operations' attributable sales of 17.0 million tonnes in 2001, approximately 75% was exported. The major market for exports was Europe, with the United Kingdom, Spain and the Netherlands being the South African operations' largest European purchasers. Outside of Europe, Israel was the largest purchaser of the South African operations' coal production. Of the thermal coal exported by the South African operations in 2001, over 95% was sold for use in the power industry and the remainder mainly for use in the cement industry. The South African operations' eight largest thermal coal customers represented approximately 62% of its total South African exports in 2001. The Company does not believe the South African operations are dependent upon any one customer.

## Part I Information on the Group

The following table sets out the geographical breakdown of attributable sales of the South African operations' mines in 2001:

	<b>Sales</b>
Europe and Mediterranean <sup>(1)</sup>	69%
South Africa <sup>(2)</sup>	25%
Other export <sup>(3)</sup>	6%
<b>Total</b>	<b>100%</b>

(1) Approximately 34% of which was sold to Glencore.

(2) Approximately 3% of which was sold to Glencore.

(3) Approximately 1% of which was sold to Glencore.

Of the South African operations' domestic sales of 4.3 million tonnes, approximately 39% was sold to ESKOM, the State-owned electricity utility. The major domestic industrial consumers are the paper, sugar, chemical and metallurgical industries and municipal power stations. The South African operations supplied approximately 14% of the domestic industrial market in 2001 (excluding sales to ESKOM and Sasol used for the production of synthetic fuels).

In 2001, approximately 80% of the South African operations' export sales were under spot contracts, with the remaining sales being under term coal supply agreements of one year or longer. In 2001, approximately 68% of the South African operations' domestic sales were under term contracts with the most significant being with ESKOM for the Duvha Power Station, which runs until 2014 with an option to renew for two further 10-year periods.

### **Transportation of the South African operations' coal**

In 2001, 100% of the coal exported by the South African operations was exported through the Richards Bay Coal Terminal. The Richards Bay Coal Terminal is capable of loading vessels of various sizes and is the only port facility in South Africa with capacity for substantial coal export volumes. Prior to 2001, the Duiker Group exported limited quantities of coal via Durban and Maputo each with a capacity of under 2 million tonnes per annum and the ability to load smaller vessels only. All coal that the South African operations export through the Richards Bay Coal Terminal is transported by COALink, a division of Spoornet, the State-owned railway operator. In 1995, the shareholders of the Richards Bay Coal Terminal entered into a 10-year agreement with COALink under which COALink agreed to provide those companies with transport of their coal exports to the Richards Bay Coal Terminal. COALink transported a total of approximately 67.6 million tonnes of coal (as measured at port) in 2001. The Company believes that COALink is one of the most efficient coal rail facilities in the world, in terms of the tariff/tonne/kilometre and performance and reliability.

The Group has a 20.91% interest in the Richards Bay Coal Terminal, which is owned by seven coal producing companies in South Africa including Ingwe (a subsidiary of BHP Billiton) and Anglo American. The Richards Bay Coal Terminal is situated in the deepwater port of Richards Bay, on the north-eastern coastline of South Africa. The Richards Bay Coal Terminal has an annual capacity of 72 million tonnes per annum, although the agreed throughput of capacity for 2002 is 68 million tonnes per annum, of which the South African operations are entitled to approximately 13.9 million tonnes per annum after deducting net entitlement transferred to and from the South African operations' two joint ventures.

A Memorandum of Understanding has been signed by a number of parties wishing to participate in the Richards Bay Coal Terminal Phase V upgrade project, which is planned to increase total throughput capacity to 82 million tonnes per annum. The Group has exercised its rights in the Phase V upgrade, which will increase the Group's entitlement by 2.1 million tonnes per annum. The construction period for this phase is expected to commence in mid-2002 once all agreements have been signed. Commissioning is currently expected towards the end of 2004. Following completion of the Phase V upgrade, it is unlikely that any further expansion of the Richards Bay Coal Terminal will take place.

While the capacity of the Richards Bay Coal Terminal is a constraint on the amount of coal that the South African operations can export, production and planning across all the South African operations' mines is co-ordinated so as to optimise usage of this facility. The lack of alternative sizeable ports in Southern Africa for the export of coal from South Africa, as well as the restricted access to the Richards Bay Coal Terminal, effectively limits potential oversupply in the export market from non-Richards Bay Coal Terminal coal producers.

For further information regarding the Coal Business's South African operations see the Weir International Mining Consultants competent person's report contained in Part IX.

# Part I Information on the Group

## Zinc Business

### Summary of the Business

#### Introduction

The Zinc Business is the Group's second largest business in terms of profit and turnover, accounting for 17% of EBIT, 17% of EBITDA and 20% of turnover in the year ended 31 December 2001 on an unaudited combined constructed illustrative basis. See further "– Zinc Business – Summary of the Business – Financial information" below.

The Group's zinc assets are held through Asturiana. On 3 May 2001, the Xstrata AG Group acquired 95.5% of the issued share capital of Asturiana de Zinc, S.A. pursuant to a public takeover offer. Following the offer, Asturiana made a delisting offer to the remaining public shareholders of Asturiana pursuant to which, and as a result of other market purchases made by the Xstrata AG Group, the Xstrata AG Group increased its shareholding in Asturiana to 98.36%.

Following the delisting offer, Asturiana de Zinc, S.A. was merged into Xstrata Spain, S.L., and the resulting company was renamed Asturiana de Zinc, S.L. Due to the way in which the merger was effected, the Xstrata AG Group's shareholding in Asturiana has been reduced to 93.18%. However, the Directors expect that the Group will be able to purchase shares in Asturiana from minority shareholders and increase the Xstrata AG Group's shareholding in Asturiana to close to 100%.

The Zinc Business's main activities are the production of zinc metal and the mining of zinc bearing ores. Its operating facilities comprise the San Juan de Nieva smelting plant, the Reocín mine, the Hinojedo roasting facility and the Arnao manufacturing plant in Spain.

#### Reserve base and production

As at 31 December 2001, the Proved Reserves at the Reocín mine were 1.4 million tonnes at a grade of 7.4% zinc and 0.8% lead. Based on current production rates, these reserves will be depleted by June 2003.

For the year ended 31 December 2001, the Zinc Business's total zinc metal production was approximately 390,800 tonnes. See the Pincock, Allen & Holt competent person's report contained in Part IX.

#### Financial information

The table below provides pro forma unaudited combined constructed illustrative financial information in relation to the Zinc Business for the year ended 31 December 2001. The information, which has been extracted without material adjustment from the pro forma unaudited combined constructed financial information set out in Part VII, has been prepared using information extracted from the Accountants' Reports set out in Part VI and has been prepared on the basis set out in the footnote to the table and explained in further detail in "Presentation of information – Pro forma unaudited combined constructed illustrative financial information".

Zinc	Year ended 31 December 2001 (US\$000)	As a percentage of the Group
Turnover	383,317	20%
EBITDA	101,453	17%
EBIT	67,155	17%

Basis of preparation: The above table is for illustrative purposes only and is not intended to give a true picture of financial information relating to the Group. This information has been prepared to illustrate the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of the Zinc Business as if the Acquisitions and acquisitions undertaken by the Xstrata AG Group and the Enex Group in that year had occurred on 1 January 2001 and includes the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of Oakbridge and Asturiana from 1 January 2001 to their respective dates of acquisition together with an adjustment to reflect the amortisation of goodwill on the acquisition of Asturiana.

#### Cost curve

Cost curves produced by Brook Hunt for 2001 rank the Group's zinc smelting operations in the first quartile of worldwide production of zinc metal. See "Presentation of information – Cost curves".

### Industry overview

#### Background

Around half of all zinc currently consumed is used for the galvanising of steel which is the most cost-effective and environmentally friendly method of protecting steel against corrosion. Galvanised steel represents around 54% of

## Part I Information on the Group

end-use consumption with other uses being oxides and chemicals (7%), brass (10%), rolled products (7%), die casting (18%) and zinc dust and other (4%). Demand for zinc by the galvanised steel sector has increased by an average of 3.2% per annum over the past ten years and is the main growth area for the zinc industry.

Zinc producers can be categorised into: pure mining companies, which sell zinc concentrate to smelters generally receiving a payment for 85% of the contained zinc at the LME cash price less a treatment charge; smelting and refining companies, which buy zinc concentrate and produce refined zinc and sell the refined metal; and integrated producers, which mine and concentrate zinc ore, smelt and refine zinc concentrate and sell the refined metal.

The gross returns achievable by zinc smelting and refining companies are linked to the difference between the amount they pay for zinc metal contained in concentrate (85% of contained zinc) and also to the level of the treatment charge which is deducted from the price paid for the zinc concentrate and the amount of zinc they are able to recover in the smelting process and subsequently sell. The treatment charge represents a market based fixed charge, largely driven by the supply and demand of zinc concentrate, which is then adjusted to reflect the level of the zinc price.

The zinc mining industry is highly fragmented with the top five producers accounting for only 33% of the total western world zinc mine production. The zinc smelting industry is equally fragmented with the top five smelting companies accounting for approximately 46% of total western world production. This fragmentation could give rise to further consolidation in the zinc industry.

### **Supply and demand**

Most of the producing zinc mines are in North and South America (Canada, Mexico, Peru and the United States), China and Australia. Together these countries provide approximately 70% of world zinc concentrate production. Very large mining operations such as the Century mine in Australia, Teck Cominco's Red Dog mine in Alaska and the Antamina mine in Peru will be increasingly important zinc concentrate suppliers as low zinc prices and ore exhaustion are expected to result in a number of mine closures over the next few years.

Europe has the largest deficit of concentrates followed by Japan and South Korea. In addition, recent significant smelter capacity expansion in China means that China will have to continue to increase imports of zinc concentrate. Variations in the amount of exports from China and the former Soviet Union will remain a key price driver in coming years.

In contrast to the zinc mining industry, refined zinc metal production is more geographically diverse with China being the largest producer followed by Canada, Japan, South Korea, Australia, Spain and the United States. Other large producers are located in Europe, Kazakhstan, Russia, Mexico, Peru and Brazil.

### **Pricing and costs**

Zinc metal is sold to consumers or into a terminal market and is an LME traded metal. The zinc concentrate market is largely a negotiated market with a large proportion of concentrate sold under annual contracts at negotiated treatment charges. The costs of smelting operations are generally equally split between power costs, labour costs and other sundry costs.

### **Markets and outlook**

Global zinc consumption declined by 1.6% to 8.7 million tonnes in 2001. The United States and other western markets suffered the most as a result of significant cutbacks and destocking by manufacturers (especially car manufacturers) due to lower demand. Demand from the construction industry has also fallen in the United States, Europe and Asia. Demand is expected to improve as a result of economic growth and the cessation of destocking by manufacturers.

The outlook for treatment charges will be driven by the impact of mine closures on concentrate supply, changes in smelter capacities and changes in the balance between Chinese mine production and smelter capacity. Realised treatment charges fell significantly in 2001 as a result of weak zinc prices. Negotiated treatment charges also fell in late 2001 due to mine cutbacks and increased smelter capacity and the resultant increase in competition for concentrate. Treatment charges may come under further pressure as announced mine closures take effect and Chinese smelter capacity continues to increase.

Future refined zinc demand will be primarily driven by the use of galvanised steel in the construction and transport sectors which are dependent upon the state of the global economy. As a result, the demand for refined zinc tracks the economic cycle over the longer term, although short-term refined zinc demand can be influenced by destocking or stockpiling by manufacturers of zinc semi-fabricated products and end users such as car manufacturers.

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### Description of operations

#### *The Reocín mine*

The Reocín mine is located in the Spanish region of Cantabria, approximately 30 kilometres southwest of the Port of Santander. A portion of the concentrates from the Reocín mine are transported to the nearby Hinojedo roasting plant where they are processed to produce calcine. The rest is sent directly to the San Juan de Nieva plant. At current mining rates, the resources and reserves at the underground and open pit mines at Reocín will be exhausted in mid-2003. The Group anticipates that the closure costs will be largely offset by the proceeds arising from the disposal of large tracts of land to the regional government for which in principle agreements have been reached, and from the sale of the remaining Reocín assets. Following the closure of the Reocín mine it is anticipated that all concentrates will be purchased from third parties although management will continue to evaluate potential zinc mine acquisition opportunities as a means of providing the Zinc Business with an alternative source of zinc concentrates.

#### *San Juan de Nieva zinc operations*

The San Juan de Nieva zinc operations comprise:

- the Hinojedo roasting plant;
- the San Juan de Nieva electrolytic zinc plant; and
- the Arnao manufacturing facility.

**The Hinojedo roasting plant.** The Hinojedo roasting plant is located approximately six kilometres east of the Reocín mine. Zinc concentrates from the Reocín mine are processed at the roasting plant to produce calcine which is then transported to the San Juan de Nieva electrolytic zinc plant. The major plant facilities at Hinojedo are a flash roaster and a liquid sulphur dioxide plant. The Hinojedo roasting plant also stores lead concentrates received from the Reocín mine prior to their shipment to various lead smelting facilities. After closure of the Reocín mine, concentrates purchased from third parties may be treated at the Hinojedo facility.

**The San Juan de Nieva electrolytic zinc plant.** The San Juan de Nieva electrolytic zinc plant is located in the Asturias region of Spain near the port of Avilés and is one of the leading plants of its kind in the world in terms of production capacity, costs and efficiencies. Over the four years to 2001, zinc metal production at San Juan de Nieva consistently exceeded the plant's 320,000 tonnes per annum design production capacity. An expansion was commissioned during the third quarter of 2001, bringing the total production capacity of the plant to 460,000 tonnes per annum. The saleable production capacity of the plant is currently approximately 440,000 tonnes per annum as approximately 20,000 tonnes per annum of zinc is re-used in the smelting process. Following this expansion, the plant accounts for approximately 7% of western world, 20% of western European and 90% of Spanish domestic production.

Asturiana achieves an average rate of recovery of approximately 96% of zinc metal from concentrates, compared to the approximately 85% paid according to the generally accepted industry pricing formula for zinc concentrates.

The plant is comprised of five major operating areas: concentrate receiving and storage; roasting and sulphuric acid plant; leaching and purification; electrowinning; and casting. The plant utilises conventional technologies for the production of zinc ingots, zinc alloys, zinc for plating and zinc dust and by-products of sulphuric acid, mercury and germanium oxide.

The Group intends to pursue continued growth in its Zinc Business through the acquisition of additional smelting facilities. The Directors believe there is scope for further consolidation in the zinc industry and will evaluate potential acquisition opportunities as they arise.

**The Arnao manufacturing plant.** The Arnao manufacturing plant is located approximately four kilometres from the San Juan de Nieva electrolytic zinc plant and produces zinc oxide dust, rolled zinc products, lead anodes and zinc wire. The plant has a small rolling mill where 1,800 kilogramme ingots are first rolled to a thickness of 10 millimetres in a roughing mill and then reduced to a thickness of 0.25 millimetres in a finishing mill and subsequently cut to customers' requirements. The capacity of the rolling facility is some 9,000 tonnes per annum. Arnao also has the ability to produce zinc wire with diameters of as small as two millimetres. The capacity of this facility is approximately 500 tonnes per annum depending on the final diameters of the wire desired.

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### Sales and marketing

Zinc sales represent more than 90% of the Zinc Business's turnover, the remainder being derived from sales of by-products such as germanium, sulphuric acid, sulphur dioxide and zinc oxide.

Between 50% and 65% of zinc produced by the Zinc Business is exported into other EU countries with the balance sold domestically. Exports are mostly in the form of SHG ingots (approximately 80%) with the remainder being exported in the form of zinc alloys. Export markets by order of importance are Germany, Italy, Portugal and the UK. In the export markets, Asturiana supplies principally the galvanising sector. Glencore was the Zinc Business's largest customer in 2001 accounting for approximately 29% of total zinc sales.

All zinc sales are made in US\$ or equivalent based LME benchmark prices. In addition, sales into Europe, including Spain, command a premium over LME prices. Premiums have increased to substantial levels over the past two to three years as a result of Atlantic/Pacific freight costs, anti-dumping duties and reduced imports of metal especially from the Pacific Rim, due to increasing Asian consumption, in particular in China. In 2001, approximately 70% of the Group's zinc metal sales were made under term contracts while approximately 30% of the Group's sales were on a spot basis.

### Concentrate suppliers

Following the expansion of the San Juan de Nieva plant's design production capacity, approximately 850,000 tonnes of zinc concentrate per year is required as feedstock to the electrolytic zinc plant for it to operate at current capacity. In 2001, approximately 702,000 tonnes of zinc concentrate was used as feedstock by the electrolytic zinc plant, of which approximately 130,000 tonnes was acquired from the Reocín mine. Currently, concentrates are sourced from the Reocín mine and purchased under contracts with third parties at an average concentrate grade of 54% zinc. Following the closure of the Reocín mine in mid-2003, it is anticipated that all concentrates will be purchased from third parties. San Juan de Nieva typically purchases zinc concentrates from more than 20 third party sources, of which five accounted for approximately 70% of its total concentrate requirements in 2001. San Juan de Nieva has contracted for about 80% of its total zinc concentrate requirements through to 2004.

In 2001, Glencore supplied approximately 31% of zinc concentrates sourced by the Zinc Business from third parties and is the principal supplier of the Zinc Business in addition to being its largest customer. These purchases and sales were all made under contracts on arm's length terms. In addition, in 2001, Teck Cominco's Red Dog mine in Alaska accounted for approximately 20% of the Zinc Business's total zinc concentrate requirements. This percentage is expected to reduce to approximately 16.5% in 2002 due to the increase in the electrolytic zinc plant's feedstock requirements.

For further information regarding the Zinc Business see the Pincock, Allen & Holt competent person's report contained in Part IX.

## Part I Information on the Group

### Ferroalloys Business

The Group's Ferroalloys Business, consisting of the chrome and vanadium operations, is the Group's third largest business in terms of profit and turnover accounting for 4% of EBIT, 13% of EBITDA and 17% of turnover for the year ended 31 December 2001 on an unaudited combined constructed illustrative basis. See "– Chrome operations – Financial information" and "– Vanadium operations – Financial information".

The major consumer for chrome and vanadium alloy is the steel industry. The Group's customer base in this industry is widely spread.

### Chrome operations

#### Introduction

The Group is the world's largest producer of ferrochrome in terms of both attributable production and attributable sales, with capacity attributable to the Group of approximately 1.3 million tonnes per annum, representing approximately 25% of global capacity. The assets consist of three operating chromite mines and 16 ferrochrome furnaces, two of which are in a 50% production joint venture with Samancor Limited, a major South African ferrochrome producer. The chrome operations are also entitled to utilise ore from a fourth operating mine pursuant to a joint venture arrangement. The chrome assets are situated in South Africa.

#### Resource and reserve base

The table below sets out the Group's chrome resource and reserve base as at 31 December 2001, as extracted without material adjustment from the IMC Mackay & Schnellmann competent person's report contained in Part IX:

	Reserves as at 31 December 2001 ( <sup>'000 tonnes</sup> )			Resources as at 31 December 2001 <sup>(1)</sup> ( <sup>'000 tonnes</sup> )			
	Proved Reserves	Probable Reserves	Total Reserves	Measured Resources	Indicated Resources	Total (Measured and Indicated) Resources	Inferred Resources <sup>(2)</sup>
<b>Operating mines</b>							
Waterval	–	8,842	8,842	2,118	13,457	15,575	–
Kroondal	4,461	3,931	8,392	8,686	6,371	15,057	–
Kroondal Gemini <sup>(3)</sup>	–	15,882	15,882	–	24,510	24,510	–
Thorncliffe	3,198	4,941	8,139	8,131	11,904	20,035	50,170
<b>Projects/Non-operating mines</b>							
Wonderkop	–	–	–	–	6,400	6,400	12,000
Townlands	–	9,851	9,851	–	14,814	14,814	111,273
De Grootboom	–	–	–	344	1,306	1,650	–
Helena	–	–	–	675	122	797	115,231
<b>Total</b>	<b>7,659</b>	<b>43,447</b>	<b>51,106</b>	<b>19,954</b>	<b>78,884</b>	<b>98,838</b>	<b>288,674</b>

(1) Resources are quoted as in-situ totals (no allowances for either geological or mining losses) and are inclusive of reserves.

(2) See "Presentation of information – Inferred Resources" for an explanation of the basis of calculation of Inferred Resources.

(3) Pursuant to a joint venture arrangement with Samancor Limited, the chrome operations are entitled to operate the Kroondal Gemini mine and utilise the ore produced from the mine for the furnaces at Wonderkop (two of which are in a production joint venture with Samancor).

#### Production

The attributable ferrochrome production of the chrome operations for the year ended 31 December 2001 was approximately 860,000 tonnes. See the IMC Mackay & Schnellmann competent person's report contained in Part IX.

#### Financial information

The table below provides pro forma unaudited combined constructed illustrative financial information in relation to the chrome operations for the year ended 31 December 2001. The information, which has been extracted without material adjustment from the pro forma unaudited combined constructed financial information set out in Part VII, has been prepared using information extracted from the Accountants' Reports set out in Part VI and has been prepared on the basis set out in the footnote to the table and explained in further detail in "Presentation of information – Pro forma unaudited combined constructed illustrative financial information".

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Chrome	Year ended 31 December 2001 (US\$000)	As a percentage of the Group
Turnover	257,659	14%
EBITDA	64,262	11%
EBIT	59,318	15%

Basis of preparation: The above table is for illustrative purposes only and is not intended to give a true picture of financial information relating to the Group. This information has been prepared to illustrate the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of the chrome operations as if the Acquisitions and the acquisitions undertaken by the Xstrata AG Group and the Enex Group in that year had occurred on 1 January 2001 and includes the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of Oakbridge and Asturiana from 1 January 2001 to their respective dates of acquisition together with an adjustment to reflect the amortisation of goodwill on the acquisition of Asturiana.

### Cost curve

Cost curves produced by CRU for 2001 rank the Group's chrome operations, on a weighted average basis, in the first quartile of worldwide production of high carbon ferrochrome. See "Presentation of information – Cost curves".

### Industry overview

**Background.** The most important property of chrome is its ability to form a regenerative oxide film which protects a metal surface against oxidation. Alloys that contain chrome are therefore corrosion and wear resistant.

Chrome and nickel are the two key alloying elements used in bulk quantities for the production of stainless steel. Stainless steel contains a minimum of 10.5% chrome and an average of 18% in the principal grade, 304. Chrome may be added to the stainless steel melt in the form of chrome ore, ferrochrome or as stainless steel scrap. Ferrochrome is an alloy of chrome and iron generally containing between 50% to 65% chrome. More than 85% of the world's ferrochrome production is used in the production of stainless steel. Stainless steel scrap intake by the industry varies depending on the production process used and the availability of scrap. The latter is in turn influenced by the price of nickel.

**Supply and demand.** Demand for ferrochrome in the western world has grown at an average rate of 6% per annum over the last 20 years (1980-2000). Ferrochrome consumption is determined in large part by the production of stainless steel. Ferrochrome consumption has grown at a rate of over 5% per annum over the 10 years to 2000. South Africa contains approximately 70% of total world chromite reserves and is the leading integrated ferrochrome producer accounting for approximately 60% of the world's ferrochrome production. South Africa is also the most competitive ferrochrome producer due to the availability of low cost chrome ore, low power costs and the recent depreciation of the Rand against the US dollar. Kazakhstan is the other major ferrochrome producer with approximately 14% of the world's ferrochrome production.

While the ferrochrome industry is highly concentrated, the market suffers from low barriers to entry which from time to time have contributed to excess capacity. Due to a recent oversupply of ferrochrome and the resultant reduction in the price of ferrochrome, most producers have cut back production and, in some cases, closed down capacity. By the end of 2001, these cutbacks in production and reductions in capacity resulted in approximately one million tonnes per annum of industry capacity being idled and an equivalent amount currently remains idled.

From 1990 to 2000, growth of stainless steel consumption outperformed the growth in certain economic indicators such as gross domestic product (GDP) and industrial production. Stainless steel's intrinsic properties of heat and corrosion resistance, aesthetic appeal, and workability have resulted in increased use in transport, construction, catering and household products and process industries.

Approximately 60% of the total input of chrome units in the stainless steel industry is provided by ferrochrome with the remainder from stainless steel scrap and chrome ore. Stainless steel scrap intake variations depend in large part on the state of nickel prices. High nickel prices make it more cost effective to recover the nickel units (and chrome units) from stainless steel scrap.

**Pricing and costs.** The ferrochrome market is largely a negotiated market with contracts based on price and volume entered into on a quarterly basis. Chrome ore, electricity and reductants are the major cost components for producing ferrochrome. South African producers have an advantage due to the recent depreciation of the Rand, as a large percentage of the costs are incurred in Rand.

**Markets and outlook.** Western world consumption of stainless steel is estimated to have fallen by approximately 4% in 2001 with consumption in the United States falling by approximately 13%. This directly affected demand for

## Part I Information on the Group

high carbon ferrochrome with the result that the industry stocks that had built up due to the excess supply experienced in the year 2000 were not reduced in 2001 as quickly as had been anticipated. Although the consumption of ferrochrome declined in 2001, cutbacks to production led to a reduction in industry stocks. Prices, nevertheless, fell throughout the year.

The short-term outlook for the market will be determined by the timing of a recovery in economic activity and stainless steel production and will also depend upon the level of ferrochrome supply to the market. In the long-term, ferrochrome consumption is expected to grow at a similar rate to stainless steel production where world-wide output growth is expected to be approximately 5% per annum between 2000 and 2010, driven in part by expectations of a large volume of melt-shop capacity being constructed over the next 10 years. Growth in ferrochrome demand may vary from growth in the stainless steel market depending on nickel prices and the resulting use of stainless steel scrap.

### **Description of the chrome operations**

The Group controls and operates a combined attributable capacity of approximately 1.3 million tonnes of ferrochrome per annum. The Group is currently the world's largest (in terms of both attributable production and attributable sales) and among the lowest cost producers of ferrochrome. The Group believes it is well placed to maintain and grow its ability to offer a wide range of products and to produce large volumes at low cost. The Group will pursue continued growth in its chrome operations whilst at the same time seeking to maintain its position as one of the lowest cost producers of ferrochrome in the world. In addition, the Directors will continue to evaluate both the potential for diversifying the chrome operations' ferrochrome product range and potential acquisition opportunities as a means of providing the chrome operations with a strategic source of essential raw materials and reductants.

All of the Group's operating chrome mines are shallow underground mines accessed by decline shafts. Mining is carried out using a bord and pillar method and is currently conducted at depths ranging from 50 to 250 metres below surface. All development is on reef, thereby reducing waste dilution. In addition to sourcing ore from its own mines, the chrome operations purchase and process chrome-rich tailings from nearby platinum producers, where chrome-rich fines (usually referred to as UG2) are discarded as a waste product. The Group sells approximately 6% of its chrome ore and converts the rest into ferrochrome. The Group's metallurgical plants are all situated close to the Group's chrome mines, thereby reducing rail and road transport costs.

Production is derived from 16 furnaces (two of which are in a 50% production joint venture with Samancor Limited) at three metallurgical facilities. The last eight furnaces were designed, constructed and commissioned by the Xstrata AG Group which has helped to reduce capital costs. By designing and constructing its own furnaces the Xstrata AG Group has been able to further increase the efficiency and reliability of its furnaces, with annual furnace availability figures in excess of 98.5% being maintained for these eight furnaces. Thirteen of the Group's furnaces have an open top structure and large off-gas handling facilities which allow these furnaces to utilise lower quality ore and reductants. Over the 10 years to 2000, the Group increased annual attributable production of ferrochrome from approximately 120,000 tonnes to a peak in the year ended 31 December 2000 of 1.14 million tonnes. Attributable production fell to approximately 861,000 tonnes for the year ended 31 December 2001 due to the Xstrata AG Group suspending production at four of its furnaces (in addition to the two idled in 2000) in light of the oversupply of ferrochrome in 2001. One of these idled furnaces is currently being used to produce platinum bearing matte under an arrangement concluded with Anglo American Platinum. Production at any of the chrome operations' furnaces may be suspended and idled furnaces brought back on-line as and when market conditions require.

In June 2000, the Xstrata AG Group entered into a 50% production joint venture with Samancor Limited. The joint venture comprises two new furnaces at the Wonderkop facility near Rustenburg with an aggregate capacity of 180,000 tonnes per annum. These two furnaces were commissioned in the second quarter of 2001. Pursuant to these joint venture arrangements, the chrome operations are also entitled to operate the Kroondal Gemini mine and utilise the ore produced from the mine for the furnaces at Wonderkop (including the two joint venture furnaces). In addition, 30,000 tonnes of annual production from the Lydenburg furnaces is attributable to Mitsui & Co. Ltd.

At current production levels and under current mining plans, the Group expects its resource base to last for in excess of 20 years. The Group's agglomeration technology makes chrome-bearing tailings from platinum mines a competitive source of chrome units in the ferrochrome production process when compared to traditional ore feed costs. Approximately 25% of the current ore feed balance of the furnaces is sourced from chrome-bearing tailings from platinum mines. The remainder is currently sourced from the chrome operations' chromite mines, however, this ore feed balance can be varied. This gives the chrome operations the ability, where it is cost-

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effective to do so, to change the proportions of chrome ore sourced from the chrome operations' chromite mines and chrome bearing tailings sourced from platinum mines.

In 2001, the chrome operations' attributable sales of ferrochrome were approximately 837,000 tonnes of which approximately 50% was sold into Europe with the Pacific Rim being the next most important market. Although exports to North America in 2001 were comparatively small, North America has, historically, been an important market to the Xstrata AG Group and the Company expects it to improve again as economic conditions in that region improve.

The marketing of the Group's ferrochrome production (other than Samancor Limited's attributable share of the 50% production joint venture and certain tonnage sold into Asia) is supported by Glencore under agency and distribution agreements. See "Relationship with Glencore – Commercial relationship – Ferroalloys Business – Chrome operations" in Part II.

For further information regarding the Ferroalloys Business's chrome operations see the IMC Mackay & Schnellmann competent person's report contained in Part IX.

### Vanadium operations

#### Introduction

The Group's vanadium operations consist of three integrated mining and vanadium pentoxide recovery plants, two situated in South Africa and one in Australia. In addition, the Xstrata AG Group has recently commissioned a ferrovandium conversion facility at the Rhovan plant in South Africa. Combined capacity for the Group's three operations is approximately 46 million pounds of vanadium pentoxide equivalent per annum, which the Company believes represents approximately 18% of estimated global capacity.

#### Resource and reserve base

The table below outlines the Group's vanadium resource and reserve base (broken down between Australia and South Africa) as at 31 December 2001, as extracted without material adjustment and combined from the IMC Mackay & Schnellmann and BFP Consultants Pty Ltd competent persons' reports contained in Part IX:

	Reserves as at 31 December 2001 <sup>(1)</sup>						Resources as at 31 December 2001 <sup>(2)</sup>		
	Proved Reserves		Probable Reserves		Marketable Reserves		Measured and Indicated Resources		Inferred Resources <sup>(4)</sup>
	Mt	V <sub>2</sub> O <sub>5</sub> [%] <sup>(3)</sup>	Mt	V <sub>2</sub> O <sub>5</sub> [%] <sup>(3)</sup>	Mt	V <sub>2</sub> O <sub>5</sub> [%] <sup>(3)</sup>	Mt	V <sub>2</sub> O <sub>5</sub> [%] <sup>(3)</sup>	Mt
Australia	0	0	0	0	0	0	106.3	0.47	0
South Africa	14.1	0.69	23.1	0.58	37.2	0.62	73.0	0.70	100.0
<b>Total Vanadium operations</b>	<b>14.1</b>	<b>0.69</b>	<b>23.1</b>	<b>0.58</b>	<b>37.2</b>	<b>0.62</b>	<b>179.3</b>	<b>0.56</b>	<b>100.0</b>

(1) See "Presentation of information – Ore reserve and mineral resource reporting – basis of preparation" for an explanation of the basis of preparation of the reserve amounts and "Definitions and glossary of technical terms – Glossary of technical terms" in Part X for a definition of the relevant reserve terms.

(2) Reserves are a subset of resources and are included in resource estimates. See "Presentation of information – Ore reserve and mineral resource reporting – basis of preparation" for an explanation of the basis of preparation of the resource amounts and "Definitions and glossary of technical terms – Glossary of technical terms" in Part X for a definition of the relevant resource terms.

(3) In situ grade on a weighted average basis.

(4) See "Presentation of information – Inferred Resources" for an explanation of the basis of calculation of inferred resources.

#### Production

The table below provides information on the Group's vanadium operations' production (broken down between Australia and South Africa) for the year ended 31 December 2001, as extracted without material adjustment and combined from the IMC Mackay & Schnellmann and BFP Consultants Pty Ltd competent persons' reports contained in Part IX:

Production <sup>(1)</sup>	Year ended 31 December 2001 (in Mlb in V <sub>2</sub> O <sub>5</sub> equivalent)
Australia	10.5
South Africa	28.4
<b>Total production</b>	<b>38.9</b>

(1) Production for the year ended 31 December 2001. See "Presentation of Information – Resources and reserves, production and sales" for an explanation of the basis of preparation of production amounts.

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### Financial information

The table below provides pro forma unaudited combined constructed illustrative financial information in relation to the vanadium operations for the year ended 31 December 2001. The information, which has been extracted without material adjustment from the pro forma unaudited combined constructed financial information set out in Part VII, has been prepared using information extracted from the Accountants' Reports set out in Part VI and has been prepared on the basis set out in the footnote to the table and explained in further detail in "Presentation of information – Pro forma unaudited combined constructed illustrative financial information".

Vanadium	Year ended 31 December 2001 (US\$000)	As a percentage of the Group
Turnover	63,498	3%
EBITDA	9,234	2%
EBIT	(42,360)	(11)%

Basis of preparation: The above table is for illustrative purposes only and is not intended to give a true picture of financial information relating to the Group. This information has been prepared to illustrate the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of the vanadium operations as if the Acquisitions and the acquisitions undertaken by the Xstrata AG Group and the Enx Group in that year had occurred on 1 January 2001 and includes the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of Oakbridge and Asturiana from 1 January 2001 to their respective dates of acquisition together with an adjustment to reflect the amortisation of goodwill on the acquisition of Asturiana.

### Industry overview

**Background.** The main application of vanadium is an additive in the production of carbon steels and high-strength, low alloy steels. Under certain conditions, the presence of vanadium increases the hardness and toughness of steel. Approximately 87% of vanadium production is added to steel in the form of an alloy, ferrovanadium, and therefore consumption is tied to growth in steel production. Over the past 20 years, steel demand has grown at 0.5% per annum while vanadium demand has grown at approximately 2% per annum over the same period.

Historically, most vanadium producers have produced vanadium pentoxide, which is sold to converters who produce ferrovanadium to sell to the steel industry. Increasingly, however, vanadium pentoxide producers (including the Group) are becoming ferrovanadium producers themselves. This is due to the cost savings that can be achieved in transporting converted ferrovanadium rather than vanadium pentoxide. Approximately 30% of the world's vanadium is produced as a primary product directly from vanadium bearing ores with the balance being produced as a by- or co-product of the iron and steel and oil industries.

**Supply and demand.** Approximately half the world's vanadium ore reserves are located in South Africa. The high vanadium content of, and easy access to, the ore, together with competitive energy costs and the recent depreciation of the Rand against the US dollar, gives South African producers a competitive advantage. Savings in the cost of transporting vanadium pentoxide and adding value at source is likely to lead to vanadium pentoxide producers moving to become ferrovanadium producers.

Vanadium consumption will continue to be driven by steel production and consumption as well as by its intensity of use in steel, which is highest in the United States and Europe and lowest in Asia. An increase in the intensity of vanadium use in Asian steel production represents a growth opportunity for vanadium demand.

**Pricing and costs.** The vanadium market is largely a negotiated market with contracts based on price and volume entered into for varying periods. Mining costs and reagents are major cost components for producing vanadium.

**Markets and outlook.** Since the beginning of 1999, the vanadium industry has been characterised by excess supply and this is expected to continue to impact the market significantly. Prices are expected to remain depressed over the next few years and may drop below current levels. Niobium, which can in some circumstances replace vanadium, poses a possible threat to vanadium demand, and though it is currently much more expensive than vanadium it has a relatively constant selling price compared with the volatility of vanadium prices. The use of vanadium redox batteries (VRB) and lithium metal polymer (LMP) batteries may result in an increase in demand for vanadium in the future.

### Description of the vanadium operations

The Group's vanadium operations comprise the mining of vanadium ore, the production of vanadium pentoxide and the conversion of vanadium pentoxide to ferrovanadium.

The Company believes that in 2001, the Xstrata AG Group achieved a world market share of approximately 22% with approximately 39 million pounds of vanadium pentoxide production, a proportion of which was converted into

## Part I Information on the Group

ferrovanadium. In 2001, the Xstrata AG Group produced approximately 13.5 million pounds of ferrovanadium. The interests of the Group in vanadium consist of three wholly-owned operations: the Vantech and the Rhovan operations, both located in South Africa, and the Windimurra operation in Australia. All three operations are integrated vanadium producers and the mining at the Group's three operating mines is open cast. Processing plants are located adjacent to the respective mines, resulting in low ore handling costs. At current production levels, reserves at Vantech's mine at Kennedy's Vale will be depleted by March 2003 but replacement reserves exist at the Steelpoortdrift ore deposit. At current production levels the Group's reserve and resource base in South Africa should support the operations for at least another 30 years. With Windimurra operating at full capacity, the LOM is in excess of 20 years. Due principally to the oversupply of vanadium pentoxide in 2000 and 2001 and the consequent depression in vanadium pentoxide prices, at the end of 2001 the Windimurra operation took a number of steps to reduce costs and reduced production of vanadium pentoxide from 20 tonnes per day to 15 tonnes per day. Actual production levels may be further reduced should there be no significant market improvement.

Since 1997, the Xstrata AG Group has benefited from an off-take agreement with Glencore under which the vanadium operations sell a fixed quantity of their South African vanadium production (in the form of vanadium pentoxide) to Glencore at a guaranteed minimum sales price. In order to allow the vanadium operations the flexibility to reduce production while the markets were over-supplied, in January 2000, Xstrata AG and Glencore agreed to spread the vanadium operations' anticipated South African production of 28 million pounds of vanadium pentoxide for the year 2000 over a three-year period. As a result of this agreement, 14 million pounds of the vanadium operations' vanadium pentoxide was sold in 2000, seven million pounds of the vanadium operations' vanadium pentoxide was sold in 2001 and seven million pounds of the vanadium operations' vanadium pentoxide will be sold in 2002 to Glencore at, in each case, a guaranteed minimum price. Following the termination of this off-take agreement, the Company expects to convert a higher proportion of its vanadium pentoxide to ferrovanadium. See "Relationship with Glencore – Commercial relationship – Ferroalloys Business – Vanadium operations" in Part II.

On 26 November 2001, the Ferroalloys Association and the Vanadium Association in the US filed an anti-dumping application against ferrovanadium producers in South Africa and China, including the Xstrata AG Group. The United States International Trade Commission ("ITC") and the United States Department of Commerce ("DoC") have commenced an investigation in respect of this application and are expected to make a final determination on the issue at the end of 2002 or early in 2003. As a result of this investigation, the Group may, in respect of each future sale of the Group's South African produced ferrovanadium into the United States, be required to pay a duty based on a percentage of the value of such sales (referred to as the "dumping margin"). The dumping margin requested by the petitioners is 116%. On 10 January 2002, in its preliminary determination, the ITC found that there is a reasonable indication that the industry in the United States is materially injured by reason of imports of ferrovanadium from China and South Africa. The ITC is yet to make a final determination. The DoC has yet to make a preliminary or final determination regarding the anti-dumping application or the dumping margin. The Group is contesting the imposition of any potential dumping margin.

The Department of Minerals and Energy in South Africa is currently conducting an enquiry into health and safety at the Vantech operation and the Group is co-operating with this enquiry. Hearings were held at the end of 2001 and recommenced in 2002. Final submissions have been made to the presiding officer who is expected to give his final report within a month.

All of the vanadium pentoxide and ferrovanadium produced by the vanadium operations is marketed or distributed by Glencore under agency and distribution agreements. See "Relationship with Glencore – Commercial relationship – Ferroalloys Business – Vanadium operations" in Part II.

In 2001, approximately 48% of the vanadium operations' sales were represented by sales of ferrovanadium and approximately 52% were represented by sales of vanadium pentoxide. Approximately 44% of 2001 sales of vanadium pentoxide were to Glencore pursuant to the off-take agreement.

In 2001, approximately 37% of the vanadium operations' sales of ferrovanadium were into Europe and approximately 15% and 19% were into the United States and Japan, respectively.

The Directors will continue to assess the feasibility of a number of potential projects aimed at enhancing the cost effectiveness of the vanadium operations to ensure that they are well positioned when market conditions improve. In addition, the Directors will continue to evaluate both the feasibility of producing vanadium from sources other than vanadium bearing ores and the potential for diversifying the vanadium operations' product range.

For further information regarding the Ferroalloys Business's vanadium operations see the IMC Mackay & Schnellmann and the BFP Consultants Pty Ltd competent persons' reports contained in Part IX.

## Part I Information on the Group

### Additional activities

The Group's additional activities comprise the magnesium operation, consisting of a magnesium re-cycling facility in North America and the forestry operation, consisting of a *eucalyptus globulus* plantation in Chile.

### Magnesium operation

#### Financial information

The table below provides pro forma unaudited combined constructed illustrative financial information in relation to the magnesium operation for the year ended 31 December 2001. The information, which has been extracted without material adjustment from the pro forma unaudited combined constructed financial information set out in Part VII, has been prepared using information extracted from the Accountants' Reports set out in Part VI and has been prepared on the basis set out in the footnote to the table and explained in further detail in "Presentation of information – Pro forma unaudited combined constructed illustrative financial information".

Magnesium	Year ended 31 December 2001 (US\$000)	As a percentage of the Group
Turnover	25	–
EBITDA	(4,096)	(1)%
EBIT	(5,040)	(1)%

Basis of preparation: The above table is for illustrative purposes only and is not intended to give a true picture of financial information relating to the Group. This information has been prepared to illustrate the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of the magnesium operation as if the Acquisitions and the acquisitions undertaken by the Xstrata AG Group and the Enex Group in that year had occurred on 1 January 2001 and includes the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of Oakbridge and Asturiana from 1 January 2001 to their respective dates of acquisition together with an adjustment to reflect the amortisation of goodwill on the acquisition of Asturiana.

#### Industry overview

Magnesium's key advantages are its lightness and its ability to be cast as thin walled components. It is approximately one-third lighter than aluminium and on a strength-to-weight ratio, magnesium's specific yield strength is 50% greater than aluminium. As such, magnesium is increasingly used in die-casting applications for the automotive industry.

Indications are that there was an increase in the intensity of use of magnesium in the US automotive industry in 2001 which was partly offset by a decline in car sales. The outlook for 2002 is that intensity of use of magnesium in the automotive industry will continue to increase due to new magnesium applications being introduced on vehicles, even if vehicle production remains flat.

#### Description of the magnesium operation

In 2001 the Group constructed a magnesium re-cycling facility in Indiana, United States, with an initial capacity of 25,000 tonnes per annum. Whilst the facility is owned and operated by Xstrata Magnesium Corporation, a wholly-owned subsidiary of the Company, the Xstrata AG Group has entered into a royalty arrangement with the previous technology owner pursuant to which it will pay a royalty fee of up to 25% of the operation's EBIT. This plant will re-cycle scrap generated by the US die-casting industry into high-purity magnesium alloys.

The facility was constructed on schedule and within budget. The facility has a modular construction and consists of two independent lines with a capacity of 12,500 tonnes per annum each. The first line has been commissioned and has produced saleable ingots. Production levels to date have been inconsistent due to minor equipment problems and the failure of furnace linings. These repairs are now complete and management is confident increased production levels will be achieved each week until full production is achieved later in 2002. The second line will be commissioned as market conditions allow.

The site on which the re-cycling facility has been constructed has ample space for expansion, which can be achieved at low capital cost. The Company believes that the market will require additional re-cycling capacity in early 2004.

## Part I Information on the Group

### Forestry operation

#### Financial information

The table below provides pro forma unaudited combined constructed illustrative financial information in relation to the forestry operation for the year ended 31 December 2001. The information, which has been extracted without material adjustment from the unaudited pro forma combined constructed financial information set out in Part VII, has been prepared using information extracted from the Accountants' Reports set out in Part VI and has been prepared on the basis set out in the footnote to the table and explained in further detail in "Presentation of information – Unaudited combined constructed illustrative financial information".

Forestry	Year ended 31 December 2001 (US\$000)	As a percentage of the Group
Turnover	25,787	2%
EBITDA	792	–
EBIT	561	–

Basis of preparation: The above table is for illustrative purposes only and is not intended to give a true picture of financial information relating to the Group. This information has been prepared to illustrate the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of the forestry operation as if the Acquisitions and the acquisitions undertaken by the Xstrata AG Group and the Enex Group in that year had occurred on 1 January 2001 and includes the earnings before interest and taxation, earnings before interest, taxation, depreciation and amortisation and turnover of Oakbridge and Asturiana from 1 January 2001 to their respective dates of acquisition together with an adjustment to reflect the amortisation of goodwill on the acquisition of Asturiana.

#### Description of the forestry operation

The Group's forestry operation comprises a *eucalyptus globulus* plantation north of the Puerto Montt area in Chile, owned by a wholly-owned subsidiary, FLL.

As at 31 December 2001, 11,398 hectares had been planted with *eucalyptus globulus*. In 2002, it is planned that a further 826 hectares of *eucalyptus globulus* be planted taking the total to 12,224 hectares. FLL expects to harvest 36,400 bone dry tonnes equivalent in 2002, gradually increasing to 89,000 bone dry tonnes equivalent in the year 2005. The forestry operation also comprised a trading company, FDS, which was sold in August 2001. FLL's previous management has entered into an agreement to manage FLL's business and FDS has entered into an agreement to purchase all the production of FLL and sell it as logs in the Chilean domestic market or chip it for export sales, principally to Japan.

## Part I Information on the Group

### The acquisition of the Coal Assets and the Merger

#### The acquisition of the Coal Assets

Under the terms of the Acquisition Agreement, the Purchasers agreed to purchase the Coal Assets for cash and Ordinary Shares with an aggregate value of US\$2,067,910,000 (which includes an agreed amount relating to working capital of US\$73,000,000), in addition to which the Company has agreed to assume net indebtedness of the Enex and Duiker Groups and procure the repayment of shareholder loans to Glencore International, resulting in a total value of US\$2,573,000,000.

The purchase price comprises:

- (a) a compensation payment of US\$995,452,000 for the shares of Glencore Overseas AG (of which Enex is a wholly-owned subsidiary), to be satisfied by the Company by the allotment to Glencore International of such number of Ordinary Shares at the Offer Price as will result in Glencore International owning (together with the Ordinary Shares received by it in the Merger and whether or not the Manager's Option is exercised) 40% of the issued Ordinary Shares, and as to the balance in cash;
- (b) US\$150,000,000 in cash for the shares of Duiker Marketing AG, to be paid by Xstrata (Schweiz) AG to Glencore International; and
- (c) US\$922,458,000 in cash for the shares of Duiker, to be paid by the Company and Xstrata South Africa to the Duiker Mining Shareholders.

The cash element of the purchase price will be satisfied in part from the proceeds of the Global Offer and as to the balance from the Syndicated Loan Facility.

Completion of the acquisition of the Coal Assets is conditional upon:

- the Merger becoming effective in accordance with Swiss law. The Merger will become effective simultaneously with Completion;
- the Company or Xstrata South Africa, as the case may be, having received, in terms satisfactory to it, confirmations and/or approvals from the requisite regulatory authorities under the Foreign Acquisitions and Takeovers Act, 1975 (Australia), the South African Competition Act No. 89 of 1998 and the South African Currency and Exchanges Act No. 9 of 1933. These approvals and confirmations have been obtained;
- Admission, which will occur simultaneously with Completion; and
- the delivery to Glencore International of written consents, in terms satisfactory to the Company, from relevant third parties.

Xstrata AG has unconditionally and irrevocably agreed to guarantee the obligations of Xstrata (Schweiz) AG and Xstrata South Africa and Glencore International has unconditionally and irrevocably agreed to guarantee the obligations of the Duiker Mining Shareholders, under the terms of the Acquisition Agreement.

The effective date of the Acquisitions will be 1 January 2002. Under the terms of the Acquisition Agreement, Completion is scheduled to occur on 25 March 2002, or such later date as may be agreed by Glencore International and the Company.

See "Additional information – Agreements relating to the Acquisitions and the Merger – The Acquisition Agreement" in paragraph 10 of Part VIII.

#### Joint venture consents

Several of the joint venture agreements to which members of the Enex Group are a party contain provisions that give the joint venture partners certain rights in the event of a change of control of the Enex Group ("Change of Control Rights"). As the Acquisitions will constitute a change of control for the purposes of these agreements, the Enex Group has requested consent from each of the relevant joint venture partners to the change of control and is seeking confirmation that they will not exercise any of their resulting Change of Control Rights. A number of the Enex Group's joint venture partners have provided their consent and have also confirmed that they will not exercise any of their Change of Control Rights. The Enex Group is continuing to seek the consents and confirmations from the other joint venture partners.

The Change of Control Rights in certain shareholder and joint venture agreements provide the shareholders or joint venture partners with the right to acquire all of the Enex Group's shareholding or joint venture interests at fair or market value. The shareholders in Oakbridge and the joint venture partner in the Bulga joint venture, which

## Part I Information on the Group

the Directors consider to be the only material consents and confirmations that on 18 March 2002 (being the latest practicable date prior to the publication of this document) remain outstanding, have indicated that they will reserve their rights and may not prior to the Acquisitions grant their consent or waive their rights to acquire the Enex Group's shareholdings in Oakbridge or Oakbridge's interest in the Bulga joint venture.

In the year ended 31 December 2001, the Group's combined attributable sales from the Oakbridge Group mines (which includes the Bulga joint venture mines) amounted to approximately 4.8 million tonnes or approximately 12.9% of the Enex and Duiker Groups' combined attributable sales for that year. Accordingly, the acquisition of the Enex Group's entire shareholding in Oakbridge or of Oakbridge's entire interest in the Bulga joint venture by the Oakbridge shareholders or Bulga joint venture partner pursuant to their rights could adversely affect the turnover of the Group. The Directors do not, however, believe that the shareholders in Oakbridge or the joint venture partner in the Bulga joint venture will seek to acquire all or a significant portion of the Enex Group's shareholdings in Oakbridge or of Oakbridge's entire interest in the Bulga joint venture.

Under the terms of the Acquisition Agreement, the completion of the Acquisitions is conditional upon the delivery to Glencore International of written consents from various of the Enex Group's joint venture partners. However, under the terms of the Acquisition Agreement the Company is entitled to waive this condition. The Company intends to waive any unfulfilled conditions precedent concerning joint venture consents immediately prior to Completion.

### The Merger

6.B.21

Prior to completion of the Acquisitions and the Merger, Xstrata AG will transfer substantially all of its assets and liabilities to its wholly-owned Swiss subsidiary, Xstrata (Schweiz) AG, in consideration for the issue of shares by Xstrata (Schweiz) AG to Xstrata AG. As a result, Xstrata AG will become the holding company of Xstrata (Schweiz) AG, which will be the holding company of all the members of the Xstrata AG Group.

Pursuant to the Merger the entire undertaking of Xstrata AG, including all of its assets, will be transferred to the Company in consideration for which the Company will issue shares to the shareholders of Xstrata AG in proportion to their respective holdings of Xstrata AG Shares, on the basis of 10 Ordinary Shares for each Xstrata AG Share. In addition, the Company will assume all of Xstrata AG's liabilities.

Following the transfer by Xstrata AG to Xstrata (Schweiz) AG referred to above, the assets and liabilities of Xstrata AG being transferred pursuant to the Merger will substantially consist of its (increased) shareholding in Xstrata (Schweiz) AG (as an asset) and, for a term of up to two years, the contingent (joint and several) liability with Xstrata (Schweiz) AG in respect of the liabilities transferred to Xstrata (Schweiz) AG as described above.

The Merger will be effected as follows:

- the Company and Xstrata AG entered into the Merger Agreement dated as of 20 February 2002. See "Additional information – Agreements relating to the Acquisitions and the Merger – The Merger Agreement" in paragraph 10 of Part VIII;
- a resolution approving the Merger was submitted to, and approved by, the shareholders of Xstrata AG at a meeting held on 19 March 2002; and
- Xstrata AG will submit the requisite documentation to the Commercial Register of the Canton of Zug, Switzerland, for registration of the Merger.

The Merger will become effective upon entry into the Commercial Register, which will take place simultaneously with Completion. Upon the completion of the Acquisitions and the Merger, the Company will be the ultimate holding company of the Group.

Xstrata AG has informed its creditors of the Merger by publishing a notice three times in the Swiss Commercial Gazette (on 22, 25 and 26 February 2002). The deadline for the creditors to request payment of or posting security in respect of their claims, if any, was 19 March 2002. Upon completion of the Merger (entry of the Merger in the diary of the Commercial Register) Xstrata AG will be dissolved.

See "Additional information – Agreements relating to the Acquisitions and the Merger – The Merger Agreement" in paragraph 10 of Part VIII.

### Regulatory and environmental matters

In common with other diversified natural resources and mineral processing companies, the Group's operations generate hazardous and non-hazardous waste, effluent and emissions into the atmosphere. There are many national (including certain provisions of the South African Constitution), regional and local environmental laws

## Part I Information on the Group

and regulations which apply to the Group's operations, the scope of which varies according to the jurisdiction concerned. Examples include those relating to waste and waste water treatment, disposal of waste, air emissions or discharges. If any of the Group's operations fail to comply with the relevant laws and regulations, the relevant authorities could require additional equipment to be installed at substantial cost or that the whole or part of the operation be closed down or scaled back. In addition, if the Group is found to have committed a breach of the relevant law or regulation, it may be liable to pay a fine to the authority or, in some cases, compensation to individuals affected by the breach.

Each of the Group's businesses are subject to various laws and regulations relating to their ability to carry out operations, as well as environmental and health and safety issues. The requirements of these laws vary from operation to operation and are also dependent on the jurisdiction in which they operate. The Board, as a matter of policy, requires each of the Group's businesses and operations, as a minimum, to comply with all relevant laws and regulations in the jurisdiction in which it operates. Compliance with relevant environmental laws is the responsibility of respective managers at the operating companies who are directly responsible to the Group's senior management. The Company believes that each of the Group's businesses and operations are substantially in compliance with all material applicable environmental laws and regulations.

In most jurisdictions, businesses are required to rehabilitate site operations which have been closed down. In South Africa, section 12 of the South African Minerals Act furthermore imposes liability on the mining operator for some time after the relevant mining operations have ceased. Accordingly, the Group, to the extent it has not already done so, will have to make provision for the costs involved in closure and other rehabilitation of any of its site operations in the future. This may involve substantial costs. In the event that pollution of surrounding land and waters occurs, or has already occurred, the Group may be required to remediate pollution and incur substantial costs. In particular, the Group's operations are generally required either to lodge security bonds or make ongoing cash contributions for the purpose of rehabilitation at the end of a mine's life. The Group has an established environmental audit programme at each of its mines and will continue to review its compliance with environmental requirements, including its rehabilitation requirements.

The Group's operations are members of various forums which aim to develop, through the use of best available technologies, water management practices to ensure that the water used by the Group's operation will, when re-introduced into the water system, meet end user requirements.

The Group's operations require various environmental permits covering, amongst other things, water use and discharges, stream diversions and solid waste disposal. The Group has applied for the necessary permits and in doing so has complied with all the requisite statutory obligations required to make application for the permits. Not all permits have, however, been issued due to administrative delay. The Company does not anticipate that any environmental issues or liabilities will be material to the Group's operations. Further information on the licensing and permits of the Group's businesses can be found in Part IX.

New legislation or regulations may be adopted in the future that may materially adversely affect the Group's mining operations, its cost structure or its customers' ability to use the Group's products, particularly coal. New legislation or regulations, or different or more stringent interpretation or enforcement of existing laws and regulations, may also require the Group or its customers to change operations significantly or incur increased costs. It is possible that environmental laws and regulations in certain countries in which the Group operates will, in the future, become more stringent with the result that the amount and timing of future expenditure required to enable the Group to remain in compliance with such laws and regulations could increase substantially from their current levels.

In December 1997, in Kyoto, Japan, the signatories to the United Nations Conventions on Climate Change established a binding set of emission targets for developed nations. These restrictions, known as the Kyoto Protocol, propose emission targets to reduce greenhouse gas emissions that could adversely affect the price of, and demand for, coal. Recently, the parties to the Kyoto Protocol, including Japan, agreed that, despite US opposition, they would continue negotiations aimed at implementing and ratifying the Kyoto Protocol.

The South African Mineral and Petroleum Resources Development Bill 2001 (the "Bill") is the successor to the Mineral Development Bill, which was circulated for public comment during December 2000. Although not yet circulated for public comment, the Bill perpetuates the principle which forms the basis of the Mineral Development Bill, namely that the State intends to allow historically disadvantaged persons access to the mineral wealth of South Africa and to administer the South African industry for the benefit of all South Africans. To achieve these broad objectives, the rights to all minerals, whether privately held or not, will vest in the State from the date of the promulgation of the Bill as binding legislation. Applications will then be made directly to the State for the

## Part I Information on the Group

right to prospect and mine for all minerals and the concept of the common law ownership of mineral rights and mining rights will be extinguished.

Companies who are the holders of valid authorisations as at the date of the promulgation of the Bill as binding legislation, will have their existing "old order mining rights" converted to a new form of "mining right" as provided for in the Bill. Following the conversion of the "old order mining rights", mining companies will have to apply for a mining right within five years. If a mining right is granted, it will be valid for a maximum period of 30 years. "Old order mining rights" for which no mining authorisation or prospecting permit exists, or where no prospecting or mining activities are conducted, will be extinguished after a period of one year, during which period the holder will have an exclusive right to make full application for a new form of right under the new legislation.

The above description of the Bill is based on discussions and liaison with government and the mining industry. The draft Bill may, when circulated for public comment, contain different provisions.

### Native title and land claims

Land in Australia and South Africa owned or used by the Group may be the subject of land claims.

In Australia, the Commonwealth government's Native Title Act 1993 recognises native title and established processes relating to mining and exploration rights. Native title represents the traditional rights and interests that the Aboriginal people have in relation to land. Once extinguished it cannot be revived although compensation is payable, generally by the Commonwealth government. Claims are decided on a factual basis and determined ultimately by the Federal Court of Australia. Where existing mining leases are held, those rights are not affected if a native title claim is lodged. If native title has been extinguished, future mining leases can be granted without reference to native title. If it has not been extinguished, the Native Title Act 1993 provides procedural rights for registered native title claimants including the 'right to negotiate' with respect to the grant of mining rights, including exploration titles and the compulsory acquisition of land. While the right to negotiate does not include a veto on the grant of a title, it may require financial payments to be made. Native title claims have been made over areas where the Group has mining operations, however, the Directors believe that such claims will not have a material impact on the Group's existing operations.

In South Africa, the government's Restitution of Land Rights Act 1994 provides remedies for persons who have been dispossessed of rights in land as a result of past racially discriminatory laws or practices. Claims under the Restitution of Land Rights Act had to be lodged by 31 December 1998. The Land Claims Court is empowered to make orders concerning the restoration of land or any portion of land, the payment of compensation, compelling the State to include a claimant as a beneficiary in the State support programme for housing or granting the claimant an appropriate right in alternatively designated State land or with any alternative and appropriate relief. The Group has received unofficial reports that approximately 350 land claims have been lodged in relation to the surface rights of the Group's various South African properties. The Company has very limited information about these land claims and can give no assurance that they, or any other land claims of which it is not aware, will not have an adverse effect on the Group's rights to the properties that are subject to the land claims.

The emphasis of the restitution of land rights process in South Africa is to provide an appropriate remedy in terms of a statutory process. The landowner is not required to provide the land seeker with a remedy. Existing legislation regulating the land restitution process in South Africa places this burden on the State. It is therefore unlikely that the Group will be the party that will be required to address the remedies sought by land seekers.

See further "Investment considerations – Industry considerations – Native title and land claims" in Part IV.

### Safety and health

The Group's health and safety standards are reviewed by the Group on an ongoing basis. In addition, the Group's operations are subject to government authority inspections throughout the year, as well as health and safety audits at most operations. These inspections and audits have not resulted in any significant capital expenditures by the Group. However, certain of the Group's activities are inherently dangerous and the authorities responsible for administering health and safety standards have considerable inspection, injunction and penalty powers that, if exercised against the Group, could have an adverse impact on the Group's financial condition or results of operations.

The Group recognises that the health and safety of its employees and the maintenance of high environmental performance standards are significant responsibilities involved in the conduct of its operations. The Group's aim is to be recognised as a leader in health, safety and environmental management.

There is a serious problem with HIV/AIDS infections in South Africa generally. Certain of the Group's operations are addressing HIV/AIDS in the workforce at their operations in South Africa through awareness training

## Part I Information on the Group

programmes both for new employees and on an ongoing basis for all employees. The World Health Organisation estimates that approximately 20% of the South African population is living with HIV/AIDS.

Duiker participates in a regional initiative known as the Power Belt AIDS Project, a mining community-based programme which targets AIDS awareness and safe sex practices through the provision of information to schools and clinics and the use of peer trainers in the community. The project is managed by the Council for Scientific and Industrial Research and is funded by affiliated businesses, government and international organisations.

The Company believes that these intervention and health programmes, the Group's contingency plans (which involve teaching multiple skills to the workforce and improving training and recruiting capacities) and the large number of unemployed skilled persons available in the region mitigate the financial impact on the Group's South African operations of the HIV/AIDS crisis in South Africa.

### Operational hazards and insurance

The Group's operations are subject to numerous operating risks which include geological conditions such as unexpected geological features, unexpected seismic activity, climatic conditions such as flooding or drought, interruptions to power supplies, environmental hazards, technical failures, fires, explosions and other accidents at a mine, processing plant, cargo terminal or related facilities. These risks and hazards could also result in damage to, or destruction of, properties or production facilities, personal injury, environmental damage, business interruption and possible legal liability.

The Group maintains insurance through a number of international insurers. The Group maintains business interruption insurance in respect of substantially all of the Group's operations and property insurance which protects against losses relating to the Group's assets, and freight insurance which protects against losses relating to the transport of the Group's equipment, product inventory and concentrates. The Group's insurance does not cover every potential risk associated with its operations. In particular, meaningful coverage at reasonable rates is not obtainable by the Group or other companies within the industry for certain types of environmental hazards, such as pollution or other hazards as a result of the disposal of waste products. The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could have a material adverse effect on the Group's financial condition or results of operations. Moreover, no assurance can be given that the Group will be able to maintain adequate insurance in the future at rates it considers reasonable.

### Labour and employee relations

6.D.10

The Xstrata AG Group has approximately 4,800 employees world-wide. Immediately following Completion, the Group is expected to have approximately 11,500 employees world-wide. The majority of these employees are unionised. In South Africa, the Group has a policy of recognising a trade union if its members make up more than half of the mine or plant's respective workforce. At each of the Group's South African operations, there is an annual collective bargaining process to determine the following year's rates of pay and general conditions.

Despite certain operations within the Group experiencing work stoppages and other forms of industrial action in recent years, such work stoppages and industrial action have not had any material effect on the operating results of the Group. The Company believes that all of the Group's operations have, in general, good relations with their employees and unions.

The Group operates various defined contribution pension plans covering a majority of employees world-wide. See "Additional information – Pensions" in paragraph 8 of Part VIII.

### Competition

The markets in which the Group operates are competitive. Competition is largely on the basis of price. The Group competes with numerous suppliers in the same product areas, some of which have substantially greater reserve bases and manufacturing and financial resources. In addition, increased production capacity from competitors in other countries may increase competition in the markets in which the Group operates.

The Group's principal competitors in its main operations are set out below:

#### Coal

The Group is one of the world's largest export thermal coal producers. Significant export thermal coal competitors are Anglo American plc, BHP Billiton, Rio Tinto and coal producers operating in China.

## **Part I Information on the Group**

### **Zinc**

The Group is one of the largest zinc producers in the western world in terms of capacity accounting for approximately 7% of western world production and 20% of western European production. The Asturiana smelter is one of the lowest cost producers in the world. Significant zinc smelting competitors are Korea Zinc Company, Ltd., Pasminco Limited, n.v. Umicore SA, Noranda Inc., Teck Cominco Limited, Outokumpu Oyj and zinc smelting operations in China.

### **Chrome**

The Group is the world's largest, in terms of both attributable production and attributable sales, and among the lowest cost producers of ferrochrome. Significant chrome competitors are Samancor Limited, Herculite (Pty) Limited, Ore & Metal and ferrochrome producers operating in Kazakhstan.

### **Vanadium**

The Company believes that the Group is one of the world's largest producers of primary vanadium. Significant vanadium competitors are Highveld Steel and Vanadium Corporation Ltd and steel companies operating in China and Russia.

## Part I Information on the Group

### Directors, senior management and employees

19.3(f)(i)

#### Directors

Xstrata's board of directors is chaired by Willy Strothotte. The other members of the Board are Michael Davis, Trevor Reid, Santiago Zaldumbide, Dr. Reto Domeniconi, Ivan Glasenberg, Paul Hazen, David Issroff, Robert MacDonnell, Sir Steve Robson and Dr. Frederik Roux. In addition, David Rough has agreed to become a Non-executive Director and Deputy Chairman of the Company with effect from 1 April 2002.

#### Executive Directors

**Michael Davis**, aged 44, Chief Executive. Mr. Davis was appointed as Chief Executive of Xstrata AG in October 2001. He joined Gencor Limited in early 1994 from ESKOM, the South African electricity utility, where he was an executive director. Mr. Davis was appointed Executive Chairman of Ingwe Coal Corporation Limited in 1995, and Chief Financial Officer and an executive director of Billiton Plc in July 1997.

**Trevor Reid**, aged 41, Finance Director. Mr. Reid joined Xstrata AG in January 2002. Prior to joining Xstrata AG, he was Global Head of Resource Banking at the Standard Bank Group. He joined the Standard Bank Group in 1997 from Warrior International Limited, a corporate finance boutique specialising in the minerals sector.

**Santiago Zaldumbide**, aged 59, Executive Director, Chief Executive of the Zinc Business and Executive Chairman of Asturiana. Mr. Zaldumbide is a previous Chief Executive Officer and Director of Unión Explosivos Río Tinto and of Petróleos del Norte. In 1990, Petróleos del Norte became part of the Repsol Oil Group where Mr. Zaldumbide was responsible for establishing the international structure of the enlarged Repsol Oil Group. In 1994 he was appointed Chief Executive Officer of the Corporación Industrial de Banesto and in December 1997 Chairman and Chief Executive Officer of Asturiana.

#### Non-executive Directors

**Willy Strothotte**, aged 58, is Chairman of Glencore International. From 1961 to 1978 Mr. Strothotte held various positions with responsibility for international trading in metals and minerals with Frank & Schulte, C Tennant Sons & Co and ICC Metals. In 1978, Mr. Strothotte joined Glencore International, taking up the position of head of metals and minerals in 1984. Mr. Strothotte was appointed Chief Executive Officer of Glencore in 1993 and held the combined positions of chairman and Chief Executive Officer from 1994 until 2001. Mr. Strothotte has been chairman of Xstrata AG since 1994 and is also currently a director of Metaleurop SA, Century Aluminium Corporation, Anaconda Nickel Limited and Asturiana.

**Dr. Reto Domeniconi**, aged 65, joined the board of Xstrata AG in May 1997. He was Chief Financial Officer and a member of the board of Nestlé S.A., Suez Lyonnaise des Eaux, and other industrial groups and banks (Chairman of Coutts & Co. AG). He is also currently a director of Gucci Group and Sulzer AG.

**Ivan Glasenberg**, aged 45, is Chief Executive Officer of Glencore International which he joined in 1984. He worked in the coal department in South Africa for three years and in Australia for two years. From 1989 to 1990, he managed Glencore International's Hong Kong and Beijing offices. In 1991 he became head of the coal department and in 2002 Chief Executive Officer of Glencore International. He is also currently a director of Anaconda Nickel Limited.

**Paul Hazen**, aged 60, joined the board of Xstrata AG in May 2000. Mr. Hazen is former Chairman and CEO of Wells Fargo and Company. Mr. Hazen retired in April 2001 as Chairman after a 30 year career with the bank. Mr. Hazen is currently Chairman of Accel-KKR and senior advisor to KKR. He also serves as deputy chairman and director of Vodafone Group Plc and as a director of Safeway, Inc., Phelps Dodge Corporation, E.piphany, Inc., Willis Group Ltd. and KSL Recreation Corporation.

**David Issroff**, aged 35, joined the board of Xstrata AG in May 2000. Mr. Issroff joined Glencore South Africa in 1989. In 1992, he transferred to Glencore's head office in Switzerland with responsibility for the marketing of ferroalloys. In 1997, he was appointed head of the Ferroalloys Division.

**Robert MacDonnell**, aged 64, joined the board of Xstrata AG in May 1997. Prior to joining Kohlberg Kravis Roberts & Co. in 1976, Mr. MacDonnell was a Management Consultant at Arthur Andersen & Co. He subsequently formed his own firm, which specialised in small management buyouts. Mr. MacDonnell became the first non-founding partner of KKR in 1982. As such, he participated in virtually all investment decisions until the firm expanded in the late 1980s. Mr. MacDonnell is also currently a director of Safeway, Inc. and is a partner in US Natural Resources, Inc. and Pacific Realty.

## Part I Information on the Group

**Sir Steve Robson CB**, aged 58, retired as Second Permanent Secretary at HM Treasury in January 2001. He had joined HM Treasury after leaving university. His early career included a period as Private Secretary to the Chancellor of the Exchequer and a two year secondment to Investors in Industry plc (3i). From 1997 until his retirement, his responsibilities included the legal framework for regulation of the UK financial services industry, public private partnerships, procurement policy including the private finance initiative and the Treasury's enterprises and growth unit. Sir Steve is a director of Cazenove Group plc and The Royal Bank of Scotland Group plc.

**David Rough**, aged 51, was Group Director (Investments) of Legal & General Group Plc from 1 June 1991 until 31 December 2001 when he stepped down prior to retiring from Legal & General in June 2002. As Group Director (Investments) Mr. Rough headed all aspects of fund management within Legal & General Investments. Mr. Rough joined Legal & General Investments as UK Equities Director in January 1989. Prior to this he worked as Investment Manager for Royal Insurance, which he joined in 1972. Mr. Rough has agreed to become a Non-executive Director and Deputy Chairman of the Company with effect from 1 April 2002.

**Dr. Frederik Roux**, aged 54, joined Johannesburg Consolidated Investment Company Limited in 1976, where he held positions in the Finance, Base Metals, Gold and Platinum divisions. In 1990, he joined Gencor Limited where he became Chairman of Alusaf and Executive Director (responsible for Base Metals and Heavy Minerals). Since 1997, he has pursued private business interests in game ranching and safaris in South Africa.

### Corporate management

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**Brian Azzopardi**, aged 34, Group Controller. Mr. Azzopardi joined Xstrata AG in 1997. He is a fellow of the Chartered Association of Certified Accountants, United Kingdom. Mr. Azzopardi worked for six years at PricewaterhouseCoopers in Milan and Russia in the areas of audit and business advisory. In 1995, he was appointed as Group Financial Controller of Alfa Group, a prominent financial industrial group based in the Russian Federation.

**Gavin Foley**, aged 45, General Manager, Business Development. Mr. Foley joined Xstrata AG in 1998. Mr. Foley has two engineering degrees and was employed in the South African mining industry for 10 years prior to becoming a mining investment analyst for eight years. Mr. Foley was employed in the investment banking sector in London for two years prior to joining Xstrata AG.

**Marc Gonsalves**, aged 40, General Manager, Corporate Affairs. Mr. Gonsalves joined Xstrata AG in January 2002. He has 11 years experience in the mining industry in the field of investor, media and government relations. He was Vice President Investor Relations and Communications at BHP Billiton prior to joining Xstrata AG.

**Benny Levene**, aged 37, Chief Legal Counsel. Mr. Levene joined Xstrata AG in 1997. Mr. Levene holds the degrees Bachelor of Commerce, Bachelor of Laws and Master of Laws and is admitted as an attorney of the Supreme Court of South Africa. He was a commercial partner of Werksmans Attorneys in South Africa for four years before joining Xstrata AG.

### Operational management

**Peter Coates**, aged 56, is Chief Executive of the Coal Business. Mr. Coates has a degree in Mining Engineering and has 37 years' experience in the mining industry. He occupied a number of senior mining industry positions prior to joining Glencore in 1994. Since 1994, Mr. Coates has directed Glencore's coal operations in Australia and Colombia. Mr. Coates is also Chairman of the Coal Committee of the New South Wales Minerals Committee and a member of the Executive Committee of the Australian Coal Association.

**Peter Freyberg**, aged 43, is Chief Operating Officer of the Group's South African coal operations. Mr. Freyberg has a Bachelor of Science (Mining Engineering) and has 23 years' experience in the mining industry. Prior to joining the Duiker Group two years ago, he had various operational, technical and marketing roles for Anglo Coal's and Rio Tinto's operations, including PT Kaltim Prima Coal, Hamersley Iron, Copelmi Mineração and Carbones del Cerrejón.

**Petrus Johannes Nienaber**, aged 52, is Chief Executive of the Ferroalloys Business. Mr. Nienaber holds both a Bachelor and Honours degree in Engineering. Mr. Nienaber started his career as an Iscor bursary holder at Iscor Steelworks in Newcastle and worked for 14 years in the ferroalloy industry at both Samancor and CMI until in 1988 he became one of the founder members of what is now the Xstrata AG Group's chrome operations. In 1997, Mr. Nienaber was appointed Chief Executive of Xstrata's South African ferroalloy's operations.

**Santiago Zaldumbide**, in addition to being an Executive Director of Xstrata, is Chief Executive of the Zinc Business and Executive Chairman of Asturiana.

## Part I Information on the Group

### Employees

Upon completion of the Merger and the Acquisitions, the Group will have approximately 11,500 employees world-wide. These employees will be divided between each of the businesses and operations approximately as follows: <sup>6.D.10</sup>

<b>Coal Business</b>	
Australian operations	1,595
South African operations	5,050
<b>Zinc Business</b>	1,301
<b>Ferroalloys Business</b>	
Chrome operations	2,874
Vanadium operations	612
<b>Additional activities</b>	35
<b>Head office</b>	15

### Employee share schemes

The Xstrata AG Group has historically pursued a policy of encouraging employees to acquire Xstrata AG Shares and linking a significant element of employees' variable reward to the performance of the Xstrata AG Group. The Group considers that a continuation of this policy is essential to align the interests of the Executive Directors and key employees with the performance of the business and the interests of Shareholders.

Immediately prior to the Merger, the Xstrata AG Group operated three share incentive schemes, the Xstrata AG Share Schemes, in which directors and employees participate. Options and awards which are outstanding under these schemes at the time of the Merger will be replaced by equivalent rights over a number of Ordinary Shares which is in proportion, on the basis of the Exchange Ratio, to the number of Xstrata AG Shares under the existing rights. The Company will assume responsibility for satisfying such replacement rights. No further options or awards will be granted under these schemes. Details of the Xstrata AG Share Schemes as they will continue to apply to the replacement rights are set out under "Additional information - Details of share schemes" in paragraph 7 of Part VIII.

After Admission, it is proposed that the Company will operate the Xstrata long term incentive plan (the "LTIP") details of which are set out under "Additional information - Details of share schemes - The Xstrata LTIP" in paragraph 7.1 of Part VIII. It is intended that certain employees and Directors (but not Non-executive Directors) will be granted options or awards under the LTIP shortly after Admission and thereafter awards will be made on an annual basis.

### The Xstrata LTIP

The Company's remuneration committee has, with the assistance of the Group's advisers, reviewed the structure of remuneration for Executive Directors and senior management. Certain changes have been proposed to the current approach in order to remain competitive in attracting and retaining world class executive talent and to reflect best practice in the international market in which the Group operates. In order to do this, the remuneration committee has introduced the Xstrata LTIP which provides the opportunity for significant wealth creation by participants if the Group achieves outstanding performance for Shareholders. The Xstrata LTIP is consistent with the Group's reward philosophy, which aims to provide superior rewards for outstanding performance, and to provide a high proportion of "at risk" remuneration for Executive Directors and senior management.

The Xstrata LTIP provides for the grant of share options and contingent awards of free shares ("LTIP awards"). These elements will be complementary and ensure that the cyclical nature of the industry does not have an excessively adverse effect on employee remuneration in circumstances where the performance of the Group (and employees) has otherwise been good.

The LTIP awards will ensure that where the Company has performed well (measured in terms of comparative total shareholder return ("TSR") against a peer group of companies over a specified performance period) participants will be properly rewarded, even if share price growth is modest due to external factors, such as commodity prices or general economic conditions. The option element will only allow participants to benefit from future share price growth. The options will also be subject to a comparative TSR performance target to ensure that windfall growth in the share price as a result of external factors does not deliver excessive rewards.

In setting a performance condition the remuneration committee will set targets which encourage significant and sustained improvement in the underlying performance of the Group.

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It is intended that the comparative measure of TSR will be used since it is expected that the Company's share price will be significantly influenced by commodity prices. Options and LTIP awards will vest in full to the extent that the Group ranks within the top 20% of the peer group, and as to 50% if it ranks at the median of the peer group. In between these two points straight line vesting will apply. No options or LTIP awards will vest for below median performance.

In calculating the TSR, the share price of a notional parcel of shares will be averaged over a period preceding the start and end of the specified performance period. The length of the averaging period will be determined by the remuneration committee prior to the grant of any award, but will not exceed 12 months.

The remuneration committee may adopt different performance conditions during the life of the Xstrata LTIP. Any new conditions would be no less demanding, and would be disclosed to Shareholders in the Company's annual report.

The aggregate value of options and LTIP awards made to an individual under the Xstrata LTIP in any one year will normally be limited to a maximum of two times base salary. The remuneration committee, however, retains the ability to vary this multiple up to four times base salary in very exceptional circumstances, such as the recruitment of a key individual. The ratio of LTIP awards to share options for the first awards made after Admission is intended to be 1:1, based on the value at the time of grant. The remuneration committee may change the ratio for future awards if it is thought appropriate.

The number of Ordinary Shares over which options will be granted, will be calculated using a Black Scholes valuation of the option (or a similar approach) which represents both the cost to the Group of providing the benefit and the value of the option itself as a component of the total remuneration package. This is also similar to the approach adopted by the Xstrata AG Group in the past. In continuing to take this approach, the Group has sought to reflect the remuneration cost of the share option grant more accurately (compared to, for example, valuing options according to the price of the underlying shares). In determining the value of LTIP awards, the underlying value of the shares will be used.

The awards for the Chief Executive and other Executive Directors will be subject to the same limits as those made to other participants under the Xstrata LTIP.

The Xstrata LTIP is, wherever possible, consistent with market practice for FTSE 100 companies and major sector peers and, in arriving at the proposals, due consideration has been given to the guidelines concerning corporate governance as set out in the Combined Code. Annual awards will be made under the Xstrata LTIP to minimise the impact of share volatility and to reflect existing best practice. The Xstrata LTIP contains provisions to allow it to be adapted, where necessary, to take account of the global nature of the Group's operations through the establishment of sub-plans tailored to meet local tax and/or regulatory conditions. In particular, in countries where the grant of a share option or LTIP award results in an immediate tax charge, arrangements may be put in place for loans to be made to the affected participants to help them meet this tax liability. No loans will be made to Directors.

### Corporate governance

The Combined Code provides that the board of directors of a UK public company should include a balance of executive and non-executive directors, with non-executive directors comprising at least one-third of the board. The Combined Code further provides that a majority of non-executive directors should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The Board has recently established an audit committee, a remuneration committee and a nominations committee.

The Combined Code requires that a majority of the members of the nominations committee and all members of the audit committee should be non-executive directors, the majority of whom are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Combined Code requires that all members of the remuneration committee should be non-executive directors, all of whom are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Willy Strothotte is a member of the remuneration committee.

The audit committee is chaired by Dr. Reto Domeniconi. Its other members are Dr. Frederik Roux and Sir Steve Robson. The committee, which is to meet not less than twice a year, has responsibility for planning and review of the Group's annual report and accounts and half yearly reports, and the involvement of the Group's auditors in that process. The committee focuses particularly on compliance with legal requirements, accounting standards

## Part I Information on the Group

and the rules of the UK Listing Authority and ensures that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

The remuneration committee is chaired by Willy Strothotte and its other members are David Rough and Paul Hazen. David Rough will not take up his position on the remuneration committee until his appointment as a Non-executive Director and Deputy Chairman of the Company becomes effective on 1 April 2002. The committee has responsibility for the determination, within agreed terms of reference, of specific remuneration packages for the Chief Executive, Finance Director and each of the other Executive Directors, including pension rights, bonuses and any compensation payments. The remuneration committee will have responsibility following Admission for determining grants of options and share awards under the LTIP.

The nominations committee is chaired by David Rough and its other members are Robert MacDonnell and Ivan Glasenberg. David Rough will not take up his position on the nominations committee until his appointment as a Non-executive Director and Deputy Chairman of the Company becomes effective on 1 April 2002. The committee has responsibility for nominating candidates to fill Board vacancies and makes recommendations to the Board on Board composition and balance.

Save as mentioned above, following the Merger and Admission, the Directors intend to comply with the requirements of the Combined Code.

In line with the recommendations of the Hampel report on corporate governance, it is intended that the Non-executive Directors (other than those Non-executive Directors who are Glencore International nominees) will be given the opportunity to apply a proportion of their post tax fees in the subscription of Ordinary Shares.

In addition, the Company will, upon Admission, comply with a code of securities dealings in relation to the Ordinary Shares and other securities which is based on, and is no less exacting than, the Model Code published in the Listing Rules. The code will apply to the Directors and relevant employees of the Group.

### Swiss tax residency

The Swiss tax authorities have confirmed that, on the assumption that the affairs of the Company are conducted as the Directors intend, they will regard the Company as a resident of Switzerland for the purposes of Swiss taxation law and application of the Switzerland/UK Double Taxation convention. The UK Inland Revenue has indicated that, based on the proposed location and structure of management as described to it by the Directors, and on the assumption that the affairs of the Company are conducted as the Directors intend and on the basis of the Swiss ruling noted above, it will not regard the Company as resident in the UK for the purposes of UK taxation law. The Directors intend to conduct the Company's affairs as described to the Inland Revenue. Accordingly, assuming the affairs are so conducted, the Company should be treated as resident in Switzerland and not in the UK for tax purposes. This position will, however, be reviewed from time to time and it is possible that the Company could in the future become resident for the purposes of taxation in the UK and elsewhere.

### Dividend policy

The Directors intend to adopt a progressive dividend policy which will take into account the underlying growth in earnings of the Group, as well as its capital requirements and cash flows, whilst maintaining an appropriate level of dividend cover. However, as a company incorporated in England and Wales, the Company may only pay dividends if distributable profits are available for the purpose; as a holding company, the Company will be dependent upon dividends and interest distributed to it by its subsidiaries. <sup>6.E.6</sup>

For illustrative purposes, and assuming that the Group had been in existence and the Ordinary Shares admitted to trading on the London Stock Exchange since 31 December 2000 with the capital structure of the Group which is expected to be in place on Admission (but excluding the Global Offer and related net proceeds), and on the basis of results to date, the Directors have estimated that they would have recommended an aggregate dividend in respect of the year ended 31 December 2001 of 21.75p per Ordinary Share. This would give a notional dividend yield of approximately 2.5% based on the Offer Price.

The Directors intend that the Company will pay a final dividend in April 2003 in respect of the year ending 31 December 2002 and an interim dividend in September 2003 in respect of the half year to 30 June 2003. Thereafter, the Directors intend that interim and final dividends will be paid in September and April in each year in the approximate proportions of one-third and two-thirds of the total annual dividend, respectively.

The Company publishes its accounts in US dollars. Any dividends declared by the Company will generally be paid in US dollars unless a Shareholder elects to receive dividends in pounds sterling, Euro or Swiss Francs.

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Fluctuations in the exchange rate between pounds sterling, Euro or Swiss Francs and US dollars will affect the pound sterling, Euro or Swiss Franc amount received in respect of dividend payments declared in US dollars by the Company.

As the Company is Swiss tax resident, dividends paid by the Company will be subject to Swiss federal withholding tax. Swiss federal withholding tax is currently charged at the rate of 35%. Shareholders who are residents of countries that have double taxation agreements with Switzerland will generally be entitled to a refund of part of that withholding tax from the Swiss authorities but the refund is partial only and a Shareholder can only obtain the refund by submitting the relevant claim forms to the Swiss authorities. For further information see "Additional information – UK Taxation", "Additional information – Swiss Taxation" and "Additional information – US Taxation" in paragraphs 15, 16 and 17, respectively, of Part VIII.

### Takeover regulation

It is currently understood that the City Code will not apply to the Company since, despite being incorporated in the UK, it is not resident in the UK for the purposes of the City Code as it does not have its place of central management in the UK. The Company has also been advised that the Swiss Stock Exchange and Securities Trading Act, which governs takeovers of Swiss companies, will not apply to it because it is not incorporated in Switzerland. As a result, a takeover of the Company would be unregulated by each of the UK and Swiss takeover authorities.

The Company intends to observe best corporate governance practice in the UK and, given that the Company will not be governed by the City Code, has incorporated provisions in the Articles to provide Shareholders with certain takeover protections which will be administered by the Board. Glencore International has undertaken in the Relationship Agreement to observe those provisions. Further details of these provisions are contained in "Additional information – Summary of the memorandum and articles of association" in paragraph 3 of Part VIII. Broadly, they provide that where either:

- (a) a person (alone or together with concert parties) acquires 30% or more of the Company's voting rights; or
- (b) a person (alone or together with concert parties) holding between 30% and 50% of the Company's voting rights acquires further voting rights,

then, unless such acquisition is accompanied by an unconditional general offer to Shareholders in cash, or accompanied by a full cash alternative, at not less than the highest price paid by the bidder and its associates in the preceding 12 months (as if Rule 9 of the City Code applied to Xstrata), or unless the Board agrees otherwise, that person will be in breach of the Articles. In that event, the Board has the authority to withhold dividends, impose voting restrictions and ultimately, compulsorily to divest Ordinary Shares acquired or held in breach of the Articles. See further "Investment considerations – Market considerations – Takeovers" in Part IV.

### Use of proceeds

The Company will receive the net proceeds of the issue of the new Ordinary Shares. The net proceeds are estimated to be approximately £829 million (US\$1,181 million) after deduction of the Underwriters' estimated commissions and other fees and expenses of approximately £41 million payable by the Company in connection with the Global Offer and assuming that the Manager's Option is not exercised.

The Company and certain members of the Group have also entered into a US\$1.4 billion Syndicated Loan Facility Agreement. Further details of this facility are set out in "Additional information – Agreements relating to the Acquisitions and the Merger – Syndicated Loan Facility Agreement" in paragraph 10 of Part VIII.

The net proceeds of the Global Offer referred to above will be used to fund the Acquisitions, with the remainder of the funding required for the Acquisitions being cash raised from borrowings made under the Syndicated Loan Facility Agreement.