

Part V

# Operating and financial review



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## Part V Operating and financial review

*The following discussion of the Group's financial condition and results of operations should be read in conjunction with "Financial information" in Part VI and with the information relating to the businesses of the Group included elsewhere in this document. The discussion includes forward-looking statements which involve risks and uncertainties. See "Presentation of information – Forward-looking statements". The actual results of the Group could differ materially from those contained in any forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this document, particularly in "Investment considerations" in Part IV. Investors should read the whole of this document and not just rely upon summarised information.*

This commentary discusses and is based on the following financial information:

- the financial information of the Xstrata AG Group for the three years ended 31 December 1999, 2000 and 2001 contained in Part VI;
- the financial information of the Enex Group for the three years ended 31 December 1999, 2000 and 2001 contained in Part VI; and
- the financial information of the Duiker Group for the year ended 30 September 1999, the 15 months ended 31 December 2000 and the year ended 31 December 2001 contained in Part VI. For additional information on the accounting periods see "Factors affecting comparability – Change in the financial year of the Duiker Group."

Pursuant to the Merger, the assets and liabilities of Xstrata AG will be transferred to Xstrata. In the Acquisitions, Xstrata and certain of its subsidiaries have agreed to acquire the Enex Group and the Duiker Group. The Acquisitions and the Merger will occur simultaneously and pursuant thereto, Xstrata will become the ultimate holding company of the Group. For a detailed discussion of the Acquisitions and the Merger, see "Information on the Group – The acquisition of the Coal Assets and the Merger" in Part I. As these transactions have not yet been completed, there is no historical consolidated audited financial information relating to the Group to be formed upon the completion of the Acquisitions and the Merger.

Financial information for Xstrata is not discussed in this commentary as it will not have any significant assets or liabilities prior to completion of the Acquisitions and the Merger.

### Introduction

The Group comprises three principal businesses:

- **Coal.** The Coal Business is the Group's largest business in terms of both turnover and operating profit. The Coal Business consists of the Enex Group and the Duiker Group.
- **Zinc.** The Zinc Business is the Group's second largest business in terms of both turnover and operating profit. The Zinc Business consists of a zinc mining and smelting operation in Spain (Asturiana) in which the Xstrata AG Group has held an interest in excess of 93% since 3 May 2001.
- **Ferrous alloys.** The Ferrous alloys Business is the Group's third largest business in terms of turnover and operating profit and is comprised of the chrome and vanadium operations.

The Group's additional activities consist of a magnesium re-cycling operation in North America and a forestry plantation in Chile.

### Factors affecting the business

Key factors affecting the results of operations of the Group are discussed below:

#### Market conditions

Commodity prices are significantly affected by changes in global economic conditions and related industry cycles. Prices of commodity products, such as coal, zinc and ferrous alloys, the primary products of the Xstrata AG, Enex and Duiker Groups, can vary significantly when supply and demand fluctuate. While the producers are unable to influence commodity prices directly, events such as the introduction of commodity production capacity, temporary price reductions or other attempts to capture market share by individual producers may have an effect on market prices. Also, the prices realised by producers on sales of their products can, to some extent, be affected by contractual arrangements, production levels and hedging strategies. Price variations and market cycles have historically influenced the financial performance of the Xstrata AG, Enex and Duiker Groups, and are expected to continue to influence the financial performance of the Group after the Acquisitions and the Merger.

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The following table sets out indicative average market prices in US dollars for coal, zinc, ferrochrome and vanadium for the periods indicated:

	1999		2000		2001	
	1 January - 30 June	1 July - 31 December	1 January - 30 June	1 July - 31 December	1 January - 30 June	1 July - 31 December
<b>Coal<sup>(1)</sup></b>	n/a	n/a	21.98	26.37	32.41	29.91
<b>Zinc<sup>(2)</sup></b>	1,005.71	1,146.78	1,133.11	1,123.66	976.61	795.54
<b>Ferrochrome<sup>(3)</sup></b>	0.35	0.38	0.42	0.44	0.41	0.33
<b>Vanadium<sup>(4)</sup></b>	2.31	1.73	1.88	1.57	1.41	1.34

(1) Coal prices are McCloskey spot price estimates for FOB Australian export thermal coal expressed in US dollars per tonne.

(2) Zinc prices refer to LME traded special high grade and are expressed in US dollars per tonne.

(3) Ferrochrome (52% Cr Lumpy) prices are quoted from the Metal Bulletin and are expressed in US dollars per pound.

(4) Vanadium (minimum 98% V<sub>2</sub>O<sub>5</sub>) prices are quoted from the Metal Bulletin and are expressed in US dollars per pound.

For a detailed discussion of recent market conditions and market outlook for each of the coal, zinc and ferroalloys industries, see "Information on the Group – Coal Business – Industry overview", "– Zinc Business – Industry overview", "– Ferroalloys Business – Chrome operations – Industry overview" and "– Ferroalloys Business – Vanadium operations – Industry overview", respectively, in Part I.

### Exchange rates

The Xstrata AG, Enex and Duiker Groups produce and sell commodities that are typically priced in US dollars. However, the majority of the direct costs of the Xstrata AG, Enex and Duiker Groups are incurred in the currencies of South Africa, Australia and Spain, the countries in which the groups' mining and production facilities are located. Accordingly, the Xstrata AG, Enex and Duiker Groups may be significantly affected by exchange rate fluctuations between the US dollar and the Rand, the Australian dollar and the Euro. See "Investment considerations – Currency fluctuations" in Part IV.

During recent years, the Rand has weakened considerably against the US dollar. This has reduced overall production costs, in US dollar terms, of the coal operations of the Duiker Group and the Ferroalloys Business of the Xstrata AG Group which are primarily located in South Africa. The effect of the depreciation of the Rand against the US dollar has been partly offset by an increase in inflation. The US dollar has also been strong against the Euro and the Australian dollar, the two other principal currencies in which the Group incurs its production costs. If any of these currencies appreciates in value against the US dollar, the US dollar equivalent of such costs will increase. For historical exchange rates of the Australian dollar and the Rand against the US dollar, see "Presentation of information – Currencies".

### Production costs and efficiency

As the Group, in common with its competitors, is unable to influence commodity prices directly, its competitiveness and long-term profitability are, to a significant degree, dependent upon its ability to reduce costs and maintain low-cost, efficient operations. Costs associated with mining and metal production can be broadly categorised into labour costs and other on-site expenses, including power and equipment costs, port handling costs and freight costs.

Management believes that the Group has a portfolio of cost competitive coal mines and is among the lowest cost producers of zinc and chrome with operations in South Africa, Australia and Spain. South African coal producers are some of the lowest cost coal producers, having advantages in shallow mining depths, high quality reserves, low transport costs (which have compensated for the relatively long distance to port) and low cost labour and power. Australian coal producers benefit from their large high quality reserves located relatively close to export ports. In its Zinc Business, the Xstrata AG Group has focused on improving efficiency in the recovery of zinc from zinc concentrate. Management also believes that the scale of operations and ease of access to export ports have contributed to the efficiency and profitability of the Zinc Business. In its chrome operations, the Xstrata AG Group has, according to its management, been able to maintain its position among the lowest cost producers due to shallow mining depths, efficient work practices and processing technology and access to low cost chrome bearing platinum tailings. Management also believes that the Group's chrome operations have benefited from low transport costs (which have compensated for the relatively long distance to port) and low cost labour and power in South Africa.

Unit production costs are also significantly affected by production volumes, and therefore, the Group's production levels are a key factor in determining its overall cost competitiveness.

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### Factors affecting comparability

Key factors affecting comparability of the results of operations of the Xstrata AG, Enex and Duiker Groups include:

#### Acquisitions and disposals

The results of operations of each of the Xstrata AG Group, the Enex Group and the Duiker Group have been significantly affected by acquisitions and disposals during the period under review. These acquisitions and disposals affect the comparability of the financial information of each group on a period-to-period basis. <sup>6.D.11</sup>

The results of operations of acquired businesses have been consolidated into the results of operations of each of the Xstrata AG, Enex and Duiker Groups from the effective date of acquisition. Results attributable to acquired operations have been presented in the "Acquisitions" line item only for the year in which the acquisition took place. Therefore, comparisons between the year in which the acquisition was made and following years cannot be made without giving effect to the acquisitions.

The results of operations of disposed businesses of each of the Xstrata AG and Duiker Groups have been presented in the "Discontinued operations" line item for the three-year period under review, and the results of operations of each such disposed business have been included to the effective date of its disposal.

The following discussion sets out the principal acquisitions and disposals of the Xstrata AG, Enex and Duiker Groups during the three-year period ended 31 December 2001:

#### Xstrata AG Group

- Effective 1 January 2000, the Xstrata AG Group sold its wholly owned oil and gas subsidiary Südelektra Argentina S.A. to Perez Companc S.A. During the year ended 31 December 1999, Südelektra Argentina generated turnover of US\$39.6 million and operating profit of US\$8.1 million. The Xstrata AG Group realised a profit of US\$57.7 million on the disposal.
- On 31 March 2000, the Xstrata AG Group sold its aluminium business to Berkeley Aluminium, Inc. Between 1 January and 31 March 2000, this business generated turnover of US\$18.1 million and an operating profit of US\$1.0 million. During the year ended 31 December 1999, the Xstrata AG Group's aluminium business generated turnover of US\$65.9 million and an operating loss of US\$3.2 million. The Xstrata AG Group realised a profit of US\$0.1 million on the disposal.
- On 28 September 2000, the Xstrata AG Group acquired the remaining 40% of the Windimurra Vanadium project from its joint venture partner. Prior to 28 September 2000, Windimurra Vanadium had been accounted for in the Xstrata AG Group's results of operations as a joint venture.
- In 2001, the Xstrata AG Group divested Xstrata Coal Pty Ltd (a company operating the United coal mine located in Australia) and Winarch Pty Ltd to the Enex Group. The disposal was made at the net book value of the Xstrata AG Group's initial investment. During the year ended 31 December 2000, turnover and operating loss attributable to the United coal mine were US\$35.4 million and US\$3.6 million, respectively. These assets will be re-acquired as part of the Acquisitions together with other Australian and South African coal operations.
- 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. Due to the way in which the merger was effected, the Xstrata AG Group's shareholding in Asturiana has been reduced to 93.18%. Between 3 May and 31 December 2001, business attributable to Asturiana generated turnover of US\$266.6 million and operating profit of US\$44.8 million.
- Effective 1 July 2001, the Xstrata AG Group sold its forestry trading operation to the operating management. The Xstrata AG Group retained ownership of a plantation, the management of which was contracted to the former management team. Between 1 January and 30 June 2001, the forestry trading operation generated turnover of US\$23.8 million and operating profit of US\$1.6 million. A loss of US\$1.8 million was generated on the disposal.

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### Enex Group

- Effective 30 June 1999, the Enex Group acquired a 67.5% interest in the Liddell/Foybrook coal mine in Australia. Between 30 June and 31 December 1999, this interest generated turnover of US\$19.9 million and operating profit of US\$2.8 million.
- On 3 July 1999, the Enex Group acquired Oceanic Coal Australia Limited. Between 3 July and 31 December 1999, this interest generated turnover of US\$37.8 million and operating profit of US\$4.8 million.
- In two stages in March 2000 and March 2001, the Enex Group acquired an aggregate 66.5% interest in Oakbridge Pty Ltd, a company operating the Bulga, South Bulga and Baal Bone coal mines in Australia. From 31 March 2000 to 31 December 2000, Oakbridge Pty Ltd was accounted for as an associate. Following its consolidation on 1 April 2001, the Enex Group included turnover and operating profit of US\$229.7 million and US\$52.4 million, respectively, in its results of operations from Oakbridge Pty Ltd.
- On 15 December 2000, the Enex Group acquired from Glencore International an 81% interest in Cumnock Coal Limited, a company operating a coal mine in Australia.
- Effective 31 January 2001, the Enex Group acquired a 90% interest in the Ulan coal mine in Australia. Between 31 January and 31 December 2001, this interest generated turnover of US\$128.8 million and operating profit of US\$38.9 million.
- On 31 July 2001, the Enex Group acquired a 95% interest in the United coal mine located in the Hunter Valley in Australia from the Xstrata AG Group. Between 31 July 2001 and 31 December 2001, this interest generated turnover of US\$12.6 million and operating profit of US\$2.5 million.

### Duiker Group

- Effective 1 November 1999, the Duiker Group sold its anthracite business in KwaZulu-Natal, South Africa to Capital Coal (Pty) Ltd. Between 1 October 1999 and 1 November 1999, this interest generated turnover of US\$5.7 million and operating profit of US\$0.7 million. The Duiker Group realised a profit of US\$1.1 million on the disposal.
- On 29 March 2000, the Duiker Group acquired LSA Minerals Limited. Between 29 March 2000 and 31 December 2000, the Duiker Group derived operating profit of US\$0.6 million from LSA Minerals Limited.
- Effective 1 September 2000, the Duiker Group sold its entire holding in Bosveld Mines (Proprietary) Limited in South Africa, constituting its gold business, to Matt Trading (Proprietary) Limited. The Duiker Group realised a profit of US\$4.8 million on the disposal.

### Change in the financial year of the Duiker Group

Prior to September 2000, the Duiker Group prepared its annual accounts using a financial year ending on 30 September. On 30 September 2000, the Duiker Group changed its financial year to the calendar year by extending its financial period for 2000 to 31 December 2000. This resulted in a 15 month financial period from 1 October 1999 to 31 December 2000. Therefore, the Duiker Group's financial information for the 15 month financial period is not comparable to its financial information for years 1999 and 2001.

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### Results of operations

#### Xstrata AG Group

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The following table sets out selected financial information of the Xstrata AG Group for the periods indicated which has been extracted, without material adjustment, from the Accountants' Report contained in Part VI:

	Year ended 31 December (US\$ million) <sup>(1)</sup>		
	1999	2000	2001
Turnover			
Chrome	359.0	419.3	257.7
Vanadium	101.5	68.5	63.5
Zinc	–	–	266.6
Other	59.6	56.7	25.8
Discontinued operations <sup>(2)</sup>	141.9	53.4	–
Turnover, total	662.0	597.9	613.6
Net operating costs <sup>(3)</sup>	(566.8)	(467.3)	(521.2)
Operating profit before common costs			
Chrome	50.9	114.9	59.3
Vanadium	45.3	20.6	3.1
Zinc	–	–	44.8
Other	4.2	2.4	(4.4)
Discontinued operations <sup>(2)</sup>	1.2	(2.6)	–
Profit before common costs, total	101.6	135.3	102.8
Common costs	(6.4)	(4.7)	(10.3)
Profit/(loss) on disposal of tangible fixed assets	(3.5)	–	0.4
Impairment of vanadium assets	–	–	(45.5)
Profit/(loss) on sale of operations	–	57.8	(1.9)
Profit on ordinary activities before interest and taxation	91.7	188.4	45.5
Net interest	(14.6)	(11.5)	(21.6)
Profit on ordinary activities before tax	77.1	176.9	23.9
Tax on profit on ordinary activities	6.6	(21.6)	(10.6)
Minority interest	0.3	–	(2.0)
Profit for the financial year	84.0	155.3	11.3

(1) Columns may not add due to rounding.

(2) Discontinued operations include the Xstrata AG Group's coal, aluminium and oil and gas operations. See "Factors affecting comparability – Xstrata AG Group" above.

(3) Net operating costs are shown inclusive of common costs.

The following table sets forth certain income and expense items of the Xstrata AG Group as a percentage of its turnover for the periods indicated:

	Year ended 31 December		
	1999	2000	2001
Net operating costs <sup>(1)</sup>	85.6%	78.2%	84.9%
Profit before common costs, total	15.3%	22.6%	16.8%
Chrome	7.7%	19.2%	9.7%
Vanadium	6.8%	3.4%	0.5%
Zinc	–	–	7.3%
Other	0.6%	0.4%	(0.7)%
Discontinued operations <sup>(2)</sup>	0.2%	(0.4)%	–
Profit for the financial year	12.7%	26.0%	1.8%

(1) Net operating costs are shown inclusive of common costs.

(2) Discontinued operations include the Xstrata AG Group's coal, aluminium and oil and gas operations. See "Factors affecting comparability – Xstrata AG Group" above.

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### Profit and loss account items

#### *Turnover*

The primary sources of revenue and the nature of associated costs for the Xstrata AG Group and its businesses are set out under "Information on the Group – Zinc Business – Sales and marketing", "– Ferroalloys Business – Chrome operations – Description of the chrome operations" and "– Vanadium operations – Description of the vanadium operations" in Part I. The relationship the Xstrata AG Group has with Glencore International is important to the marketing of its products. See "Relationship with Glencore – Commercial relationship – Ferroalloys Business" in Part II.

**Zinc.** Approximately 50% to 65% of Xstrata AG's zinc sales are exported from Spain to other European countries. The majority of customer relationships are governed by long-term supply contracts. Glencore is the Xstrata AG Group's largest zinc customer.

**Chrome.** The majority of the Xstrata AG Group's chrome sales are exported. Its major customers are stainless steel manufacturers based in Europe and the Pacific Rim. In addition, North America has historically been an important market to the Xstrata AG Group's chrome.

**Vanadium.** Vanadium pentoxide is produced in South Africa and Western Australia. During 1999 and 2000 the majority of sales of vanadium pentoxide were made to Glencore through an offtake agreement that specifies prices and volumes. In 2001 sales under the offtake agreement accounted for approximately 44% of the Xstrata AG Group's sales of vanadium pentoxide. Ferrovandium is produced by the Xstrata AG Group in South Africa. Sales of ferrovandium are exported, with Europe as the Xstrata AG Group's largest export market.

#### *Net operating costs*

Net operating costs comprise cost of sales, distribution and marketing costs, administrative expenses and other income and expense items. Raw material costs, mining costs (including the costs of contractors and labour) and power costs are the most significant components of cost of sales, whereas rail transport and freight costs represent the majority of distribution costs. A significant portion of these costs is incurred in local currency.

#### *Common costs*

Common costs are predominantly administration expenses and include the remuneration of the Xstrata AG Group's directors and other senior management.

#### *Other pre-tax items*

Other items include gains on the disposal of non-core operations, impairment losses and interest.

### Year ended 31 December 2001 compared with year ended 31 December 2000

#### *Turnover*

**Group.** The Xstrata AG Group's turnover was US\$613.6 million in the year ended 31 December 2001, an increase of US\$15.7 million or 2.6% from US\$597.9 million in the year ended 31 December 2000. This result reflected the inclusion of US\$266.6 million turnover of the zinc business of Asturiana into the consolidated results of the Xstrata AG Group since its acquisition on 3 May 2001. The increase was largely offset by a US\$197.5 million decline in the turnover from the continuing operations from US\$544.5 million in the year ended 31 December 2000 to US\$347.0 million in the year ended 31 December 2001 due to the combined impact of a significant reduction in chrome production and sales volumes reflecting prevailing unfavourable market conditions and an accompanying fall in realised commodity prices. In addition, the Xstrata AG Group sold its forestry trading operation and its coal operation in 2001 and its aluminium operation in 2000.

**Zinc.** For the period from 3 May 2001 to 31 December 2001, turnover attributable to the Zinc Business was US\$266.6 million and operating profit was US\$44.8 million. During 2001, zinc metal prices declined. The effect of lower zinc metal prices was offset in part by increases in zinc metal production and sales volumes during the year following the expansion of the San Juan de Nieva smelting plant in July 2001.

**Chrome.** Turnover of the chrome operations was US\$257.7 million in the year ended 31 December 2001, a decrease of US\$161.6 million or 38.5% from US\$419.3 million in the year ended 31 December 2000. The decrease was primarily due to significantly lower sales volumes, particularly in the United States, reflecting cutbacks in global stainless steel production during the market downturn and lower achieved average US dollar sales prices during the year as compared to those in 2000. The Xstrata AG Group suspended production at four of its furnaces in 2001 and two in the second half of 2000 in light of the oversupply of ferrochrome.

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**Vanadium.** Turnover of the vanadium operations was US\$63.5 million in the year ended 31 December 2001, a decrease of US\$5.0 million or 7.3% from US\$68.5 million in the year ended 31 December 2000. The decrease resulted primarily from lower achieved sales prices for both vanadium products despite an increase in sales volumes for higher margin ferrovanadium. Sales volumes for vanadium pentoxide decreased during the period. The fall in vanadium pentoxide sales volumes was largely attributable to reduced volumes sold to Glencore under the off-take agreement.

**Other.** Turnover from the Xstrata AG Group's additional activities decreased from US\$56.7 million in the year ended 31 December 2000 to US\$25.8 million in the year ended 31 December 2001 due to the sale of Xstrata AG Group's forestry trading business in July 2001. The turnover attributable to these operations included in the Group's results was US\$25.8 million in 2001 and US\$53.4 million in 2000. Because the Xstrata AG Group retained an interest in a forestry plantation in Chile, the results of the forestry business have been included in turnover from continuing operations. The magnesium business made its initial sales at the end of 2001.

**Discontinued operations.** The Xstrata AG Group disposed of its coal operations in 2001 and its oil and gas and aluminium operations in 2000. Turnover attributable to these businesses was US\$53.4 million in 2000. In 2001, the Xstrata AG Group did not account for any operations as discontinued.

### **Net operating costs**

The Xstrata AG Group's net operating costs increased by US\$53.9 million or 11.5%, from US\$467.3 million in 2000 to US\$521.2 million in 2001. The increase was primarily attributable to the consolidation of the acquired zinc operations from 3 May 2001, which was largely offset by a significant reduction in ferrochrome production volumes, the disposal of coal, forestry trading and aluminium operations and the depreciation of the Rand against the US dollar.

### **Operating profit before common costs**

**Group.** The Xstrata AG Group's operating profit before common costs decreased by US\$32.5 million or 24.0% from US\$135.3 million in the year ended 31 December 2000 to US\$102.8 million in the year ended 31 December 2001. The overall decrease was attributable to unfavourable market conditions affecting the ferrochrome and vanadium operations. The effect of the market conditions was partly offset by the contribution of the operating profit of US\$44.8 million generated by the Zinc Business since its acquisition on 3 May 2001. The Xstrata AG Group's operating profit before common costs from its continuing operations decreased by US\$79.9 million, from US\$137.9 million in 2000 to US\$58.0 million in 2001. The Xstrata AG Group's operating profit for the year ended 31 December 2001 was US\$92.4 million, a decrease of US\$38.2 million or 29.2% compared with operating profit of US\$130.6 million for the year ended 31 December 2000.

**Chrome.** Operating profit before common costs of the chrome operations decreased by US\$55.6 million or 48.4% from US\$114.9 million in the year ended 31 December 2000 to US\$59.3 million in the year ended 31 December 2001 due to the reasons discussed above in "– Turnover – Chrome", "– Net operating costs" and "– Operating profit before common costs – Group".

**Vanadium.** Operating profit before common costs of the vanadium operations was US\$3.1 million in the year ended 31 December 2001, a decrease of US\$17.5 million from US\$20.6 million in the year ended 31 December 2000. The decrease was primarily attributable to the reasons discussed above in "– Turnover – Vanadium", "– Net operating costs" and "– Operating profit before common costs – Group".

**Other.** Operating profit before common costs of the Xstrata AG Group's additional activities decreased from a profit of approximately US\$2.4 million in the year ended 31 December 2000 to a loss of US\$4.5 million in the year ended 31 December 2001 mainly as a result of US\$5.0 million of start-up costs incurred in connection with the construction of a magnesium re-cycling facility in the United States.

**Discontinued operations.** Operating loss before common costs attributable to discontinued operations was US\$2.6 million in 2000. In 2001, the Xstrata AG Group did not account for any operations as discontinued.

### **Other pre-tax items**

The Xstrata AG Group's profit on ordinary activities before interest and taxation decreased from US\$188.4 million in 2000 to US\$45.5 million in 2001. This reflected lower operating profit in 2001 and a profit of US\$57.8 million on the sale of the Xstrata AG Group's oil and gas operations recognised in 2000. In 2001, the Xstrata AG Group recorded a non-recurring impairment of US\$45.5 million on the carrying value of its Vanadium business in Western Australia, which also contributed to the decrease. The increase of US\$10.1 million in net interest expense from US\$11.5 million in 2000 to US\$21.6 million in 2001 related to additional borrowings drawn in order to finance the acquisition of Asturiana.

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### *Profit for the financial year*

In 2001, the Xstrata AG Group recorded profit for the financial year of US\$11.3 million, a decrease of US\$144.0 million as compared to profit for the 2000 financial year of US\$155.3 million. Minority interests recorded in 2001 related to other shareholders of Asturiana. Tax for the financial year decreased from US\$21.6 million in 2000 to US\$10.6 million in 2001. Tax charges were affected by local statutory tax rates in countries where the Xstrata AG Group operates. In addition, in 2001, the tax charge was affected by the non-recurring impairment of the carrying value of the vanadium business in Australia for which no tax relief was available. In 2000, the tax charge was affected by the benefit of favourable permanent differences arising in that year.

### **Year ended 31 December 2000 compared with year ended 31 December 1999**

#### *Turnover*

**Group.** The Xstrata AG Group's turnover was US\$597.9 million in the year ended 31 December 2000, a decrease of US\$64.1 million or 9.7% from US\$662.0 million in the year ended 31 December 1999. The decrease is attributable to the factors discussed below. The Xstrata AG Group's turnover from continuing operations increased US\$24.4 million from US\$520.1 million in the year ended 31 December 1999 to US\$544.5 million in the year ended 31 December 2000.

**Chrome.** Turnover generated by sales of ferrochrome was US\$419.3 million in the year ended 31 December 2000, an increase of US\$60.3 million or 16.8% from US\$359.0 million in the year ended 31 December 1999, largely reflecting an increase of 15% in achieved sales prices.

**Vanadium.** In the year ended 31 December 2000, turnover generated by the vanadium operations decreased by US\$33.0 million or 32.5% to US\$68.5 million from US\$101.5 million in the year ended 31 December 1999. The decrease was primarily attributable to the continued slump in the global market price of vanadium and the reduction in production and sales volumes, although the group was partially protected from the decline in prices and volumes by its off-take agreement with Glencore International, which represented 61% of the Xstrata AG Group's vanadium pentoxide sales in 2000. In 1999, all of the Xstrata AG Group's vanadium pentoxide sales were made through the off-take agreement. See "Relationship with Glencore – Ferroalloys business – Vanadium operations" in Part II.

**Other.** Turnover from the Xstrata AG Group's additional activities decreased to US\$56.7 million in the year ended 31 December 2000 from US\$59.6 million in the year ended 31 December 1999.

**Discontinued operations.** Turnover from the Xstrata AG Group's discontinued operations in 2000 was US\$18.1 million and related to the aluminium business, which was sold on 31 March 2000. Turnover from discontinued operations for 1999 includes full year turnover of US\$39.7 million from the oil and gas business that was disposed of in January 2000 as well as full year turnover of US\$65.9 million from the aluminium business.

#### *Net operating costs*

The Xstrata AG Group's net operating costs decreased by US\$99.5 million, from US\$566.8 million in 1999 to US\$467.3 million in 2000. The decrease was primarily attributable to the impact of the disposal of the oil and gas and aluminium operations during 2000 and the depreciation of currencies in which the Xstrata AG Group incurs its production costs against the US dollar. The Xstrata AG Group's net operating costs from continuing operations decreased by US\$12.3 million from US\$425.4 million in 1999 to US\$413.1 million in 2000.

#### *Operating profit before common costs*

**Group.** The Xstrata AG Group's operating profit before common costs increased by US\$33.7 million or 33.1% from US\$101.6 million in the year ended 31 December 1999 to US\$135.3 million in the year ended 31 December 2000. This increase primarily reflected higher operating profits in the chrome operations, partly offset by reductions in operating profits of the vanadium operations. In addition, production costs decreased in US dollar terms across the business as a result of favourable exchange rate movements between the US dollar and the Rand. The Xstrata AG Group's operating profit before common costs from its continuing operations increased by US\$37.5 million or 37.4%, from US\$100.4 million in 1999 to US\$137.9 million in 2000. The Xstrata AG Group's operating profit for the year ended 31 December 2000 was US\$130.6 million, an increase of US\$35.4 million or 37.2% over the operating profit of US\$95.2 million for the year ended 31 December 1999.

**Chrome.** Operating profit before common costs of the chrome operations was US\$114.9 million in the year ended 31 December 2000, an increase of US\$64.0 million from US\$50.9 million in the year ended 31 December 1999, due to the reasons described above in "– Turnover – Chrome" and "– Net operating costs".

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**Vanadium.** Operating profit before common costs of the vanadium operations was US\$20.6 million in the year ended 31 December 2000, a decrease of US\$24.7 million or 54.5% from US\$45.3 million in the year ended 31 December 1999 due to the reasons described above in “– Turnover – Vanadium” and “– Net operating costs”.

**Other.** Operating profit before common costs of the Xstrata AG Group’s additional activities decreased by US\$1.8 million or 42.9%, from US\$4.2 million in 1999 to US\$2.4 million in 2000.

**Discontinued operations.** In 2000, the Xstrata AG Group recognised an operating loss before common costs of US\$2.6 million from its discontinued operations and an operating profit before common costs of US\$1.2 million in 1999.

### Financial and exceptional items

In 2000, the Xstrata AG Group recorded a net gain of US\$57.8 million on the disposal of its oil and gas and aluminium interests. This contributed to an increase in the Xstrata AG Group’s profit on ordinary activities before interest and taxation from US\$91.7 million in 1999 to US\$188.4 million in 2000. Net interest expense was US\$11.5 million in 2000, a decrease of US\$3.1 million, as compared to the net interest expense of US\$14.6 million in 1999. Net interest expense decreased as a result of repayments on certain debt facilities with the proceeds of the disposal of the oil and gas businesses.

### Profit for the financial year

The Xstrata AG Group’s profit for the financial year was US\$155.3 million in 2000, an increase of US\$71.3 million, or 84.9% over a profit of US\$84.0 million for the 1999 financial year. This increase was mainly attributable to a net gain of US\$57.7 million on the disposal of the Xstrata AG Group’s oil and gas interests and lower US dollar net operating costs. Tax for the financial year increased from a tax credit of US\$6.6 million in 1999 to a tax charge of US\$21.6 million in 2000. Tax charges are affected by local statutory rates in countries where the Xstrata AG Group operates. In addition, in 1999, the tax credit reflected the benefit of favourable permanent differences arising in that year.

### Enex Group

The following table sets out selected financial information of the Enex Group which has been extracted, without material adjustment, from the Accountants’ Report contained in Part VI:

	Year ended 31 December (US\$ million) <sup>(1)</sup>		
	1999	2000	2001
Turnover			
Continuing operations	94.7	189.5	291.2
Acquisitions	57.7	–	371.2
Turnover, total	152.4	189.5	662.4
Net operating costs	(146.4)	(179.5)	(506.8)
Operating profit	6.0	10.0	155.6
Share of operating profit in associate	–	2.3	(0.5)
Profit on disposal of tangible fixed assets	0.0	0.1	1.5
Income from investments	–	–	0.8
Interest receivable and similar income	1.0	5.6	1.1
Interest payable and similar charges	(0.8)	(0.3)	(7.5)
Translation of exchange differences on US dollar loan included in the Australian financial statements	(0.9)	(34.7)	(29.5)
Profit (loss) on ordinary activities before taxation	5.3	(17.0)	121.5
Tax on profit on ordinary activities	(2.4)	1.1	(23.6)
Profit (loss) on ordinary activities after taxation	2.9	(15.9)	97.9
Minority interest	–	–	(13.2)
Profit (loss) for the year	2.9	(15.9)	84.7
<b>Exchange rates applied:</b>			
Period average exchange rate (US\$1:A\$)	1.55	1.73	1.94
Period end exchange rate (US\$1:A\$)	1.53	1.80	1.96

(1) Columns may not add due to rounding.

## Part V Operating and financial review

The following table sets out certain profit and loss account items of the Enex Group as a percentage of its turnover for the periods indicated:

	Year ended 31 December		
	1999	2000	2001
Net operating costs	96.1%	94.7%	76.5%
Operating profit	3.9%	5.3%	23.5%
Profit/(loss) for the year	1.9%	{8.4}%	12.8%

### Profit and loss account items

#### Turnover

The Enex Group derives its revenue from the sale of thermal and semi-soft coal from its mines in Australia. The Enex Group sells over 70% of its mine production under annually renewable long-term supply arrangements and its export sales are denominated in US dollars. The majority of the Enex Group's sales are to export markets. Further information on sales and marketing in relation to this operation is set out in "Information on the Group – Coal business – Description of the Australian operations" in Part I.

#### Net operating costs

The principal operating costs of the Enex Group are mining costs, distribution costs and depreciation and amortisation. Mining costs include labour, storage, power and repair and maintenance costs. All exported coal is sold FOB.

#### Other pre-tax items

Other items include profits on disposal of tangible fixed assets, interest and finance charges and exchange differences arising on funding loans.

### Year ended 31 December 2001 compared with year ended 31 December 2000

#### Turnover

The Enex Group's turnover was US\$662.4 million in the year ended 31 December 2001, an increase of US\$472.9 million from US\$189.5 million in the year ended 31 December 2000. The increase was principally attributable to revenues generated by several acquired mines including Oakbridge, Ulan and Cumnock and an increase in negotiated US dollar based coal prices. In 2001, the Enex Group achieved a 20.3% higher average price per tonne than in 2000 and 11.1% higher average price per tonne than in 1999. Turnover from continuing operations increased from US\$189.5 million in 2000 to US\$291.2 million in 2001.

#### Net operating costs

The Enex Group's net operating costs increased by US\$327.3 million, from US\$179.5 million in 2000 to US\$506.8 million in 2001 principally as a result of operating costs incurred by the recently acquired mines. Operating costs incurred by existing operations increased to US\$229.3 million in 2001 from US\$179.5 million in 2000 reflecting higher volumes partly offset by the impact of the depreciation of the Australian dollar against the US dollar. Overall, net operating costs per tonne in local currency terms were in line with those of the previous year.

#### Operating profit

The Enex Group's operating profit increased by US\$145.6 million from US\$10.0 million in the year ended 31 December 2000 to US\$155.6 million in the year ended 31 December 2001 due to the reasons described above in "– Turnover" and "– Net operating costs".

#### Other pre-tax items

In 2001, the Enex Group recorded a charge of US\$29.5 million relating to foreign exchange differences which arose on the translation in its local currency financial statements of a US dollar denominated loan. A similar charge of US\$34.7 million arose in 2000. Net interest expense (net of interest and similar income) was US\$6.4 million in 2001 as compared to net interest income of US\$5.3 million in 2000. This reflected a change in the Enex Group's relationship with Oakbridge, which was accounted for as an equity investment in 2000, and following the acquisition by the Enex Group of the majority interest in Oakbridge in 2001 was accounted for as a subsidiary. As a result of this change, any interest income on shareholder loans made to Oakbridge which would have been treated as interest income by the Enex Group prior to acquisition of the majority interest was eliminated following consolidation of Oakbridge into the Enex Group's profit and loss account in 2001. In addition, any interest expense

## Part V Operating and financial review

to third parties incurred by Oakbridge would not have been separately recorded as interest expense in the Enex Group's profit and loss account prior to 2001, but interest expense incurred in 2001 was separately recorded within interest expense as such in the Enex Group's consolidated profit and loss account for that year. A drawdown of US\$300 million of interest-bearing debt under a syndicated loan facility also contributed to the change in the Enex Group's net interest expense in 2001.

### ***Profit/(loss) for the year***

The Enex Group's profit for the year was US\$84.7 million in 2001, an improvement of US\$100.6 million over a loss for the year of US\$15.9 million in 2000. Following the acquisition and consolidation of Oakbridge Pty Limited in 2001, the interest of minority shareholders amounted to US\$13.2 million. Tax for the financial year increased from a tax credit of US\$1.1 million in 2000 to a tax charge of US\$23.6 million in 2001. The relatively low effective tax rates for both years reflected the utilisation of tax losses, the benefit of which was not recognised in previous years, and a reduction in statutory tax rates in Australia.

### **Year ended 31 December 2000 compared with year ended 31 December 1999**

#### ***Turnover***

The Enex Group's turnover was US\$189.5 million in the year ended 31 December 2000, an increase of US\$37.1 million or 24.3% from US\$152.4 million in the year ended 31 December 1999. The increase was attributable to full year revenues from mines acquired in July 1999 being reflected in the financial information for 2000. The increase was partly offset by lower achieved average sales prices reflecting lower US dollar export prices and a higher proportion of domestic sales.

#### ***Net operating costs***

The Enex Group's net operating costs increased by US\$33.1 million or 22.6%, from US\$146.4 million in 1999 to US\$179.5 million in 2000 mainly as a result of full year operating costs of mines acquired in July 1999 being reflected in the financial information for 2000. Operating costs incurred in local currency decreased in US dollar terms due to favourable exchange rate movements during 2000.

#### ***Operating profit***

The Enex Group's operating profit increased by US\$4.0 million from US\$6.0 million in the year ended 31 December 1999 to US\$10.0 million in the year ended 31 December 2000. These increases resulted from the developments described above in "– Turnover" and "– Net operating costs".

#### ***Other pre-tax items***

Net interest and similar income (net of interest expense) was US\$5.3 million in 2000, an increase of US\$5.1 million, as compared to net interest and similar income of US\$0.2 million in 1999. The net interest income in 1999 related primarily to interest received on loans to Oakbridge Pty Limited, then a 48% associate of the Enex Group. In 2000, the Enex Group recorded a charge of US\$34.7 million relating to foreign exchange differences, which arose on the translation in its local currency financial statements of a US dollar denominated loan.

### ***Profit/(loss) for the year***

Tax for the financial year decreased from a tax charge of US\$2.4 million in 1999 to a tax credit of US\$1.1 million in 2000. The tax credit in 2000 reflected the utilisation of tax losses, the benefit of which was not recognised in previous years, together with a reduction in statutory tax rates. The 1999 tax charge reflects the utilisation of tax losses, the benefit of which was not recognised in previous years. The Enex Group's loss for the year in 2000 was US\$15.9 million, a decrease of US\$18.8 million over profit for the year of US\$2.9 million in 1999.

## Part V Operating and financial review

### Duiker Group

The table below sets out selected financial information of the Duiker Group which has been extracted, without material adjustment, from the Accountants' Report contained in Part VI. Due to a change in its financial year to the calendar year, the Duiker Group extended its financial period during 2000 from 30 September to 31 December, resulting in a 15 month financial period. As a result, financial information of the Duiker Group for the financial period 2000 is not comparable to its 1999 or 2001 financial years.

	Financial period (US\$ million) <sup>(1)</sup>		
	1999 <sup>(2)</sup>	2000 <sup>(3)</sup>	2001 <sup>(4)</sup>
Turnover			
Continuing operations	250.1	304.8	<b>371.3</b>
Joint ventures	51.2	62.1	<b>68.6</b>
Discontinued operations <sup>(5)</sup>	19.3	5.7	–
Turnover, total (including share of joint ventures)	320.6	372.6	<b>439.9</b>
Less turnover attributable to joint ventures	(51.2)	(62.1)	<b>(68.6)</b>
Turnover, total (less share of joint ventures)	269.4	310.5	<b>371.3</b>
Net operating costs	(240.0)	(285.3)	<b>(226.9)</b>
Operating profit, total (before joint ventures and associated undertakings)			
Continuing operations	33.7	25.2	<b>144.4</b>
Acquisition	–	0.7	–
Discontinued operations <sup>(5)</sup>	(4.3)	(0.7)	–
Operating profit (before joint ventures and associated undertakings)	29.4	25.2	<b>144.4</b>
Joint ventures	11.5	14.0	<b>32.1</b>
Associated undertaking	8.5	7.3	<b>24.7</b>
Total Operating profit	49.4	46.5	<b>201.2</b>
Profit on disposal of investments and fixed assets	–	5.1	<b>0.1</b>
Profit on ordinary activities before interest and taxation	49.4	51.6	<b>201.3</b>
Net interest payable	(19.9)	(18.9)	<b>(7.1)</b>
Profit on ordinary activities before taxation	29.5	32.7	<b>194.2</b>
Tax on profit on ordinary activities	(6.8)	(1.5)	<b>(40.1)</b>
Profit on ordinary activities after taxation	22.7	31.2	<b>154.1</b>
Dividends	(7.9)	–	<b>(66.7)</b>
Retained profit for the year	14.9	31.2	<b>87.4</b>
<b>Exchange rates applied:</b>			
Period average exchange rate (US\$1:ZAR)	6.03	6.78	<b>8.63</b>
Period end exchange rate (US\$1: ZAR)	6.01	7.56	<b>12.09</b>

(1) Columns may not add due to rounding.

(2) Financial year 1999 ended on 30 September 1999.

(3) Financial period 2000 ran 15 months from 1 October 1999 to 31 December 2000.

(4) Financial year 2001 ended on 31 December 2001.

(5) Discontinued operations include the Duiker Group's anthracite and gold operations. See " – Factors affecting comparability – Duiker Group" above.

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The following table sets forth certain profit and loss account items of the Duiker Group as a percentage of its turnover (including share of joint ventures) for the periods indicated:

	1999 <sup>(1)</sup>	Financial period 2000 <sup>(2)</sup>	2001 <sup>(3)</sup>
Net operating costs	74.9%	76.5%	51.6%
Total operating profit	15.4%	12.5%	45.7%
Continuing operations	10.5%	6.8%	32.8%
Joint ventures	3.6%	3.8%	7.2%
Associated undertakings	2.7%	2.0%	5.6%
Discontinued operations <sup>(4)</sup>	(1.3)%	(0.2)%	–
Retained profit for the year	4.6%	8.3%	19.9%

(1) Financial year 1999 ended on 30 September 1999.

(2) Financial period 2000 ran 15 months from 1 October 1999 to 31 December 2000.

(3) Financial year 2001 ended on 31 December 2001.

(4) Discontinued operations include the Duiker Group's anthracite and gold operations. See "– Factors affecting Comparability – Duiker Group" above.

### Profit and loss account items

#### Turnover

The Duiker Group derives its revenue from the sale of thermal coal. Its coal sales are made both on the spot market and on the basis of supply contracts with negotiated volumes and prices. Approximately 75% of the Duiker Group's coal sales are exported. These sales are denominated in US dollars. Further information relating to sales and marketing for the Duiker Group is set out in "Information on the Group – Coal business – Description of the South African operations" in Part I.

#### Net operating costs

The principal operating costs of the Duiker Group are mining costs, distribution costs and depreciation and amortisation. Mining costs include labour, storage, power and repair and maintenance costs. Most of the exported coal is sold FOB.

#### Other pre-tax items

Other items comprise profit on disposal of tangible fixed assets, as well as net interest and the effect of unwinding the discounting of the Duiker Group's rehabilitation provisions.

### Year ended 31 December 2001 compared with the 15 month period ended 31 December 2000

#### Turnover

Turnover of the Duiker Group (including share of joint ventures) was US\$439.9 million in the year ended 31 December 2001, an increase of US\$67.3 million from US\$372.6 million in the 15 month period ended 31 December 2000. The increase was primarily due to higher average US dollar coal prices and a comparatively higher proportion of higher price exports. Despite the increased demand for coal, the sales volumes of Duiker Group have remained relatively stable as its export sales are constrained by the capacity of its coal terminal.

#### Net operating costs

Net operating costs of the Duiker Group decreased by US\$58.4 million from US\$285.3 million in 2000 to US\$226.9 million in 2001. Depreciation of the Rand against the US dollar between 2000 and 2001 contributed to this decrease. Operating costs per tonne in local currency terms increased by approximately 8% during the period.

#### Operating profit

Operating profit (before joint ventures and associated undertakings) of the Duiker Group increased by US\$119.2 million from US\$25.2 million for the period ended 31 December 2000 to US\$144.4 million for the year ended 31 December 2001 (before share of joint ventures and associates) due to the reasons described above in "– Turnover" and "– Net operating costs".

#### Other pre-tax items

In 2000 the Duiker Group recorded a net gain on disposal of investments and fixed assets of US\$5.1 million largely attributable to the sale of its anthracite and gold operations. Net interest payable on borrowings was US\$7.1 million in 2001, a decrease of US\$11.8 million, as compared to the interest expense of US\$18.9 million in 2000. The decrease

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related primarily to the repayment of existing debt obligations financed with the Duiker Group's strong income from operations during 2001.

### ***Profit for the year and dividends***

The Duiker Group's profit for the year (after dividends) was US\$87.4 million in the year ended 31 December 2001 and US\$31.2 million in the 15 month period ended 31 December 2000. The Duiker Group's share of the results of its associates and joint ventures increased to US\$56.8 million in 2001 from US\$21.3 million in 2000. Most of this increase was attributable to the higher average US dollar coal price. A dividend of US\$66.7 million was paid to Glencore International in 2001. Tax for the financial year increased from US\$1.5 million in 2000 to US\$40.1 million in 2001, reflecting increased profitability in 2001. In addition, in both years, the tax charge was affected by the benefit of permanent differences and in 2000 benefit of timing differences not previously recognised.

### **15 month period ended 31 December 2000 compared with year ended 30 September 1999**

#### ***Turnover***

Turnover of the Duiker Group (including share of joint ventures) was US\$372.6 million in the 15 month period ended 31 December 2000 and US\$320.6 million in the year ended 31 December 1999. During the period, the Duiker Group benefited from a higher export sales mix, the effect of which was offset by lower export prices.

#### ***Net operating costs***

Net operating costs of the Duiker Group were US\$240.0 million in 1999 and US\$285.3 million in 2000.

#### ***Operating profit***

Operating profit of the Duiker Group (before share of joint ventures and associated undertakings) was US\$25.2 million for the 15 month period ended 31 December 2000 and US\$29.4 million for the prior year due to the reasons described above in "– Turnover" and "– Net operating costs".

#### ***Other pre-tax items***

In 2000, the Duiker Group recorded net gains of US\$5.1 million from disposal of investments and fixed assets. This reflected primarily non-recurring gains of US\$4.8 million from the disposal of its gold operations and non-recurring gains of US\$1.1 million from the sale of its anthracite operations. Net interest payable was US\$18.9 million in 2000, a decrease of US\$1.0 million, as compared to the net interest payable of US\$19.9 million in 1999. This related primarily to the impact of repayments of borrowings during 1999.

#### ***Profit for the year***

The Duiker Group's profit for the period was US\$31.2 million for the 15 month period ended 31 December 2000, an increase of US\$16.3 million over profit for the year of US\$14.9 million for the year ended 30 September 1999. Tax for the financial year decreased from US\$6.8 million in 1999 to US\$1.5 million in 2000. In both years, the tax charge was affected by the benefit of favourable permanent differences and timing differences not recognised. In addition, the tax charge was affected in 1999 by the change in the statutory tax rate in South Africa.

### **Reserve movements**

As discussed above, trading results of the Xstrata AG and Duiker Groups have benefited from the depreciation of the Rand against the US dollar. However, the net asset values of the Xstrata AG and Duiker Groups have been negatively impacted by the translation of non-US dollar denominated assets into US dollars at each balance sheet date. These foreign exchange losses are recognised through reserves and as such do not affect trading performance. Further detail on reserve movements is given in the notes to the financial statements included in Part VI.

### **Liquidity and capital resources**

The Group's primary source of liquidity for its operations is cash provided by operating activities and short-term and long-term borrowings.

#### **Cashflow**

##### ***Xstrata AG Group***

From 2000 to 2001, the Xstrata AG Group's net cash inflow from operating activities decreased by US\$14.6 million or 8.4%, from US\$173.0 million in 2000 to US\$158.4 million in 2001, primarily due to a reduction in the level of trading profitability. From 1999 to 2000, the Xstrata AG Group's net cash inflow from operations increased by

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US\$59.8 million or 52.8% from US\$113.2 million in 1999 to US\$173.0 million in 2000 due to increased trading profits and an improvement in the working capital position, in particular an increased level of creditors. The Xstrata AG Group generated cash proceeds from sale of operations of US\$213.0 million in 2000 and US\$67.3 million in 2001. Cash of US\$453.6 million was utilised in acquisitions in 2001, principally on the acquisition of Asturiana.

### Enex Group

The Enex Group's net cash inflow from operations increased by US\$128.8 million, from US\$9.0 million in 2000 to US\$137.8 million in 2001 due to various acquisitions, increased US dollar prices and the depreciation of the Australian dollar against the US dollar. From 1999 to 2000, the Enex Group's net cash inflow from operations decreased by US\$10.0 million from US\$19.0 million in 1999 to US\$9.0 million in 2000. From April 2001, cashflows from the Oakbridge operation were consolidated with those of the Enex Group. Working capital increased slightly during the period due to an increase in debtors and, to a smaller extent, increased stock reflecting the timing of shipments at the end of each period.

### Duiker Group

The Duiker Group's net cash inflow from operations increased by US\$60.6 million from US\$38.6 million in 2000 to US\$99.2 million in 2001. From 1999 to 2000, the Duiker Group's net cash inflow from operations decreased from US\$66.9 million in 1999 to US\$38.6 million in 2000 due to an increase in working capital requirements reflecting, principally, an increased level of receivables and a decreased level of payables. In 2001, working capital remained at a relatively low level despite the fact that inventory of the Duiker Group increased from US\$17.7 million to US\$24.6 million reflecting unfavourable market conditions in the last quarter of 2001. The Duiker Group incurred US\$36.4 million and US\$23.2 million in capital expenditure in 2001 and 2000, respectively.

### Liquidity reserves

The following table shows the total net interest-bearing borrowings (excluding amounts falling due within one year) of the Xstrata AG, Enex and Duiker Groups on the dates indicated:

	As at 31 December (US\$ million)		
	1999	2000	2001
Xstrata AG Group	195.9	34.5	422.0
Enex Group	–	2.6	304.3
Duiker Group	99.6 <sup>(1)</sup>	58.9	21.3

(1) Information regarding the Duiker Group for 1999 is presented as at 30 September 1999.

Changes in the level of net interest-bearing debt of the Xstrata AG Group reflect the raising of new debt to finance acquisitions and repayment of existing debt with proceeds from disposals and operating cash flows. The level of net interest-bearing debt of the Enex Group increased in 2001 due to a new US\$300 million credit facility the Enex Group negotiated to partially refinance certain non-interest-bearing shareholder loans, which the Enex Group has historically used to fund its acquisitions. The Duiker Group has reduced the level of its indebtedness during the period with increased cash from ongoing operations.

The average rates of interest on the Xstrata AG Group's loans in 2001 were 3.9% and 13.8% for US dollar and Rand borrowings, respectively. In 2000, the average rates of interest for the Xstrata AG Group's US dollar and Rand borrowings were 6.4% and 14.6%, respectively. From 1999 to 2001, the Duiker Group's average rate of interest on Rand borrowings declined from 16.3% to 11.5%. The Enex Group began to pay interest on its debt in November 2001 as a result of negotiating the US\$300 million credit facility referred to above.

In connection with the Acquisitions and the Merger, the Group will obtain a Syndicated Loan Facility of up to US\$1,400 million with a group of underwriting banks. For a description of the Syndicated Loan Facility, please see "Additional information - Agreements relating to the Acquisitions and the Merger - Syndicated Loan Facility Agreement" in Part VIII. The Syndicated Loan Facility will be used primarily for the Acquisitions and to support the working capital requirements of the Group going forward. Part of the Syndicated Loan Facility will also be used to refinance some of the debt facilities of the Xstrata AG Group, the Enex Group and the Duiker Group.

Following completion of the Acquisitions, the Merger, the Global Offer and the Syndicated Loan Facility described above, the Group's net borrowings are expected to be US\$1,082.6 million and the Group's liquidity reserves from unused committed credit facilities are expected to be US\$290.7 million on a pro forma basis (see "Unaudited pro forma financial information" in Part VII).

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### Working capital requirements and other financial commitments

The following table shows the gross capital expenditures of the Xstrata AG, Enex and Duiker Groups on the dates indicated (excluding acquisition cash flows):

	Period ended 31 December (US\$ million) <sup>(1)</sup>		
	1999	2000	2001
Xstrata AG Group	105.8	56.1	134.2
Enex Group	5.2	3.1	30.5
Duiker Group	35.8	23.2	36.4

(1) For Duiker Group period 1999 ended on 30 September 1999.

The high level of the Xstrata AG Group's capital expenditure in 2001 related to expansion of the San Juan de Nieva smelting plant in Spain and expansion of its chrome operations, including addition of two joint furnaces with Samancor, in South Africa. In 1999, the primary capital expenditure item was the construction of the Windimurra vanadium plant in Western Australia.

In addition to the above, the Xstrata AG and Enex Groups have used significant funds for acquisitions of new operations. In 2001, the Xstrata AG Group's net cash flow in respect of acquisitions was a cash outflow of US\$369.2 million, which related primarily to the acquisition of Asturiana. The Enex Group's cash utilised for acquisitions was US\$173.8 million in 2001, US\$199.0 million in 2000 and US\$32.9 million in 1999. These payments related to acquisitions of various coal mines in Australia.

Management expects the Group's total capital expenditure in 2002 to be in line with 2001. Capital expenditure in the Enex Group is expected to increase in 2002 due to the development of acquired mines. Conversely, capital expenditure relating to the Zinc Business is expected to decrease as the expansion of the San Juan de Nieva zinc smelter was completed in 2001 and no new significant projects have been budgeted for this business.

The Group may make acquisitions of mines, plants or complete minerals and metals businesses that complement or enhance its existing production. However, other than the capital commitment to acquire coal mines in Ravensworth, Australia for US\$64 million, subject to adjustment to reflect trading between 26 January 2001 and the completion plus A\$5.6 million for the acquisition of certain land, the Group has not yet entered into any definitive agreement with respect to the acquisition of any significant business. The acquisition of the Ravensworth Group mines was completed on 13 March 2002. The Group may finance the purchase price of any contemplated acquisitions either through issuance of new equity or incurrence of debt.

In the opinion of the Company, following the Acquisitions and the Merger becoming effective and taking account of the Group's existing banking facilities and the net proceeds of the Global Offer and the Syndicated Loan Facility, the working capital available to the Group is sufficient for the Group's present requirements, that is, for the next 12 months following the date of this document.

### Mineral properties

Mineral properties represent the accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which the mining of a mineral resource has commenced. The relevant accounting policies regarding amortisation and depreciation of mineral properties for each of the Xstrata AG, Enex and Duiker Groups are set out in the notes to Financial Information in Part VI.

### Quantitative and qualitative disclosures about market risk

The following discussion should be read in conjunction with "Financial information" in Part VI.

The Group is exposed to changes in foreign exchange rates, commodity prices and interest rates through its commercial and financial operations.

The Xstrata AG, Enex and Duiker Groups have, from time to time, entered into hedging transactions solely to manage risks. In accordance with UK GAAP, gains and losses on hedging instruments have not been and will not be recognised until the exposure that is being hedged has itself been recognised.

In general, the Company does not expect that the Group will enter into speculative hedge transactions, but the Group will consider taking hedge positions for risk management. In the event that the Group is to take a hedge position, it will require approval of the central management team. Only standard financial instruments will be used in taking such hedge positions.

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### Foreign exchange risk management

The Xstrata AG, Enex and Duiker Groups operate in a global business environment, with sales and costs denominated in different currencies. In addition, the results and balance sheets of certain subsidiaries of the Xstrata AG, Enex and Duiker Groups are reported in local currency terms and then translated into US dollars at rates prevailing at the balance sheet date. Monetary assets and liabilities which are not denominated in the local currency of the operation concerned are translated each year at exchange rates prevailing at the balance sheet date, with translation gains or losses included in the combined profit and loss account.

While the Xstrata AG, Enex and Duiker Groups have used derivative financial instruments designated as hedges to offset the fluctuations in the underlying exposure in the past, recently only the Xstrata AG Group and Enex Group have engaged in hedging transactions.

The following table summarises the derivative financial instruments held to hedge the currency exposure on expected future transactions:

	31 December 2000		31 December 2001	
	Book value (US\$000)	Fair value (US\$000)	Book value (US\$000)	Fair value (US\$000)
Forward foreign currency contracts				
Xstrata AG Group	-	(605)	-	(12,871)
Enex Group	-	(5,310)	-	(15,062)
Duiker Group	-	-	-	-

Market values have been used to determine the fair value of forward foreign currency contracts. The fair value of all other items has been calculated by discounting the expected future cash flows at prevailing interest rates.

### Xstrata AG Group

The Xstrata AG Group's foreign exchange rate exposures comprise the monetary assets and monetary liabilities of the Xstrata AG Group other than those not denominated in the local currency of the operating unit involved and certain designated non-US dollar borrowings treated as hedges of net investments in overseas operations.

During 1999 and 2000 the use of foreign exchange rate derivative instruments by Xstrata AG Group was limited to forward foreign exchange contracts used to hedge sales of its Australian coal operations in US dollars. During 2001, the Australian coal operations were sold. The ferroalloys business unit's policy is not to hedge the Rand/US dollar exchange rate.

In 2001, the Xstrata AG Group acquired the Zinc Business. This operation will from time to time use forward exchange contracts in the normal course of business to offset the fluctuations in the underlying exposure to US dollar denominated expenditure. At 31 December 2001, it had unexpired forward foreign currency sales contracts totalling US\$190 million. The estimated unrealised exchange losses in connection with the existing US dollar forward contracts at 31 December 2001 amounted to US\$12.9 million.

### Enex Group

The Enex Group currently uses Australian dollars as its functional currency. The Enex Group's foreign exchange rate exposures comprise its monetary assets and monetary liabilities that are not denominated in the functional currency.

The Enex Group enters into forward foreign exchange contracts to sell foreign currencies in the future at a pre-determined exchange rate. The contracts are entered into to hedge sales receipts denominated in US dollars. The Enex Group has a policy of entering into forward foreign exchange contracts to hedge net foreign currency receipts as sales contracts are concluded or when such contracts have a high probability of being concluded. The Enex Group will only hedge foreign currency receivables in respect of the subsequent 18 months of committed contractual sales.

### Duiker Group

The Duiker Group currently uses the Rand as its functional currency. The Duiker Group's foreign exchange rate exposures comprise its monetary assets and monetary liabilities that are not denominated in the functional currency.

Prior to the purchase of the Duiker Group by Glencore, the Duiker Group entered into foreign exchange contracts to manage its exposure to certain foreign denominated liabilities. The Duiker Group also entered into foreign exchange contracts to manage its exposure to foreign denominated sales. The foreign currency loan has since

## Part V Operating and financial review

been converted into Rand and the practice of entering into foreign exchange contracts has since been discontinued in terms of the current holding company mandate.

### Commodity price risk management

Fluctuations in commodities prices have had an effect on the sales prices achieved by the Xstrata AG, Enex and Duiker Groups. In the past, primarily the Xstrata AG Group has used derivative financial instruments and long-term supply contracts with fixed prices to offset the fluctuations in the global market prices of its products. The Enex Group and the Duiker Group have sold their coal production both on the spot market and on the basis of supply contracts with negotiated prices and volumes.

The Xstrata AG Group has entered into a number of commercial arrangements to reduce its exposure to unexpected decreases in the global market price of its products. The Xstrata AG Group has an offtake agreement with Glencore International, its marketing agent, for seven million pounds per annum of its South African vanadium pentoxide production at a fixed price of US\$3.65 per pound and US\$3.80 per pound for the years 2001 and 2002, respectively. Any surplus arising between the fixed prices and the delivered customer prices is shared between the Xstrata AG Group and the agent.

The Xstrata AG Group's Zinc Business has purchased LME zinc futures to hedge potential market price fluctuations from the time the zinc concentrate is bought to the time when the zinc metal is sold. The purpose of these derivative financial instruments is to hedge risk of any potential fluctuations in the market value of the zinc concentrate that has been purchased from third parties for processing and subsequent resale as zinc metal. As at 31 December 2001, the estimated deferred gain from the Xstrata AG Group's zinc hedges was US\$7.1 million.

### Interest rate risk management

The Xstrata AG, Enex and Duiker Groups finance their operations through a mixture of retained earnings and bank borrowings. Borrowings are made at floating rates. In addition, the Xstrata AG, Enex and Duiker Groups have floating rate financial assets including bank accounts, which attract interest at commercial rates. Interest rate fluctuations can have a negative effect on the interest payments for and receivables from these liabilities and assets.

A summary of the Group's financial liabilities (excluding finance lease obligations) and their interest rate profiles is set out below:

	Financial liabilities At 31 December 2001 US\$000	Benchmark rate for variable interest rate
<b>Variable rate borrowings</b>		
Xstrata AG Group		
US\$	468,290	LIBOR
ZAR	30,604	SA prime rate
Euro	2,090	LIBOR
Overdraft	1,349	LIBOR
	502,333	
Enex Group		
US\$	302,017	LIBOR
A\$	21,609	Australian BBSW
	323,626	
Duiker Group		
ZAR	47,948	SA prime rate

### Certain recent and proposed accounting pronouncements

As a result of a European Commission Proposal for Regulation issued on 15 February 2001, all UK listed companies will be required to prepare consolidated accounts under International Accounting Standards from 2005.

The Accounting Standards Board has indicated that it will probably not issue further UK accounting standards during the period to 2005.

Recently issued UK accounting standards include FRS 17 Retirement benefits, FRS 18 Accounting policies and FRS 19 Deferred tax.

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FRS 18 and FRS 19 have been adopted in the presentation of financial information included in Part VI.

The disclosure requirements of FRS 17 have been applied to material items included in Part VI of this document. The Group will be required to implement additional disclosure requirements of FRS 17 in its next accounting period and to reflect all of the accounting and disclosure requirements of the standard for the year ending December 2004. These requirements relate mainly to defined benefit schemes and amounts recognised in the profit and loss account, and the statement of total recognised gains and losses.

In addition, the fair value of all of the Group's defined benefit pension scheme liabilities will be reflected on the balance sheet.

### Past forecast financial information

On 7 August 2001 Enex and Glencore Overseas AG published an institutional offer memorandum and retail prospectus in connection with a proposed global offer of shares in Enex and the proposed admission of its share capital to the official list of the Australian Stock Exchange Limited (the "ASX") and quotation of the shares on the ASX. The institutional offer memorandum and retail prospectus contained certain forecast financial information in respect of the Enex Group and the Duiker Group for the years ending 31 December 2001 and 2002. On 26 February 2002, Enex and Glencore Overseas AG lodged a Supplementary Prospectus with the Australian Securities and Investments Commission which stated that, subject to the completion of the Acquisitions and the Merger, Enex and Glencore Overseas AG had decided not to proceed with the retail and institutional offers and not to seek the listing of Enex on the ASX. Such forecast financial information was prepared based upon certain assumptions and estimates which were stated to be subject to a wide variety of significant business, economic and competitive risks and uncertainties, and actual results have differed, and are expected to differ from those forecasts. In addition, such forecasts were prepared in accordance with Australian GAAP and on a basis which is not relevant to the position of the Group. Accordingly, the Company does not accept any responsibility for such forecasts and no reliance should be placed on them.

### Recent developments

On 13 March 2002, the Enex Group completed its acquisition of the Ravensworth Group mines from Coal & Allied Industries Limited. Coal & Allied purchased the interests through its acquisition of Peabody Resources Ltd in 2001. The Enex Group's interests are in two operating coal mines and one project, grouped as follows:

- Narama is an operating opencut mine, in which the Enex Group has a 50% interest. The other 50% is held by Iluka Resources Ltd;
- Ravensworth East is an operating opencut mine and is held 100% by the Enex Group; and
- the Ravensworth West project is held 100% by the Enex Group.

The Enex Group has also agreed to acquire the land on which the Ravensworth West project is situated. This acquisition will be completed as soon as subdivision approval is obtained from local authorities.

### Current trading and prospects

The operating performance of the Group is influenced, to a significant degree, by commodity prices and exchange rates, primarily the Rand/US\$, the A\$/US\$ and the Euro/US\$ exchange rates. <sup>6.G.1</sup>

#### Coal Business

##### *The Australian operations*

Since 31 December 2001, the Australian operations have experienced high demand in certain key markets whilst unit prices have generally remained steady. Attributable sales for January and February 2002 amounted to approximately 3.7 million tonnes compared with a budget of 3.5 million tonnes for that period. Attributable sales have also been considerably higher than those achieved by the Australian operations in January and February 2001 partly as a result of the acquisitions of several mines during 2001. Attributable sales during January and February 2002 were higher than attributable sales (including attributable sales from those mines acquired in 2001) for the corresponding period in the prior year. Average prices achieved by the Australian operations for export coal, which accounts for over 90% of sales, have varied between US\$28.15 to US\$34.75 per tonne. See "Financial information – Expected cash flow requirements – Turnover and operating costs" in Part VI.

The Australian dollar has strengthened slightly against the US dollar since 31 December 2001 although average rates are consistent with those experienced during 2001. The Enex Group had hedged forward its exposure to

Australian dollar commitments. Accordingly, the movement in exchange rates has had limited impact upon the results of the Australian operations during the current period.

The Directors currently expect that the trading volumes of the Australian operation will be significantly higher than in 2001 due principally to the effect of the mines acquired during 2001 but also as a result of increased production and demand. The potential impact resulting from movements in the Australian dollar is expected to continue to be largely hedged. The Directors expect the combination of these features to have a positive impact upon activity levels and margins.

### **The South African operations**

Attributable sales for the South African operations for January and February 2002 amounted to 2.5 million tonnes compared with attributable sales achieved in January and February 2001 of 2.8 million tonnes. Average prices achieved by the South African operations for export coal and domestic coal since 31 December 2001 have been marginally lower than the forecast for 2002 of US\$29.60 per tonne and US\$8.32 per tonne, respectively. See "Financial information – Expected cash flow requirements – Turnover and operating costs" in Part VI.

Average Rand/US\$ exchange rates have remained broadly constant since 31 December 2001 as compared with prevailing rates during December 2001. Trading results for February 2002 indicate a performance slightly better than that of the corresponding period of the prior year.

The Directors expect the South African operations to maintain steady sales volumes during the remainder of 2002.

### **Zinc Business**

Production and sales volumes of the Zinc Business have increased during the first two months of 2002 compared to volumes experienced in the corresponding period in the prior year reflecting the expansion of the San Juan de Nieva smelting plant's capacity in July 2001. Market prices for zinc declined during January and February 2002 to levels below those observed at the end of 2001. The Directors expect total sales volumes for refined zinc in 2002 to exceed volumes experienced in 2001 as a result of the Zinc Business's increased smelting capacity.

### **Ferroalloys Business**

The results of the Ferroalloys Business improved during the first two months of 2002 compared to the corresponding period in the prior year. Sales volumes of the vanadium operations have increased during the first two months of 2002 compared to the volumes experienced in the corresponding period in the prior year although prices have declined and are below the levels experienced during the corresponding period in the prior year.

Prices for ferrochrome remain close to historic lows but have marginally improved during the first two months of 2002 although prices remain lower than those experienced in the corresponding period in the prior year. Attributable sales of ferrochrome were higher than those achieved during the corresponding period in the prior year reflecting improved trading conditions compared to the weak conditions observed in the corresponding period in the prior year.

The Directors believe that sales of both ferrochrome and vanadium will continue to recover during the remainder of 2002.

The average Rand/US\$ exchange rate during January and February 2002 has been weaker than the average Rand/US\$ exchange rate during the same period in the prior year and this has partly led to the improved profitability of the Ferroalloys Business in US dollar terms. The average Rand/US\$ exchange rate has remained broadly constant during the current period.

### **The Group**

As described above, the Group's trading and prospects are influenced to a significant degree by commodity prices and exchange rates against the US dollar.

Management expects that the completion of the Acquisitions, the Merger and Admission will create a platform for growth and provide the Group with increased access to international capital markets. The Group will utilise this platform to pursue further acquisitions and to fund the ongoing development of its existing businesses. In particular, the Group will seek to maintain its position as a cost competitive producer thereby maximising returns.

The Directors are satisfied with the current trading and prospects of the Group.