

THE UNIFICATION OF  
THE RTZ CORPORATION PLC  
AND CRA LIMITED

RTZ



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If you have sold or transferred all your shares in The RTZ Corporation PLC, please send this document, together with enclosed RTZ Circular and form of proxy, at once to the purchaser or transferee or to the stockbroker, bank or other agent through or to whom the sale or transfer was effected for transmission to the purchaser or transferee.

The issue of this document has been approved by committees of the board of directors of RTZ and of the board of directors of CRA. The RTZ Directors, whose names appear in paragraph 3 of Part VI, accept responsibility for all the information contained in this document relating to RTZ. The CRA Directors, whose names also appear in paragraph 3 of Part VI, accept responsibility for all the information contained in this document relating to CRA. The RTZ Directors accept responsibility for all the other information contained in this document.

The board of directors of RTZ and the board of directors of CRA confirm, with respect to the parts of this document for which each is responsible, that, to the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Part V of this document contains the text of a report by Morgan Stanley Australia Limited ("Morgan Stanley"), as independent expert, in accordance with the requirements of the Australian Securities Commission and the Listing Rules of the Australian Stock Exchange. This report includes the text of a report by Anderson & Schwab, Inc. to Morgan Stanley. These reports represent solely the views of the authors and have not been adopted or approved by the boards of directors of RTZ or CRA.

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### Exchange rate

The exchange rate as at 14 November 1995 of £1 : 2.1097 A\$ has been used throughout this document unless the context requires otherwise. In particular, in relation to the historic financial information set out in Part II and Part III, profit and loss accounts are translated at the average rates of exchange for the relevant periods and balance sheets are translated at period end exchange rates.

### TIMETABLE OF EVENTS

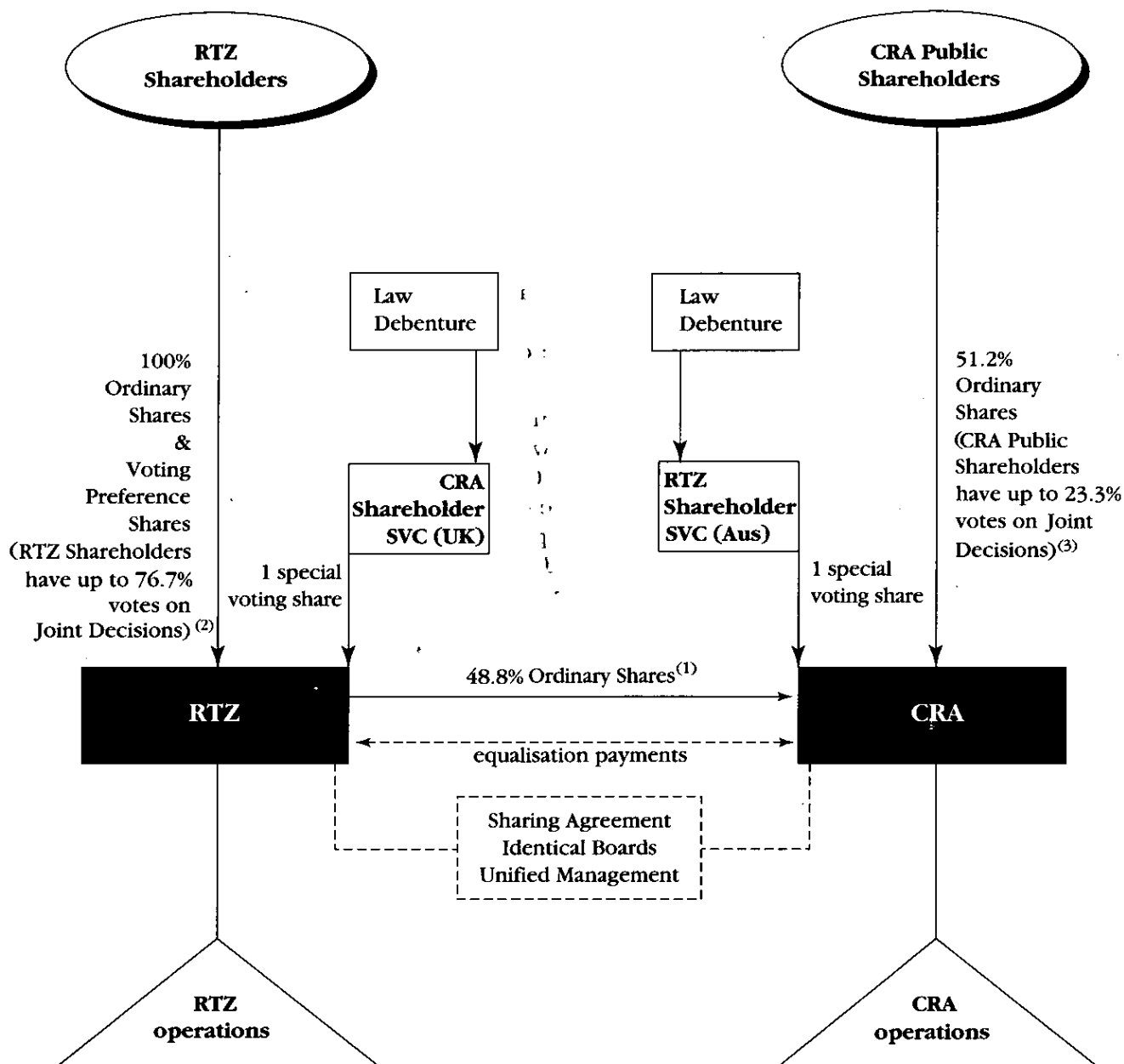
General Meeting of CRA	10.00 a.m. (Melbourne time) on Wednesday, 20 December 1995
Extraordinary General Meeting of RTZ	11.00 a.m. (London time) on Wednesday, 20 December 1995
Expected implementation date	Thursday, 21 December 1995

## Part I

### DETAILS OF THE DUAL LISTED COMPANIES ("DLC") MERGER

#### 1. Introduction

On 3 November 1995, RTZ and CRA entered into an implementation agreement (the "Implementation Agreement") which sets out the terms and conditions for the implementation of the DLC merger. This Part contains a summary of the principal terms of the Implementation Agreement and of the arrangements to be put into effect pursuant to it. The following is a simplified illustration of the structure of the Combined Group after implementation of the DLC merger.



#### Notes

1. These shares are held by Tinto Holdings Australia, an indirect subsidiary of RTZ.
2. The votes attached to the RTZ Ordinary Shares and the RTZ Voting Preference Shares represent 76.7 per cent. of the maximum number of votes which could be cast on Joint Decisions by shareholders in the Combined Group. These votes will be reflected at a general meeting of CRA by the votes cast by RTZ Shareholder SVC in respect of the CRA Special Voting Share and the votes cast by Tinto Holdings Australia in respect of its 48.8 per cent. holding of Ordinary Shares in CRA.
3. The votes attached to the CRA Ordinary Shares held by CRA Public Shareholders represent 23.3 per cent. of the maximum number of votes which could be cast on Joint Decisions by shareholders in the Combined Group. These votes will be reflected at a general meeting of RTZ by the votes cast by CRA Shareholder SVC in respect of the RTZ Special Voting Share.
4. The difference between the figures for voting rights referred to in notes 2 and 3 above and the figures for the economic interests of the holders of RTZ Ordinary Shares and Public Holders of CRA Ordinary Shares referred to in paragraph 2 below is due to the voting rights attaching to the RTZ Voting Preference Shares.

## **2. Outline of the DLC merger**

Under the DLC merger structure, RTZ and CRA will continue as separate publicly quoted companies, retaining their corporate identities. The structure does not involve any change in the legal or beneficial ownership of any assets of the RTZ Group or the CRA Group. Rather, the DLC merger is to be effected by contractual arrangements and amendments to the companies' memoranda and articles of association designed to ensure that, as far as possible, the RTZ Group and the CRA Group operate together as a single economic enterprise. Amongst other things, the arrangements will:

- confer upon the shareholders of RTZ and CRA a common economic interest in both groups;
- provide for common boards of directors and a unified management structure;
- provide for equalised dividends and capital distributions;
- provide that the shareholders of RTZ and of CRA will take certain key decisions, including the election of directors, through a joint electoral procedure in which the Public Holders of the two companies will effectively vote on a joint basis.

The initial economic interests of holders of RTZ Ordinary Shares and holders of CRA Ordinary Shares in the Combined Group have been determined by reference to stock market valuations of RTZ and CRA during the period from 3 January 1995 to 6 October 1995 (the last dealing date before announcement of the DLC merger proposal). On the basis of those valuations, following the implementation of the DLC merger, holders of RTZ Ordinary Shares will hold collectively an economic interest in 76.5 per cent. of the Combined Group and Public Holders of CRA Ordinary Shares will hold collectively an economic interest in 23.5 per cent. of the Combined Group. On a per share basis, this means that the economic interest represented by 1 CRA Ordinary Share would equal the economic interest represented by 1.075 RTZ Ordinary Shares.

In order that, following implementation, the economic interests of each CRA Ordinary Share relative to each RTZ Ordinary Share will be exactly 1 to 1, CRA will make a bonus issue to its shareholders of 7.5 Ordinary Shares for every 100 existing Ordinary Shares. On the basis of this 1 to 1 ratio, the DLC arrangements will provide that the amount of any dividend or capital distribution per RTZ Ordinary Share must be matched by an equal amount of dividend or capital distribution per CRA Ordinary Share. If one company has insufficient reserves to make the equalised dividend or distribution, the other company, subject to certain exceptions, will make an equalisation payment to provide the necessary funds. The ratio of dividend, voting and capital distribution rights of each CRA Ordinary Share to each RTZ Ordinary Share is referred to as the "Equalisation Ratio". The Equalisation Ratio will be adjusted in the event of certain alterations to the share capital of RTZ or CRA such as rights issues, bonus issues, share splits and share consolidations. The Equalisation Ratio may also be adjusted by approval by special resolutions passed at separate meetings of the Public Holders of CRA and RTZ.

The voting rights of RTZ Public Shareholders and CRA Public Shareholders on matters to be decided by the joint electoral procedure will also reflect the principle that one RTZ Ordinary Share will have equal rights to one CRA Ordinary Share while the Equalisation Ratio is 1 to 1. This will be achieved by establishing special voting mechanisms which effectively give CRA Ordinary Shares and RTZ Ordinary Shares one vote per share (and RTZ Voting Preference Shares four votes per share) on a Joint Decision. The mechanism will result in each vote cast on an Ordinary Share (and, in the case of RTZ, on a RTZ Voting Preference Share) on a Joint Decision at a general meeting of RTZ or CRA effectively also being cast at a parallel general meeting of the other. If the Equalisation Ratio is adjusted, the ratio of voting rights per share will also be adjusted accordingly.

On implementation, the Equalisation Ratio will result in the votes attaching to shares held by RTZ Public Shareholders representing up to 76.7 per cent. of the votes at meetings of RTZ and CRA addressing Joint Decisions with the votes attaching to shares held by CRA Public Shareholders representing the balance.

## **3. The DLC merger**

### **(a) Implementation of the DLC merger**

Under the terms of the Implementation Agreement, RTZ and CRA have agreed, subject to the satisfaction of the conditions referred to in paragraph 3(b) below, among other things:

- (i) to achieve the structure described in paragraph 2 above, by CRA allotting and issuing the CRA Bonus Shares to holders of CRA Ordinary Shares on the register on the books' closing date for the issue, by CRA allotting and issuing the CRA Special Voting Share to RTZ Shareholder SVC and by RTZ allotting and issuing the RTZ Special Voting Share to CRA Shareholder SVC;
- (ii) to enter into the Sharing Agreement to regulate their relationship following the implementation of the DLC merger;
- (iii) to enter into the Deed Poll Guarantees whereby RTZ and CRA each agree to guarantee certain present and future obligations of the other;
- (iv) to enter into the CRA Shareholder Voting Agreement;
- (v) to enter into, and in the case of RTZ to procure the entry by R.T.Z. Australian Holdings Limited ("RTZ Australian Holdings") into, the RTZ Shareholder Voting Agreement;
- (vi) in the case of RTZ, to enter into the RTZ Shareholder SVC Trust Deed; and
- (vii) that the board of directors of each of RTZ and CRA will make such appointments as are necessary to ensure that all the directors of the other company are also members of its own board of directors.

**(b) Approvals and consents**

Under the terms of the Implementation Agreement, completion of the DLC merger is conditional upon, and will occur shortly after, the following conditions which remain to be fulfilled:

- (i) the passing at a general meeting of RTZ of the resolutions set out in the notice of that meeting in the RTZ Circular which, among other things, approve the implementation of the DLC merger and make changes to RTZ's Memorandum and Articles of Association;
- (ii) the passing at a general meeting of CRA of the resolutions set out in the notice of that meeting in the CRA Circular which, among other things, approve the implementation of the DLC merger and make changes to CRA's Memorandum and Articles of Association;
- (iii) the European Commission making a decision in terms satisfactory to both parties that in connection with the DLC merger or any matter arising therefrom it will not initiate proceedings under Article 6(1)(c) of Council Regulation (EEC) 4064/89 (the Merger Regulation) or make a referral to a competent authority under Article 9(1) thereof;
- (iv) either:
  - a) RTZ receiving written advice from the Australian Treasurer under the Foreign Acquisitions and Takeovers Act 1975 of Australia that the Commonwealth Government of Australia has no objection to the DLC merger, which is either unconditional or subject to conditions which are acceptable to both parties; or
  - b) the period provided under the Foreign Acquisitions and Takeovers Act 1975 of Australia during which the Treasurer may make an order under that Act (including an interim order under section 22) in relation to the DLC merger passing without such an order being made; or
  - c) if an interim order under section 22 of the Foreign Acquisitions and Takeovers Act 1975 of Australia is made, the subsequent period for making a final order prohibiting the DLC merger passing without a final order being made; and
  - d) RTZ and CRA receiving from or on behalf of the Australian Treasurer the confirmations and approvals sought in the application by RTZ to the Foreign Investment Review Board which are either unconditional or subject to conditions which are acceptable to the parties;
- (v) (unless both parties agree to waive this condition) the Australian Securities Commission having issued a modification of section 615 of the Corporations Law of Australia (the "Corporations Law") so that any person who acquires more than 20 per cent. of the voting power in CRA (otherwise than in connection with the DLC merger) would be required to comply with, or obtain a modification of, the provisions of Chapter 6 of the Corporations Law (see paragraph 8 below);

- (vi) the Australian Stock Exchange having granted such waivers and approvals as the parties may agree to be necessary or appropriate for implementation of the DLC merger on terms which are acceptable to RTZ and CRA;
- (vii) the appointment of directors of RTZ Shareholder SVC approved by RTZ and CRA and entry by the relevant parties into the RTZ Shareholder SVC Trust Deed and the RTZ Shareholder Voting Agreement in the agreed form;
- (viii) the appointment of directors of CRA Shareholder SVC approved by RTZ and CRA and the entry by the relevant parties into the CRA Shareholder Voting Agreement in the agreed form;
- (ix) disclosure by each of RTZ and CRA to the other of all information in its possession which is either material to the recommendation of the board of directors of the other to its shareholders to vote in favour of the resolutions to be proposed at the general meetings referred to in paragraphs 3(b)(i) or (ii) above (as the case may be) or which would (if it had been disclosed before notice of such meetings were dispatched) have been sufficiently material to disclose to shareholders of the relevant company if disclosed prior to dispatch of its notice of meeting; and
- (x) between the close of the meetings referred to in paragraphs 3(b)(i) and (ii) above and the time of completion of the DLC merger, no material adverse change having occurred in the business or financial or operating performance of the RTZ Group or the CRA Group and no information concerning events relating to one group coming to the attention of either of the boards of directors which would, in the opinion of the board of directors of the unaffected party, have resulted in it making a recommendation to its shareholders to vote against the resolutions referred to in paragraph 3(b)(i) or (ii) above, as the case may be.

If any condition is not satisfied on or before 29 February 1996, or such later date as RTZ and CRA may agree, the Implementation Agreement will lapse and neither party will have any claim against the other under it. Completion of the Implementation Agreement will take place shortly after these conditions have been fulfilled.

#### **(c) 1995 dividends**

The board of directors of RTZ has stated its intention to pay two further interim dividends for the year ending 31 December 1995, comprising a conventional dividend of 8 pence per RTZ Ordinary Share and a Foreign Income Dividend of 13 pence per RTZ Ordinary Share. It is expected that these dividends will be paid in the second half of April 1996. No further dividends will be paid for the year ending 31 December 1995.

The board of directors of CRA has stated its intention that the final dividend for the year ending 31 December 1995 will be 35 cents per CRA Ordinary Share. It is expected that this dividend will be paid in the second half of April 1996. The CRA Bonus Shares will not rank for this dividend but will rank for all subsequent dividends equally with all other CRA Ordinary Shares.

Except for these dividends for the year ending 31 December 1995, following implementation of the DLC merger all dividends of RTZ and CRA are to be paid in accordance with the principles contained in the Sharing Agreement.

#### **(d) CRA Bonus Shares**

As soon as practicable after completion of the DLC merger, CRA will announce the terms of the issue of the CRA Bonus Shares (including the books' closing date in respect of the issue). It is anticipated that fractional entitlements arising on the CRA Bonus Issue will be rounded upwards.

CRA will allot and issue the CRA Bonus Shares not more than 30 days after completion of the DLC merger.



#### **4. Continuing arrangements**

The Sharing Agreement, the amended Memorandum and new Articles of Association of each of RTZ and CRA, the RTZ Shareholder Voting Agreement, the CRA Shareholder Voting Agreement, the RTZ Deed Poll Guarantee and the CRA Deed Poll Guarantee will contain provisions governing the future operations and relationship of RTZ and CRA. The principal effect of these is summarised below, with the equalisation arrangements being described in paragraph 5 below.

The shareholders of RTZ and CRA will not be parties to or have any contractual rights under the Sharing Agreement, the RTZ Shareholder Voting Agreement, the CRA Shareholder Voting Agreement, the RTZ Deed Poll Guarantee or the CRA Deed Poll Guarantee. Only the parties to those agreements will have the power to enforce the rights and obligations conferred pursuant to such agreements in accordance with their respective terms. The shareholders of RTZ and CRA will not have any interest in the RTZ Special Voting Share or the CRA Special Voting Share.

##### **(a) Management**

Under the Sharing Agreement, RTZ and CRA will agree, among other things, to ensure that the businesses of the RTZ Group and the CRA Group are managed on a unified basis for the benefit of the shareholders of RTZ and CRA as a combined group. Furthermore, each of RTZ and CRA will do all acts and things necessary and within their respective powers to ensure that the board of directors of RTZ and the board of directors of CRA comprise the same individuals.

##### **(b) Voting**

Under the DLC merger, a special voting structure will be put in place to allow the shareholders of each of RTZ and CRA effectively to vote together as a joint electorate on significant matters specified in the Sharing Agreement affecting the shareholders of RTZ and CRA in similar ways.

The special voting structure involves the following:

- Each of RTZ and CRA issuing a special voting share in itself (the "RTZ Special Voting Share" and the "CRA Special Voting Share" respectively) to separate special purpose companies, in the case of the RTZ Special Voting Share to CRA Shareholder SVC and in the case of the CRA Special Voting Share to RTZ Shareholder SVC, such shares having the rights summarised in paragraphs 4(e) and 4(f) below.
- Voting agreements being entered into in respect of each of the RTZ Special Voting Share and the CRA Special Voting Share which, in combination with the Articles of Association of each of RTZ and CRA, will regulate the manner in which the votes attaching to such shares will be cast at general meetings of RTZ and CRA, as summarised in paragraphs 4(g) and 4(h) below.
- Special provisions in the RTZ Shareholder Voting Agreement will apply in relation to RTZ's indirect interest of approximately 49 per cent. of CRA and any other Ordinary Shares in CRA to which any member of the RTZ Group may be beneficially entitled from time to time. The CRA Ordinary Shares held by the RTZ Group are held by Tinto Holdings Australia which is an indirect subsidiary of RTZ Australian Holdings, which in turn is an indirect subsidiary of RTZ.

##### **(c) Voting categories**

There will be two specific categories of matters or actions requiring shareholder decisions referred to in the Sharing Agreement and the Articles of Association of each of RTZ and CRA, with a residual category of other decisions which are not specifically designated, as follows:

- Joint Decision matters: those matters requiring Joint Decisions under the Sharing Agreement are significant matters affecting the shareholders of RTZ and CRA in similar ways and are required to be submitted to meetings of both RTZ and CRA for approval by shareholders voting at separate meetings but acting as a joint electorate. Parallel general meetings will be held and polls at such meetings will (as regards the relevant Special Voting Shares and, in the case of CRA, the CRA

Ordinary Shares held by Tinto Holdings Australia) be kept open long enough to allow the votes of the relevant Special Voting Shares (and, in the case of CRA, votes attaching to the CRA Ordinary Shares held by Tinto Holdings Australia, which are required to be voted in accordance with the RTZ Shareholder Voting Agreement) to be cast although the polls may be closed earlier for other shares.

- Class Rights Actions: these are matters on which RTZ's and CRA's Shareholders may have divergent interests and which require the approval of the Public Holders of the company not proposing to take the action and, in some cases, the approval of the company proposing to take the action. The mechanisms to ensure that these approvals are obtained are described in paragraph 4(c)(ii) below.
- Other matters: the boards of directors of both RTZ and CRA may agree on the appropriate procedure for each matter which requires shareholder approval but which is not specified under the Sharing Agreement as being either a Joint Decision matter or a Class Rights Action. Decisions on such matters may be taken by Joint Decision, by separate approval of a Class Rights Action of one or both companies or by decision of the Public Holders of the affected company alone or (in the case of procedural matters put to a meeting at which a Joint Decision matter is to be considered) by a decision on which the Public Holders can vote and proxies will be given to the chairman of the meeting by the holder of the Special Voting Share in the affected company (and, in the case of CRA, Tinto Holdings Australia) (see paragraph 4(d)(iv)).

#### *(i) Joint Decisions*

Matters which, under the Sharing Agreement and the Articles of Association of each of RTZ and CRA, require a Joint Decision are as follows:

- a) the appointment or removal of a director of RTZ and/or CRA;
- b) the receipt or adoption of the annual accounts of RTZ and/or CRA (if shareholders are to be asked to vote on the receipt or adoption of such accounts);
- c) a change of name by RTZ and/or CRA;
- d) any proposed acquisition or disposal, and any proposed transaction with a substantial shareholder, director or other related party, which requires shareholder approval pursuant to any applicable laws or regulations (including listing rules);
- e) the appointment or removal of the auditors of RTZ and/or CRA;
- f) the creation of a new class of shares (or securities convertible into, exchangeable for or granting rights to subscribe for or purchase shares of a new class) in RTZ or CRA;
- g) a change in the corporate status or re-registration of RTZ and/or CRA;
- h) the acceptance by any member of the RTZ Group of any third party offer to CRA Shareholders generally to acquire their CRA Ordinary Shares or any disposal by any member of the RTZ Group of any CRA Ordinary Shares while such offer for CRA Ordinary Shares remains open for acceptance; and
- i) any other matter which the board of directors of RTZ and the board of directors of CRA agree should be decided upon by a Joint Decision.

#### *(ii) Class Rights Actions*

Matters which, under the Sharing Agreement and the Articles of Association of each of RTZ and CRA, would constitute a Class Rights Action by the proposing company are as follows:

- a) a reduction or redemption of its ordinary share capital by way of a capital repayment to the holders of its Ordinary Shares or a cancellation of unpaid ordinary share capital;
- b) a purchase of its own Ordinary Shares;

- c) an offer of shares or other securities for subscription or purchase to existing ordinary shareholders by way of rights in circumstances where matching offers are not made to ordinary shareholders of both companies and where the size of the offer exceeds the most Limiting Restriction (this term is defined in the Sharing Agreement and means, in essence, the most restrictive limitation under applicable English or Australian law and regulations (including listing rules) upon cash placements of shares or other securities, other than to existing holders pro rata to their existing holdings, in a particular period, after taking into account any other issues in the particular period, made by either RTZ or CRA. The most restrictive limitation is then applied by reference to the combined capital of RTZ and CRA held by Public Holders taking into account the Equalisation Ratio. The most restrictive limitations which will be in force on implementation of the DLC merger are the requirements of the UK Investment Protection Committees which have the effect of limiting such placements to 5 per cent. or less of the issued ordinary share capital in any one year period and 7.5 per cent. of such ordinary share capital in any three year period);
- d) an offer of shares or other securities for subscription or purchase to existing shareholders otherwise than by way of rights at below market value;
- e) any decision to enter into voluntary liquidation;
- f) any adjustment to the Equalisation Ratio (other than as provided for in the Sharing Agreement);
- g) any amendment to, or the termination of, the Sharing Agreement, the RTZ Shareholder Voting Agreement or the CRA Shareholder Voting Agreement other than minor amendments or, in the case of the RTZ Shareholder Voting Agreement or the CRA Shareholder Voting Agreement, amendments to conform such agreement with the terms of the Sharing Agreement;
- h) amendments to certain provisions of the Memorandum and Articles of Association of RTZ or CRA; and
- i) any other matter which the board of directors of RTZ and the board of directors of CRA agree should be a Class Rights Action.

Sales of CRA Ordinary Shares held by any member of the RTZ Group and sales of RTZ Ordinary Shares held by any member of the CRA Group will be treated as though they are issues of unissued Ordinary Shares for the purposes of paragraph 4(c)(ii)c) above.

Where a Class Rights Action is proposed by RTZ or CRA, the action must be approved as summarised below. The approval thresholds for various types of Class Rights Actions are set out immediately below. The voting procedures at such meetings are described in paragraph 4(d) below.

The approval threshold for Class Rights Actions falling within paragraphs 4(c)(ii)c) and d) is such ordinary or special resolutions (if any) as are required by applicable laws and regulations to be passed by the company proposing to take the action on which only the Public Holders of that company vote and an ordinary resolution of the Public Holders of the other company.

The approval threshold for Class Rights Actions falling within paragraphs 4(c)(ii)a), b), e), f) and g) is separate special resolutions of the Public Holders of both companies.

Class Rights Actions falling within paragraph 4(c)(ii)i) will require approval under one of the above thresholds as decided by the board of directors of RTZ and the board of directors of CRA.

The following two paragraphs relate to Class Rights Actions under paragraph 4(c)(ii)h).

In relation to amendments to Clause 4(A) of the Memorandum of Association of RTZ and amendments to certain provisions of RTZ's Articles of Association significant to the DLC structure and any other provision of the RTZ Memorandum and Articles of Association which the board of directors of CRA and the board of directors of RTZ agree should be treated in the same way as these provisions, the approval threshold is a special resolution of the RTZ Shareholders (on which the non-public shareholders do not vote) and on which the CRA Public Shareholders have an effective veto unless they assent to the amendments by special resolution (see paragraph 4(f) below).

In relation to amendments to Clauses 2(1), 5 and 6 of the Memorandum of Association of CRA and amendments to certain provisions of CRA's Articles of Association significant to the DLC structure and any

other provision of the CRA Memorandum and Articles of Association which the board of directors of CRA and the board of directors of RTZ agree should be treated in the same way as these provisions, the approval threshold is a special resolution of the CRA Shareholders (on which the non-public shareholders do not vote) and on which the RTZ Public Shareholders have an effective veto unless they assent to the amendments by special resolution (see paragraph 4(e) below).

**(d) Voting procedures**

*(i) Joint Decisions*

Each Joint Decision will be submitted for approval by the same majority (i.e. both by ordinary or both by special resolution) to separate meetings of the shareholders of both RTZ and CRA. The meetings will be held on the same day or as closely in time to each other as practicable (taking into account the fact that directors may wish to attend both meetings).

a) RTZ

At the RTZ shareholders' meeting, voting will be on a poll which will (as regards the RTZ Special Voting Share) remain open for sufficient time to allow the parallel CRA general meeting to be held and for the votes attaching to the RTZ Special Voting Share to be ascertained and cast. On the poll:

- each RTZ Ordinary Share will have one vote per share;
- each RTZ Voting Preference Share will continue to have four votes per share;
- CRA Shareholder SVC, as holder of the RTZ Special Voting Share, will have one vote per CRA Ordinary Share cast by CRA Public Shareholders on the poll on the equivalent resolution at the parallel CRA general meeting. (This will only change if the Equalisation Ratio is adjusted). Under the CRA Shareholder Voting Agreement, CRA Shareholder SVC will be obliged to cast these votes for and against the relevant resolution strictly (and only) in accordance with the votes cast for and against the equivalent resolution on the poll at the parallel CRA shareholders' meeting by CRA Public Shareholders who are not excluded from voting at CRA general meetings by CRA's Articles of Association or at RTZ general meetings by RTZ's Articles of Association.

Thus, CRA Public Shareholders will not actually hold, or need to hold, any voting shares in RTZ, as the wishes of CRA Public Shareholders will be expressed at the RTZ meeting by CRA Shareholder SVC casting its votes on the RTZ Special Voting Share precisely to reflect voting at the parallel CRA shareholders' meeting.

b) CRA

Special provisions apply in relation to the CRA Ordinary Shares held by Tinto Holdings Australia. If Tinto Holdings Australia transfers any CRA Ordinary Shares to another member in the RTZ Group, or any member of the RTZ Group comes to own any further CRA Ordinary Shares, then the arrangements described below in relation to the CRA Ordinary Shares held by Tinto Holdings Australia will also apply to those shares.

At the CRA shareholders' meeting, voting will be on a poll which will (as regards the CRA Special Voting Share and the CRA Ordinary Shares held by Tinto Holdings Australia) remain open for sufficient time to allow the parallel RTZ general meeting to be held and for the votes attaching to the CRA Ordinary Shares held by Tinto Holdings Australia and the CRA Special Voting Share to be ascertained and cast. On the poll at the CRA meeting:

- each holder of CRA Ordinary Shares (including Tinto Holdings Australia, but subject to the paragraph below) will have one vote per share;
- RTZ Shareholder SVC, as holder of the CRA Special Voting Share, will have one vote for each RTZ Ordinary Share and four votes for each RTZ Voting Preference Share cast by RTZ Public Shareholders on the poll on the equivalent resolution at the parallel RTZ general meeting

(both as adjusted in respect of changes in the Equalisation Ratio) less the number of votes attached to the CRA Ordinary Shares held by Tinto Holdings Australia. Under the RTZ Shareholder Voting Agreement, RTZ Australian Holdings will be obliged to procure that Tinto Holdings Australia will cast the votes attached to the CRA Ordinary Shares held by it, and RTZ Shareholder SVC will be obliged (if necessary) to cast votes attached to the CRA Special Voting Share, for and against the relevant resolution strictly (and only) in accordance with the votes cast for and against the equivalent resolution on the poll at the parallel RTZ shareholders' meeting by the Public Holders (who are not excluded from voting at CRA general meetings or RTZ general meetings under the Articles of Association of CRA or RTZ respectively) of RTZ Ordinary Shares and RTZ Voting Preference Shares.

Thus, RTZ Public Shareholders will not actually hold, or need to hold, any voting shares in CRA, as the wishes of RTZ Public Shareholders will be expressed at the CRA meeting by Tinto Holdings Australia casting the votes on its CRA Ordinary Shares and (if necessary) RTZ Shareholder SVC casting its votes on the CRA Special Voting Share, precisely to reflect voting at the parallel RTZ shareholders' meeting.

The RTZ Voting Agreement provides for the votes on the CRA Special Voting Share and the CRA Ordinary Shares held by Tinto Holdings Australia to be cast in a particular order on Joint Decisions. To the extent that (taking into account the Equalisation Ratio) votes cast by RTZ Shareholders at the parallel RTZ meeting are less than or equal to the number of votes attaching to CRA Ordinary Shares held by Tinto Holdings Australia, votes will be cast on these CRA Ordinary Shares. Any votes which it is necessary to cast in excess of this number in order to reflect votes cast at the parallel RTZ meeting will be cast on the CRA Special Voting Share.

The results of the Joint Decision will be announced after both polls have closed.

*(ii) Class Rights Actions*

The following voting arrangements will apply in relation to Class Rights Actions:

a) RTZ

Each Public Holder of RTZ Ordinary Shares who is not excluded under RTZ's Articles of Association from voting at RTZ general meetings will have one vote per share. Each Public Holder of RTZ Voting Preference Shares who is not excluded under RTZ's Articles of Association from voting at RTZ general meetings will continue to have four votes per share. CRA Shareholder SVC, as holder of the RTZ Special Voting Share, will have no voting rights except in relation to resolutions to amend certain provisions of RTZ's Memorandum and Articles of Association (see paragraph 4(c)(ii) above), in which case CRA Shareholder SVC will be given and will be obliged to exercise sufficient votes to defeat the resolution unless the CRA Public Shareholders have approved the amendment by special resolution. In relation to other Class Rights Actions proposed to be taken by RTZ, the written consent of CRA Shareholder SVC is required before the matter can be undertaken. This consent cannot be given unless the CRA Public Shareholders have approved the matter by the approval threshold set out in paragraph 4(c)(ii) above, in which case consent must be given.

b) CRA

Each CRA Public Shareholder who is not excluded under CRA's Articles of Association from voting at CRA general meetings will have one vote per share. CRA Ordinary Shares held by RTZ or its subsidiaries will not be eligible to vote. RTZ Shareholder SVC, as holder of the CRA Special Voting Share, will have no voting rights except in relation to amendments to certain provisions of CRA's Memorandum and Articles of Association (see paragraph 4(c)(ii) above), in which case RTZ Shareholder SVC will be required to withhold its consent to such amendments and to exercise sufficient votes to defeat the amendment unless the RTZ Public Shareholders have approved the amendment by special resolution. In relation to other Class Rights Actions proposed to be undertaken by CRA, the written consent of RTZ Shareholder SVC is required before the matter can be undertaken. This consent cannot be given unless the RTZ Public Shareholders have approved

the matter by the approval threshold set out in paragraph 4(c)(ii) above, in which case consent must be given.

*(iii) Amendments to resolutions*

Provisions will be included in the Articles of Association of each of RTZ and CRA so that, except as permitted by the chairman of the meeting, 48 hours' advance notice of amendments validly proposed by shareholders to resolutions must be given in order for the amendment to be considered. This is designed to allow any amendment to be considered at both meetings, if two meetings are required to be held.

*(iv) Procedural resolutions*

At any general meeting of RTZ or CRA at which any Joint Decision matter is to be considered, Tinto Holdings Australia and RTZ Shareholder SVC (if necessary) or CRA Shareholder SVC (as the case may be) will provide a proxy to the chairman of the meeting so that the votes attached to the CRA Ordinary Shares held by Tinto Holdings Australia and the votes attaching to the relevant Special Voting Share can be cast on procedural resolutions at that meeting as the chairman of the meeting may determine. The number of votes which can be cast on the CRA Special Voting Share or, as appropriate, the CRA Ordinary Shares held by Tinto Holdings Australia and (if necessary) the RTZ Special Voting Share in these circumstances is calculated by reference to the proxy votes given by Public Holders in respect of any Joint Decision matter to be considered at the parallel meeting or, if the parallel meeting has already been held, the maximum number of votes cast by Public Holders on any Joint Decision matter at that meeting. Procedural resolutions comprise all resolutions put to a general meeting of shareholders which were not included in the notice of such meeting but nevertheless fell to be considered by that meeting.

**(e) RTZ Shareholder SVC**

RTZ Shareholder SVC is a company incorporated in Australia the whole of the share capital of which is held by The Law Debenture Trust Corporation p.l.c. ("Law Debenture") and whose directors are not permitted by its constitution to be directors of any member of the RTZ Group or the CRA Group. By the terms of the RTZ Shareholder SVC Trust Deed, Law Debenture will hold the shares in RTZ Shareholder SVC on trust for the holders of RTZ Ordinary Shares and the holders of RTZ 'B' Shares from time to time. Such RTZ shareholders will have no rights to direct Law Debenture as to the exercise of its discretionary powers in relation to the shares in RTZ Shareholder SVC. RTZ and CRA will have the right together to call for the shares in RTZ Shareholder SVC to be transferred to a new trustee. It has been agreed that Law Debenture will receive a fee from RTZ for acting as trustee under the RTZ Shareholder SVC Trust Deed.

*(i) Rights of CRA Special Voting Share*

CRA will issue the CRA Special Voting Share to RTZ Shareholder SVC, such share having the following rights:

- on a Joint Decision, one vote for each RTZ Ordinary Share, and four votes for each RTZ Voting Preference Share, voted on the poll on the equivalent resolution at the parallel RTZ general meeting by RTZ Public Shareholders (who are not excluded from voting at RTZ or CRA general meetings) subject to adjustments to the Equalisation Ratio, less the number of votes cast on the CRA Ordinary Shares held by Tinto Holdings Australia at the CRA general meeting (these votes are only to be cast in accordance with the RTZ Shareholder Voting Agreement described in paragraph 4(g) below);
- a Class Rights Action by CRA will generally be deemed to be a variation of the rights of the CRA Special Voting Share, meaning that the written consent of RTZ Shareholder SVC will be required, which will only be given if the RTZ Public Shareholders have approved the Class Rights Action by the applicable approval threshold (see paragraph 4(c)(ii) above);
- in relation to a resolution to amend certain provisions of CRA's Memorandum and Articles of Association (see paragraph 4(c)(ii) above), the CRA Special Voting Share will carry sufficient votes to defeat the resolution unless the RTZ Public Shareholders have approved the amendment by special resolution. In relation to such resolutions, the written consent of RTZ Shareholder SVC is also required and such consent will only be given if the RTZ Public Shareholders have approved the amendment by special resolution.

- no right to dividends;
- on any winding-up of CRA, the right to a return of capital paid up (namely A\$2) and no further rights;
- such share will only be transferable in the circumstances described in paragraph 4(c)(ii) below; and
- the share will be beneficially owned by RTZ Shareholder SVC.

*(ii) Transfer of the CRA Special Voting Share*

RTZ Shareholder SVC may transfer the CRA Special Voting Share on giving not less than three months' written notice without assigning any reason, provided that a transferee of the CRA Special Voting Share satisfactory to RTZ and CRA has been found which has agreed to be bound by the RTZ Shareholder Voting Agreement.

RTZ and CRA acting together may require RTZ Shareholder SVC to transfer the CRA Special Voting Share to a transferee of their choice, either:

- if RTZ Shareholder SVC or Law Debenture is in breach of the RTZ Shareholder Voting Agreement; or
- following the passing of separate special resolutions by the CRA Public Shareholders and the RTZ Public Shareholders to the effect that RTZ Shareholder SVC should transfer the CRA Special Voting Share.

*(iii) Remuneration of RTZ Shareholder SVC*

It has been agreed that RTZ Shareholder SVC will be paid a fee by RTZ for the performance of its obligations under the RTZ Shareholder Voting Agreement.

**(f) CRA Shareholder SVC**

CRA Shareholder SVC is a company incorporated in England and Wales formed as a special purpose subsidiary of Law Debenture. The Articles of Association of CRA Shareholder SVC do not permit its directors to be directors of any member of the CRA Group or the RTZ Group. Law Debenture holds the shares in CRA Shareholder SVC legally and beneficially, although, apart from the fees mentioned in paragraph 4(f)(iii) below, Law Debenture does not benefit financially from this holding. It is intended that these shares will subsequently be held on trust for the Public Holders of CRA Ordinary Shares from time to time, subject to CRA obtaining a favourable ruling from the Australian Taxation Office that that course of action will not adversely affect the tax position of those shareholders.

*(i) Rights of RTZ Special Voting Share*

RTZ will issue the RTZ Special Voting Share (which has a nominal value of 10p) to CRA Shareholder SVC for £1, such share having the following rights:

- on a Joint Decision, one vote for each CRA Ordinary Share voted on the poll on the equivalent resolution at the parallel CRA shareholders' meeting by CRA Public Shareholders who are not excluded from voting at RTZ or CRA general meetings, subject to adjustment to the Equalisation Ratio;
- a Class Rights Action by RTZ will generally be deemed to be a variation of the rights of the RTZ Special Voting Share, meaning that the written consent of CRA Shareholder SVC will be required, which will only be given if the CRA Public Shareholders have approved the Class Rights Action by the applicable approval threshold (see paragraph 4(c)(ii) above);
- in relation to a resolution to amend certain provisions of RTZ's Memorandum and Articles of Association (see paragraph 4(c)(ii) above), the RTZ Special Voting Share will carry sufficient votes

to defeat the resolution unless the CRA Public Shareholders have approved the amendment by special resolution;

- right to a fixed preferential dividend of 1 penny per annum;
- on any winding-up of RTZ, the right to a return of capital paid up (namely 10 pence) and no further rights;
- such share will only be transferable in the circumstances described in paragraph 4(f)(ii) below; and
- the share will be beneficially owned by CRA Shareholder SVC.

*(ii) Transfer of the RTZ Special Voting Share*

CRA Shareholder SVC may transfer the RTZ Special Voting Share on giving not less than three months' written notice without assigning any reason, provided that a transferee of the RTZ Special Voting Share satisfactory to RTZ and CRA has been found which has agreed to be bound by the CRA Shareholder Voting Agreement.

RTZ and CRA acting together may require CRA Shareholder SVC to transfer the RTZ Special Voting Share to a transferee of their choice, either:

- if CRA Shareholder SVC or Law Debenture is in breach of the CRA Shareholder Voting Agreement; or
- following the passing of separate special resolutions by the CRA Public Shareholders and the RTZ Public Shareholders to the effect that CRA Shareholder SVC should transfer the RTZ Special Voting Share.

*(iii) Remuneration of CRA Shareholder SVC*

It has been agreed that CRA Shareholder SVC will be paid a fee by CRA for the performance of its obligations under the CRA Shareholder Voting Agreement.

**(g) RTZ Shareholder Voting Agreement**

- (i) The RTZ Shareholder Voting Agreement, among other things, regulates the manner in which RTZ Shareholder SVC exercises the votes attaching to the CRA Special Voting Share and requires RTZ Australian Holdings to procure that Tinto Holdings Australia exercises the votes attached to the CRA Ordinary Shares held by it in the prescribed manner.
- (ii) As referred to in paragraph 4(d) above, on a Joint Decision, RTZ Australian Holdings will procure that, and RTZ Shareholder SVC will agree that, at the relevant meeting of CRA, Tinto Holdings Australia votes the CRA Ordinary Shares held by it and RTZ Shareholder SVC exercises the votes attached to the CRA Special Voting Share so that the votes attached to those shares are, subject to adjustment to the Equalisation Ratio, cast on a one-for-one basis in the same manner as the votes attached to the RTZ Ordinary Shares and RTZ Voting Preference Shares are cast on the poll on the equivalent resolution at the parallel general meeting of RTZ. The order in which such votes are cast is described in paragraph 4(d) above.
- (iii) RTZ Shareholder SVC agrees with RTZ and CRA that, in the case of a variation or a deemed variation of the rights of the CRA Special Voting Share, RTZ Shareholder SVC will give its consent to the variation or deemed variation but only if such variation or deemed variation has been approved by RTZ Public Shareholders by the approval threshold set out in paragraph 4(c)(ii) above.
- (iv) In the case of any resolution to amend certain provisions of CRA's Memorandum and Articles of Association (see paragraph 4(c)(ii) above), RTZ Shareholder SVC is required to withhold its consent to such amendments and to exercise sufficient votes on the CRA Special Voting Share to defeat the resolution unless the RTZ Public Shareholders have approved the amendment by special resolution (see paragraph 4(d) above).



(v) The process in relation to procedural decisions at meetings of CRA is described in paragraph 4(d)(iv) above.

**(h) CRA Shareholder Voting Agreement**

- (i) The CRA Shareholder Voting Agreement, among other things, regulates the manner in which CRA Shareholder SVC exercises the votes attaching to the RTZ Special Voting Share.
- (ii) As referred to in paragraph 4(d) above, on a Joint Decision, CRA Shareholder SVC agrees with CRA that, at the relevant meeting of RTZ, the votes attaching to the RTZ Special Voting Share are, subject to adjustment to the Equalisation Ratio, cast on a one-for-one basis in the same manner as the votes attached to CRA Ordinary Shares held by CRA Public Shareholders are cast on the poll on the equivalent resolution at the parallel general meeting of CRA.
- (iii) CRA Shareholder SVC agrees with CRA and RTZ that, in the case of a variation or a deemed variation of the rights of the RTZ Special Voting Share, CRA Shareholder SVC will give its consent to the variation or deemed variation but only if such variation or deemed variation has been approved by the CRA Public Shareholders by the approval threshold set out in paragraph 4(c)(ii) above.
- (iv) In the case of any resolution to amend certain of the provisions of RTZ's Memorandum and Articles of Association (see paragraph 4(c)(ii) above), CRA Shareholder SVC is required to exercise sufficient votes on the RTZ Special Voting Share to defeat the resolution unless the CRA Public Shareholders have approved the amendment by special resolution (see paragraph 4(d) above).
- (v) The process in relation to procedural decisions at meetings of RTZ is described in paragraph 4(d)(iv) above.

**(i) Deed Poll Guarantees**

The Deed Poll Guarantees to be entered into by RTZ and CRA guarantee certain obligations of the other. Each of these documents is described below.

*(i) RTZ Deed Poll Guarantee*

Under the Implementation Agreement, RTZ has agreed with CRA to issue the RTZ Deed Poll Guarantee on completion of the DLC merger in respect of:

- certain contractual obligations of CRA; and
- certain contractual obligations of other persons ("Principal Debtors") which are guaranteed by CRA.

Pursuant to the RTZ Deed Poll Guarantee, RTZ will guarantee the payment by CRA or the relevant Principal Debtor of certain obligations and will undertake to pay on demand any amounts due and unpaid in respect of such obligations if for any reason CRA or the relevant Principal Debtor does not make payment in respect of such obligations on their due date.

The obligations to be covered by the RTZ Deed Poll Guarantee exclude the following obligations incurred by CRA or by any Principal Debtor that are guaranteed by CRA:

- any obligation explicitly guaranteed in writing by RTZ otherwise than under the RTZ Deed Poll Guarantee;
- any obligation incurred under an arrangement which explicitly provides that the obligation is not to be guaranteed by RTZ;
- obligations for punitive, exemplary or multiple damages;
- obligations owed to RTZ or to any of its subsidiaries or subsidiary undertakings or to any subsidiary or controlled entity (as defined in the Corporations Law) of CRA;

- obligations of CRA under or in connection with any guarantee by CRA of any obligation of RTZ;
- obligations excluded from the scope of the RTZ Deed Poll Guarantee (pursuant to certain provisions of the RTZ Deed Poll Guarantee, RTZ can specify future obligations of a particular type, or particular future obligations, which are to be excluded from the scope of RTZ’s guarantee but only if CRA agrees to the exclusion); and
- obligations of CRA under a guarantee, or of any Principal Debtor guaranteed by that guarantee, to the extent that the guaranteed obligation is not a contractual obligation or is of a type excluded as referred to above.

Beneficiaries of the RTZ Deed Poll Guarantee may make demand upon RTZ without first having recourse to CRA, the Principal Debtor or any other person.

The RTZ Deed Poll Guarantee will automatically terminate if the Sharing Agreement terminates or ceases to have effect. RTZ may also terminate the RTZ Deed Poll Guarantee in certain circumstances (but in general only if CRA agrees to the termination). No termination of the RTZ Deed Poll Guarantee will be effective with respect to any existing obligation (that is, an obligation incurred before or arising out of any obligation incurred before, or any credit or similar facility available for use at, the time at which the termination becomes effective).

*(ii) CRA Deed Poll Guarantee*

CRA has agreed with RTZ to issue a reciprocal guarantee for the benefit of certain creditors of RTZ in like terms to those mentioned in (i) above on completion of the DLC merger (the “CRA Deed Poll Guarantee”).

**(j) Restrictions on share dealing**

RTZ and CRA (and their respective subsidiaries) may not sell or purchase or otherwise deal in any shares or other equity securities of the other company or take any action which will result in a change to the number of shares or other equity securities of the other company held by its group unless the board of directors of the other company resolves to consent to the sale, purchase, dealing or other action. The restrictions do not apply to any disposal or purchase by a party to or from its subsidiary or by a subsidiary of a party to or from another subsidiary of that party or to that party or to any disposal by the RTZ Group of CRA Ordinary Shares in the circumstances described in paragraph 4(k) below. Nor do the restrictions apply to a party participating in a dividend re-investment plan of the other party or receiving an entitlement under a rights issue or bonus issue of the other party.

RTZ is obliged to procure that, if any member of the RTZ Group (including Tinto Holdings Australia) owns any CRA Ordinary Shares, either such member, or a parent company of such member enters into an agreement having an effect similar to that which the RTZ Shareholder Voting Agreement has in respect of the CRA Ordinary Shares owned by Tinto Holdings Australia.

**(k) Change of control**

Provisions are to be included in the proposed Articles of Association of RTZ and CRA designed to ensure that a person cannot exercise control of one company without having made offers to the public shareholders of both companies. The Australian Securities Commission (the “ASC”) has agreed to modify section 615 of the Corporations Law as it applies to CRA, so that the Law will apply not only to acquisitions of voting shares in CRA, but also to acquisitions of voting power in relation to Joint Decisions. The effect of these provisions, in conjunction with the City Code on Takeovers and Mergers (the “City Code”) as it applies to RTZ, is as follows:

*(i) Articles of Association*

a) Thresholds

The Articles of Association of each of RTZ and CRA will impose certain restrictions on any person who (alone or together with that person’s associates or concert parties) can directly or indirectly

cast or control the casting of 20 per cent. or more of the votes on a Joint Decision. However, if that person does not hold interests in voting shares in both RTZ and CRA, the restrictions only apply if that person is also directly or indirectly able to cast on a poll 30 per cent. or more of the votes generally exercisable at general meetings of the relevant company (ignoring any votes cast by the Special Voting Share).

Corresponding restrictions apply under the Articles of both companies. Therefore, a person whose interest exceeds the thresholds and who has shares in RTZ will suffer the restrictions in RTZ's Articles unless that person (or a member of the same group of companies) makes an offer for CRA Ordinary Shares as described under "Offers" in paragraph d) below. Conversely, a person whose entitlement exceeds the thresholds and who has shares in CRA will suffer the restrictions in CRA's Articles unless that person (or an associate or concert party of that person) makes an offer for RTZ Ordinary Shares as described under "Offers" in paragraph d) below. These provisions work in conjunction with a view to ensuring that offers for both RTZ Ordinary Shares and CRA Ordinary Shares are likely to be required to avoid the restrictions, even if the interests or entitlements which breach the control threshold are initially held in only one of the companies concerned.

b) Interests and entitlements

For this purpose, the interests of a person in RTZ Ordinary Shares and RTZ Voting Preference Shares are aggregated to include interests of all persons who are acting in concert with that person under an agreement of the kind described in section 204 of the UK Companies Act. Entitlements to CRA shares (as determined under the Corporations Law) include shares in which the associates of the person concerned have relevant interests (that is, broadly, an actual or deemed power to control, or exercise control over, the disposal or voting of those shares). Where a person would otherwise have an entitlement to CRA voting shares by virtue of being associated with another person, but has the benefit of a modification or exemption from the operation of section 615 of the Corporations Law in respect of that entitlement, that entitlement is disregarded for the purpose of the change of control provisions.

c) Restrictions

The restrictions set out below may be imposed in respect of a "Relevant Holding" (i.e. an interest in RTZ Ordinary Shares and RTZ Voting Preference Shares and/or an entitlement to CRA Ordinary Shares which exceeds the thresholds described above which is not a "Permitted Holding" (see below)) if the person who has the Relevant Holding is not a "Permitted Person" (see below). The restrictions will apply where the directors of the relevant company have given notice to any person identified by them as having a Relevant Holding (including, in the case of RTZ's Memorandum and Articles, any person who is deemed by the directors to have a Relevant Holding after making reasonable inquiries) and, if different, the registered holders of the shares. Once such a notice has been served:

- any holder of the shares concerned may not attend or vote at general meetings of the relevant company, or exercise any other rights of a member at such a meeting (and no votes of that holder will be reflected at meetings of the other company);
- dividends and other distributions made by the relevant company in respect of the shares concerned will be withheld without interest; and
- the directors may compulsorily divest sufficient of the shares concerned if such notice is not complied with

until the Relevant Holding has been reduced below the required thresholds. The restrictions will cease to apply once the person affected by the notice or a member of the same group of companies, has made an offer for the Ordinary Shares in the other company which that person does not already own, as described in paragraph d) below.

These restrictions will not apply to certain categories of "Permitted Persons" who have Relevant Holdings, as described below.

d) Offers

The restrictions in RTZ's Articles and CRA's Articles will not apply to a person who, as a result of offers for all outstanding RTZ and CRA Ordinary Shares (or a scheme of arrangement), holds voting shares in each company carrying more than 50 per cent. of the total voting rights of all shares held by Public Holders in each company. Such offers (or scheme) can be made on any terms, provided that they do not become unconditional, and thereby breach the control threshold in either company, at less than the 50 per cent. threshold.

A person who holds an interest in RTZ Ordinary Shares and RTZ Voting Preference Shares or an entitlement to CRA Ordinary Shares in excess of the thresholds described in paragraph (i)a) above may also be released from the restrictions in those companies' respective Articles if that person, or an associate or concert party of that person, has made an offer on the following terms for all the Ordinary Shares in the other company not already owned by that person or a member of that person's group:

- the offer may be conditional upon a comparable offer for the Ordinary Shares in the other company becoming unconditional, but must be otherwise unconditional, or subject only to such conditions as are required in a mandatory offer under the City Code (in the case of an offer for RTZ) or as are required by the Corporations Law (in the case of an offer for CRA);
- the offer must disclose the prices paid for RTZ and CRA Ordinary Shares by the offeror or its concert parties or associates over the 12 months before the threshold was exceeded;
- the offer must be in cash or include a cash alternative at a price not less than the highest price paid for RTZ or CRA Ordinary Shares as disclosed in the offer (appropriately adjusted to take account of changes to the share capitals, the Equalisation Ratio and the relative prices being cum or ex dividend);
- if no RTZ or CRA shares have been acquired by the offeror, its associates or concert parties in the 12 month period referred to above, the minimum offer price will be the higher of the market price of the RTZ Ordinary Shares and the market price of the CRA Ordinary Shares immediately prior to the offer (appropriately adjusted as above); and
- the offer must comply with the City Code (in the case of an offer for RTZ) or the Corporations Law (in the case of an offer for CRA.)

e) Permitted Persons and Permitted Holdings

The restrictions described above will not apply to persons and holdings falling within certain permitted categories, including the following:

- a person whose interest in RTZ Ordinary Shares and RTZ Voting Preference Shares or entitlement to CRA Ordinary Shares is held only as a bare trustee;
- a person who has made offers in accordance with the provisions described under "Offers" in paragraph d) above and the concert parties and associates of such a person;
- an interest or entitlement of a person who has acquired that interest in RTZ shares or that entitlement to CRA Ordinary Shares allotted or issued under arrangements approved by the directors, with a view to such shares being offered to the public within a period not exceeding three months; and
- an interest or entitlement of a person which arises only by virtue of the relevant person being entitled to exercise or control the exercise of 20 per cent. or more of the voting power at general meetings of another company which falls within one of the permitted categories of persons (including those described above).

*(ii) Corporations Law*

Section 615 of the Corporations Law applies to prohibit any person acquiring shares in CRA where that acquisition would result in any person becoming entitled to more than 20 per cent. of the voting shares

of CRA, except under a takeover offer or by one of the other means permitted under Part 6.2 of the Corporations Law (for example the acquisition of not more than 3 per cent. of CRA's voting shares in any 6 month period). Whilst the RTZ Group holds more than 20 per cent. of the voting shares in CRA, if a person and/or the associates of a person acquire the power to exercise more than 20 per cent. of the voting shares in RTZ, or otherwise acquire a controlling interest in RTZ, that person (and associates) will be deemed to acquire the same entitlement to CRA Ordinary Shares as is held by RTZ. This "downstream" takeover would breach section 615 unless the ASC granted a modification or exemption in accordance with its policies in relation to downstream takeovers.

The ASC has informed CRA that it proposes to modify the application of section 615 of the Corporations Law so that, in addition to the prohibition otherwise applicable under that section in respect of the acquisition of voting shares in CRA, any person is prohibited (except in one of the ways permitted by Part 6.2 of the Corporations Law) from acquiring shares in CRA or RTZ if as a result:

- a) a person not entitled to any "voting power" attached to voting shares in CRA, or entitled to less than 20 per cent. of such voting power (other than RTZ Shareholder SVC), would be entitled as a result to more than 20 per cent. of the voting power; and
- b) a person entitled to more than 20 per cent. but less than 90 per cent. of the voting power attached to voting shares in CRA (other than RTZ Shareholder SVC) would be entitled as a result to a greater percentage of the voting power.

For this purpose, "voting power" will include the power to cause the votes attached to the CRA Shares held by Tinto Holdings Australia and the CRA Special Voting Share to be cast at CRA meetings on Joint Decisions. An acquisition of shares in RTZ which has the effect of increasing a person's entitlement to voting power in CRA in this way will attract the operation of section 615 as modified. The section will then operate regardless of the percentage entitlement of the RTZ Group to CRA Ordinary Shares.

As a result, any person who becomes entitled to more than 20 per cent. of the total voting rights on Joint Decisions, whether through an interest in RTZ Ordinary Shares and RTZ Voting Preference Shares or an entitlement to CRA Ordinary Shares or both, will breach section 615 as modified unless that entitlement arises in one of the ways permitted by the Corporations Law in relation to the acquisition of voting shares in CRA (although a modification may be required to apply those exceptions to an acquisition of voting power). This section could apply in circumstances where the restrictions described above in CRA's Articles of Association do not. Those restrictions only apply if, in addition to having control of 20 per cent. of the votes at a CRA meeting on a Joint Decision, the relevant holder (if not interested in, or entitled to, shares in both RTZ and CRA) has an interest in at least 30 per cent. of the total votes attached to the RTZ Ordinary Shares and the RTZ Voting Preference Shares or an entitlement to at least 30 per cent. of CRA Ordinary Shares.

#### *(iii) City Code*

The City Code applies, *inter alia*, to require any person who, alone or together with persons acting in concert, acquires shares carrying 30 per cent. or more of the voting rights of RTZ to make offers for the equity shares in RTZ not already owned by that person. Such a mandatory offer, under Rule 9 of the City Code, is required to be in cash or be accompanied by a cash alternative at not less than the highest price paid for RTZ Ordinary Shares by the offeror or its concert parties in the preceding 12 months. Except with the consent of the Panel on Takeovers and Mergers, such offer must be conditional only on the offeror having received acceptances in respect of, or acquired or agreed to acquire, shares such that the offeror and its concert parties together hold shares carrying over 50 per cent. of the voting rights of RTZ. The offer must contain provisions addressing, so far as applicable, the possibility of reference to the UK Monopolies and Mergers Commission, or action by the European Commission.

The acceptance condition summarised above would also, under the City Code, be the minimum permitted in respect of a non-mandatory offer for RTZ.

#### *(iv) Combined effect*

On the basis of the Equalisation Ratio following implementation of the DLC merger (i.e. 1 to 1), and based on the numbers of RTZ shares and CRA shares currently held by Public Holders and, in the case of CRA, Tinto Holdings Australia, the provisions described above will have the following combined effect.

A person who acquires an interest in RTZ Ordinary Shares and RTZ Voting Preference Shares carrying 20 per cent. or more of the voting rights in RTZ will, whilst the RTZ Group holds 20 per cent. or more of CRA's voting shares, breach section 615 of the Corporations Law unless that person either makes a "downstream" takeover offer for CRA in accordance with the ASC's policies or otherwise obtains a modification or exemption from the ASC.

A person who acquires an entitlement to 20 per cent. or more of CRA's voting shares will breach section 615 of the Corporations Law unless that acquisition takes place in one of the ways permitted under Part 6.2 of the Corporations Law, including under a takeover offer for CRA or by means of the acquisition of not more than 3 per cent. of CRA's voting shares in any 6 month period.

A person who acquires an interest in RTZ Ordinary Shares and/or RTZ Voting Preference Shares and an entitlement to CRA Ordinary Shares which together enable that person to control more than 20 per cent. of the total voting rights on Joint Decisions will become subject to the restrictions in both RTZ's and CRA's Articles unless that person (or a member of the same group) has acquired shares carrying at least 50 per cent. of the total voting rights of shares in each company held by Public Holders as a result of offers (on any terms) or a scheme of arrangement, or makes cash offers for each company complying with the conditions in the other company's Articles.

A person who acquires interests in 30 per cent. of RTZ's voting shares will be required to make a mandatory offer for RTZ under the provisions of the City Code, as described above. Such an interest in RTZ voting shares will also cause the person concerned to control more than 20 per cent. of the voting rights on Joint Decisions. This will trigger the restrictions in RTZ's Articles unless an offer is made for all the CRA Ordinary Shares.

A person who acquires an entitlement to CRA Ordinary Shares which, alone or together with an interest in RTZ Ordinary Shares and RTZ Voting Preference Shares, causes the person concerned to control more than 20 per cent. of the voting rights on Joint Decisions, will breach section 615 of the Corporations Law (as modified) unless that acquisition occurs in one of the ways permitted under the Corporations Law (under an applicable exception, for which a modification may be necessary).

#### *(v) Sharing Agreement*

Under the Sharing Agreement, RTZ and CRA will agree to co-operate to enforce the restrictions in their respective Articles of Association described in paragraph (i) above.

Under the Sharing Agreement, restrictions will be placed on any member of the RTZ Group accepting any offer for CRA. If a third party makes an offer to CRA Shareholders generally to acquire CRA Ordinary Shares, RTZ will procure that, while such offer remains open for acceptance, no member of the RTZ Group will accept that offer, or otherwise dispose of, any CRA Ordinary Shares without the approval of an ordinary resolution of the RTZ Public Shareholders and the CRA Public Shareholders by Joint Decision. Any votes of the offeror and its associates (not including those who are only associates by virtue of having accepted or irrevocably undertaken to accept the relevant offer) on any such resolution will be disregarded.

#### **(l) Disclosure of information and intellectual property**

Pursuant to the Sharing Agreement, RTZ and CRA are obliged:

- subject to any third party obligation, to disclose to each other all information relating to their businesses and to use reasonable endeavours to obtain any necessary consents from third parties to such disclosure; and
- to permit members of the other group to use their intellectual property rights and to use reasonable endeavours to obtain any necessary permission from third parties to enable such use.

#### **(m) Accounting policies**

Pursuant to the Sharing Agreement, RTZ and CRA are obliged to:

- adopt the same accounting policies and practices (so far as may be permitted by law);

- ensure that each of their financial periods ends on the same date; and
- (unless and until the shareholders of RTZ and CRA decide otherwise by Joint Decision) appoint auditors from the same international accounting firm.

**(n) Conflicts between the Sharing Agreement and the Memoranda and Articles**

If there is any conflict between the Sharing Agreement and the RTZ Memorandum and Articles of Association or the CRA Memorandum and Articles of Association, an amendment to the relevant document will be proposed at a general meeting of RTZ and/or CRA as appropriate in order to conform it or them with the Sharing Agreement.

**(o) Amendments to the Sharing Agreement and the Voting Agreements**

In most cases, an amendment can only be made to the Sharing Agreement if the Public Holders of both companies have approved the amendment by special resolution (see paragraph 4(c)(ii) above). However, amendments which are formal or technical in nature and which are not materially prejudicial to the interests of the shareholders of either party or are necessary to correct any inconsistency or manifest error may be agreed between the board of directors of CRA and the board of directors of RTZ.

Similar provisions apply to the RTZ Shareholder Voting Agreement and the CRA Shareholder Voting Agreement (appropriately amended to take account of the interests of the other parties to these Agreements). In addition, amendments to conform either of these Agreements to the Sharing Agreement do not require any shareholder consent.

**5. Equalisation arrangements**

**(a) Objectives**

As described in paragraph 2 above, one of the main objectives of the equalisation arrangements is to confer on holders of Ordinary Shares in RTZ and CRA a common economic interest in the Combined Group through equalised dividends and capital distributions, so that they will be effectively in the same economic position as if they held shares in a single group which owned all the assets of both RTZ and CRA. As referred to in paragraph 2 above, the terms of the DLC merger will reflect the relative market values of the respective Ordinary Shares in RTZ and CRA from 3 January 1995 to 6 October 1995, being the latest dealing day prior to the announcement of the proposed DLC merger. Following the issue of the CRA Bonus Shares referred to in paragraph 2 above, the dividend and capital rights of each CRA Ordinary Share relative to each RTZ Ordinary Share will be exactly 1 to 1.

The following paragraphs of this section summarise how, under the Sharing Agreement and the Articles of Association of RTZ and CRA taken together, this objective is to be achieved in relation to income and capital distributions, and certain exceptions to it. These paragraphs also note circumstances in which an adjustment to the Equalisation Ratio may be required. Any adjustment to the Equalisation Ratio will also result in the ratio of voting rights per share being adjusted accordingly.

**(b) Income**

*(i) Timing of distributions*

The boards of directors of RTZ and CRA will resolve to pay dividends or make other distributions at board meetings held as close in time as is practicable. RTZ and CRA will co-operate:

- with a view to announcing their dividends and any other distributions, as far as practicable, simultaneously; and
- so far as practicable in co-ordinating the timing of all other aspects of dividend payments or the making of other distributions.

*(ii) Application of Equalisation Ratio*

RTZ and CRA have agreed, except in the case of their 1995 dividends and in exceptional circumstances referred to in paragraph 5(b)(vi) below, to pay dividends and make other distributions on their Ordinary Shares on the basis that the ratio of the dividend amount on one CRA Ordinary Share to the dividend amount on one RTZ Ordinary Share, converted using the Applicable Exchange Rate (referred to below), will be the Equalisation Ratio. Such equalisation will be on a net basis such that the amount of the dividend payable or proposed to be paid by each company, before any deduction of any amount required to be deducted or withheld on account of tax and excluding the amount of any associated tax credit, shall (subject to rounding) be equal. For example, if, applying the Applicable Exchange Rate, 15 pence is equivalent to 30 cents and the Equalisation Ratio remains 1 to 1:

- a) where RTZ pays a dividend of 15 pence per share, in respect of which advance corporation tax ("ACT") of 3.75 pence is due, then the amount of the dividend for equalisation purposes is 15 pence per share; or
- b) where RTZ pays a dividend of 15 pence per share which is a "foreign income dividend", then the amount of the dividend for equalisation purposes is 15 pence per share; or
- c) where CRA pays a franked dividend of 30 cents per share, in respect of which a franking credit of up to 16.875 cents may be available for Australian resident shareholders, then the amount of the dividend for equalisation purposes is 30 cents per share; or
- d) where CRA pays an unfranked dividend of 30 cents per share, in respect of which no franking credit is available, then the amount of the dividend for equalisation purposes is 30 cents per share.

It should be noted that no adjustment is made for any tax credits accruing to RTZ Shareholders in respect of ACT or foreign income dividends, or for any variation in the level of franking of CRA dividends.

*(iii) Applicable Exchange Rate*

RTZ will continue to declare and pay its dividends and other distributions in sterling, and CRA will continue to declare and pay its dividends and other distributions in Australian dollars. For any proposed dividend payment or other distribution by RTZ and CRA, the exchange rate used in applying the Equalisation Ratio will be the closing mid-point spot Australian dollar – sterling exchange rate on the business day before the latest date on which the Directors of RTZ and CRA resolve to pay or make any parallel dividend or other distribution, as shown in the London Edition of the Financial Times or such other point of reference as the parties shall agree. A business day, for this purpose, is any day on which banks are ordinarily open for business in both London and Melbourne, excluding Saturdays and Sundays. The boards of directors of RTZ and CRA will have power to agree a different basis for determining the exchange rate but would intend to give at least three months' notice to shareholders before implementing any such different basis.

*(iv) Funding of dividend payments by RTZ and CRA*

The dividends paid by RTZ and CRA will be paid from profits generated in RTZ or CRA (as the case may be) including dividends received from their various shareholdings in their respective groups. In the case of RTZ, this will also include dividends received from the RTZ Group's shareholding in CRA.

If either party (the "first party") does not have sufficient distributable reserves to pay or make any dividend or other distribution which its directors would otherwise intend to pay, the other party will, to the extent that it has sufficient distributable reserves after making allowance for the dividend or other distribution to be made to its own shareholders, make a payment to the first party or a distribution on its Equalisation Share (if it has been issued and if its board of directors decides to pay a dividend on the Equalisation Share rather than to make a payment under the Sharing Agreement) so far as it is practicable to do so, in order to ensure that the first party's distributable reserves are sufficient to pay such dividend or other distribution (and to account for any tax payable after taking into account any offsetting tax credits or losses, with respect to the receipt of the payment or distribution or the payment of such dividend or other distribution).



*(v) Equalisation Shares*

As part of the DLC merger, RTZ will amend its Articles of Association and obtain authority from its shareholders to allow for the issue of the Equalisation Share of 10p in RTZ (the "RTZ Equalisation Share") and CRA will amend its Articles of Association to allow for the issue of the Equalisation Share of A\$2 in CRA (the "CRA Equalisation Share"). If issued, the Equalisation Shares will allow one company to make any necessary equalisation payments by way of such dividends as the boards of directors of RTZ and CRA determine to be necessary or desirable to enable the other company to pay dividends on its Ordinary Shares equalised on the basis described in paragraph 5(b)(ii) above. These Equalisation Shares will, however, not be issued until the boards of directors of RTZ and CRA have agreed to do so and will only be issued if both Equalisation Shares are issued simultaneously by each company to the other or to any wholly owned subsidiary of the other.

While the Equalisation Shares remain unissued, any funding payments required to be made under paragraph 5(b)(iv) above would be by way of a contractual payment from one company to the other. However, even if the Equalisation Shares are subsequently issued, the boards of directors of RTZ and CRA would retain the flexibility to decide from case to case whether any necessary payment should be by way of dividend on the relevant Equalisation Share or contractual payment from one company to the other.

The shareholders of RTZ and CRA will not have any interest in the Equalisation Shares.

*(vi) Departure from Equalisation Ratio*

Either company may pay a dividend which is lower than the payment implied by the Equalisation Ratio if such payment, according to the Equalisation Ratio, would result in the payment of a dividend which it would be unlawful or contrary to applicable regulatory requirements to pay.

Where, on any occasion, there is such a departure from the Equalisation Ratio, reserves shall be established in one or other of the companies so as to be available for payment on the relevant shares at a later date. There shall be added to the reserves such amount of notional interest or other compensation to reflect the delay in receipt as RTZ and CRA may agree. Any amounts retained in the reserves will be paid to the persons entitled thereto when permitted under applicable laws and regulations.

Where, for any of the above reasons, dividends are announced by RTZ and CRA that do not reflect the Equalisation Ratio, that announcement will contain details of the reasons for departure from the Equalisation Ratio and the implications for future dividends (insofar as they are known).

**(c) Capital**

*(i) Application of Equalisation Ratio*

The capital rights provisions contained in the Sharing Agreement and the Articles of Association of each of RTZ and CRA give effect to the general principle that the Equalisation Ratio will be applied to distributions of capital to holders of each Ordinary Share of RTZ and CRA.

The obligation to make any equalisation payment described below arises under the Sharing Agreement and, if issued, may be paid on the Equalisation Shares. Any equalisation payment would be made by one company to the other. Any distribution by a company receiving an equalisation payment will be subject to the normal rules and restrictions governing distributions to shareholders of that company.

*(ii) Liquidation of one party only*

If either RTZ or CRA goes into liquidation, whether compulsory or voluntary:

- a) an equalisation payment will be made by one party to the other if either party has surplus assets available for distribution to the holders of its Ordinary Shares after payment of all creditors and holders of prior ranking classes of shares and the ratio of the surplus (if any) attributable to each CRA Ordinary Share held by a Public Holder to the surplus (if any) attributable to each RTZ Ordinary Share held by a Public Holder would not equal the Equalisation Ratio;

- b) an equalisation payment will not be made unless, after such payment, all amounts due on a return of assets on a liquidation to the following creditors and shareholders of the paying company can be paid to them:
- (1) statutory entitlements ranking ahead of entitlements of shareholders;
  - (2) the holders of shares ranking in priority to Ordinary Shares (other than shares of those classes listed below);
  - (3) the nominal amount paid up on the relevant Special Voting Share to the holder of that Share;
  - (4) if the relevant Equalisation Share has been issued, the nominal amount paid up on the relevant Equalisation Share to the holder of that share and any amounts credited to the holder of that share, or if the relevant Equalisation Share has not been issued, to the other company in any reserve in the books of the company established as described in paragraph 5(b)(vi) above; and
  - (5) to the holders of the company's Ordinary Shares any amount standing to their credit in any reserve described in paragraph 5(b)(vi) above;
- c) accounts of both companies shall be drawn up for the purpose of calculating the equalisation payment;
- d) the equalisation payment will result in the ratio of the amount available for distribution on each CRA Ordinary Share held by a Public Holder to the amount available for distribution on each RTZ Ordinary Share held by a Public Holder being equal to the Equalisation Ratio. Any amounts available for distribution to the Public Holders of Ordinary Shares in the company in liquidation will be distributed to those shareholders in accordance with the number of Ordinary Shares held by them; and
- e) the calculations are required to be undertaken and agreed between the liquidator of the company in liquidation and the auditor or liquidator of the other company and certified to the other company within a specific time frame. If they are unable to agree, the Sharing Agreement requires the appointment of an independent firm of chartered accountants to make the final determination.

To the extent that the liquidation provisions of the Sharing Agreement constitute either company a creditor of the other company (in liquidation), that company will be fully subordinated to all other creditors and holders of shares ranking in priority to Ordinary Shares of the company in liquidation.

The Sharing Agreement does not grant any rights enforceable by the shareholders of one company upon the liquidation of the other.

*(iii) Liquidation of both parties*

The same principles as apply in relation to (ii) above shall apply to a liquidation of both parties.

**(d) Adjustments to the Equalisation Ratio**

The Sharing Agreement provides that (except as described below) no adjustment shall be made to the Equalisation Ratio without the sanction of special resolutions of the Public Holders of each company.

In relation to the transactions set out below, the following adjustments to the Equalisation Ratio will take place:

*(i) Rights issue of Ordinary Shares*

If either RTZ or CRA shall offer its Ordinary Shares to the holders of its Ordinary Shares as a class by way of rights or to all the Public Holders of its Ordinary Shares by way of rights, the Equalisation Ratio shall be adjusted by multiplying the element of the Equalisation Ratio relating to the Ordinary Shares of the issuing company by the following fraction:

$$\frac{X + Z}{X + Y}$$

where:

- X is the number of Ordinary Shares of the issuing company which rank for the relevant offer;
- Y is the number of Ordinary Shares being offered to the shareholders of the issuing company; and
- Z is the number of Ordinary Shares of the issuing company which the aggregate amount (if any) payable for the Ordinary Shares offered by way of rights would purchase at the market price per Ordinary Share determined on the dealing day immediately preceding the date on which such shares are first traded ex-rights.

Such adjustment shall become effective from the time at which the Ordinary Shares of the issuing company are first traded ex-rights.

For the purposes of this paragraph, an offer by a member of the RTZ Group of CRA Ordinary Shares owned by it to CRA Public Shareholders by way of rights shall be treated as an offer and issue by CRA of such shares.

*(ii) Rights issue of other securities*

If either RTZ or CRA shall offer any securities (other than an offer falling within paragraph 5(d)(i)) to holders of its Ordinary Shares or the holders of the Ordinary Shares of the other as a class by way of rights or to the Public Holders of its Ordinary Shares or the Public Holders of the Ordinary Shares of the other or grant to such shareholders or Public Holders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any securities, the Equalisation Ratio shall be adjusted by multiplying the element of the Equalisation Ratio relating to the Ordinary Shares of the company the shareholders of which are to receive such offer or grant (the "Relevant Company") by the following fraction:

$$\frac{X - Y}{X}$$

where:

- X is the market price of one Ordinary Share of the Relevant Company determined on the dealing day immediately preceding the date such Ordinary Shares are first traded ex-rights; and
- Y is the average fair market value of the portion of the rights attributable to one Ordinary Share of the Relevant Company over the five dealing days immediately preceding the date on which such Ordinary Shares are first traded ex-rights as determined by a merchant bank of international repute, appointed by agreement between the Board of CRA and the Board of RTZ acting as expert and whose determination shall be final and binding on CRA and RTZ and all affected thereby.

Such adjustment shall become effective from the time at which the Ordinary Shares of the Relevant Company are first traded ex-rights.

*(iii) Alternative adjustment*

If the board of CRA and the board of RTZ agree that an adjustment in accordance with paragraphs (i) or (ii) would be inequitable as between holders of CRA Ordinary Shares and RTZ Ordinary Shares, then they may calculate the adjustment on some other basis which they agree to be appropriate. In these circumstances, the calculation shall be referred to the auditors of the two companies for them jointly to certify that the adjustment so calculated means that the relevant offer does not materially disadvantage a holder of an Ordinary Share of one company as against a holder of an Ordinary Share in the other. The auditors of the two companies shall act as experts and not as arbitrators in making such certification and their certificate shall be final and binding on CRA and RTZ and all others affected thereby.

*(iv) Subdivision and consolidation of shares*

If there shall be an alteration to the nominal value of the Ordinary Shares of either RTZ or CRA as a result of a consolidation or subdivision, the Equalisation Ratio shall be adjusted by multiplying the element of

the Equalisation Ratio relating to the Ordinary Shares of the company, the nominal value of the Ordinary Shares of which has altered, by the following fraction (or number):

$$\frac{X}{Y}$$

where:

X is the nominal amount of one Ordinary Share of such company immediately after such alteration; and

Y is the nominal amount of one Ordinary Share of such company immediately before such alteration.

Such adjustment shall become effective immediately after the alteration takes effect.

*(v) Bonus issue*

If either RTZ or CRA issues any Ordinary Shares credited as fully paid to ordinary shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than by way of a scrip dividend, the Equalisation Ratio shall be adjusted by multiplying the element of the Equalisation Ratio relating to the Ordinary Shares of the issuing company by the following fraction:

$$\frac{X}{Y}$$

where:

X is the aggregate nominal amount of the issued Ordinary Shares of the issuing company immediately before the issue; and

Y is the aggregate nominal amount of the issued Ordinary Shares of the issuing company immediately after such issue.

Such adjustment shall become effective from the time of the issue of such Ordinary Shares.

For the purposes of the adjustments to the Equalisation Ratio described in paragraphs (i) to (v) above, market price means, in respect of an Ordinary Share in CRA or RTZ at a particular date, the average value of one such Ordinary Share (being an Ordinary Share carrying a full entitlement to dividend) for or by reference to the period of five consecutive dealing days ending on such date determined on such basis as the boards of directors of RTZ and CRA agree to be appropriate. For the purpose of the definition of "Y" in paragraph (ii) above, the fair market value of the portion of the rights attributable to one Ordinary Share shall be calculated on a basis consistent with the calculation of the market price in the definition of "X" in the same paragraph.

The auditors for the time being of RTZ and CRA shall jointly certify the arithmetical adjustment to be made to the Equalisation Ratio in the circumstances set out above and in any other circumstances where an adjustment is made to the Equalisation Ratio and any adjustments so certified shall, in the absence of manifest error, be final and binding on the parties and on all others affected thereby.

**(e) Equalisation of assets on termination of the Sharing Agreement**

(i) On termination of the Sharing Agreement (otherwise than on the final winding up of CRA or RTZ), CRA and RTZ will each instruct a merchant bank of international repute to certify (using the same principles of valuation) the value of its net assets as at the date of termination and to approve the certified value of the net assets of the other party. Certification of the value of the net assets of the companies must be completed within six weeks after instruction. If the merchant banks are unable to agree the value of the net assets of one or both parties within four weeks of certification, the matter will be referred to a third merchant bank of international repute agreed between the parties (or in default of agreement, appointed by the President of the Law Society of England and Wales). The third merchant bank will be required to make its determination within four weeks of being appointed (unless the parties agree a longer period), which will be binding on CRA and RTZ and on all others affected thereby.

- (ii) If the ratio of the value of the net assets per Ordinary Share held by a CRA Public Shareholder to the net assets per RTZ Ordinary Share held by an RTZ Public Shareholder as so certified or determined does not equal the Equalisation Ratio, a payment will be made by one company to the other company of an amount that will result in that ratio being equal to the Equalisation Ratio (after providing for any tax on the receipt or in respect of the making of such payment and after taking into account any offsetting tax credits or losses).

## **6. Proposed Memorandum and Articles of Association of RTZ and of CRA**

### **(a) Summary of the proposed amendment to RTZ's Memorandum of Association**

As part of the implementation of the DLC merger, RTZ will, subject to the passing of a special resolution to be proposed at the RTZ Extraordinary General Meeting, amend the objects for which RTZ is established. The principal objects of RTZ will be to enter into, operate and carry into effect the Sharing Agreement, the RTZ Deed Poll Guarantee and any further agreements or arrangements with or in connection with CRA which are in the opinion of the RTZ Directors necessary or desirable in connection with the DLC merger and to carry on business as an investment holding company.

### **(b) Summary of RTZ's proposed Articles of Association**

As part of the implementation of the DLC merger, RTZ will by virtue of the passing of the special resolution referred to in (a) above, adopt new Articles of Association (the "Articles"). The new Articles are available for inspection as set out in paragraph 6 of Part VI below. The new Articles will contain (amongst others) provisions to the following effect:

#### *(i) Provisions relating to RTZ Shares*

##### **a) Share rights**

Subject to the Companies Act 1985 as amended (the "Companies Act") and every other statute for the time being in force concerning companies and affecting RTZ (the "Statutes") and other shareholders' rights (and in particular the fact that a separate approval as a Class Rights Action may be required as referred to in paragraph 4(c)(ii)c) and d) above), shares may be issued with such rights and restrictions as RTZ may by ordinary resolution determine or, if at any time no resolution is required by law, as the RTZ Directors may determine. Subject to the Statutes, redeemable shares may be issued. Subject to the Articles, the provisions of the Sharing Agreement and the Statutes, unissued shares are at the disposal of the RTZ Directors.

##### **b) Voting rights**

Every holder of RTZ Ordinary Shares present in person at a general meeting has, upon a show of hands, one vote and every such member present in person or by proxy has, upon a poll, one vote for every share held by him. Unless the RTZ Directors otherwise decide, voting rights may not be exercised by a member who has not paid to RTZ all calls and other sums then payable by him in respect of shares in RTZ, and voting rights will be subject to restrictions where a member has failed to provide RTZ with information concerning interests in those shares required to be provided under the Companies Act.

A holder of RTZ Voting Preference Shares (which, other than in the circumstances referred to in the following paragraph, will mean a holder of RTZ 'B' Shares) who is present in person has one vote on a show of hands and on a poll, whether present in person or by proxy, four votes for every RTZ Voting Preference Share held.

The RTZ 'A' Shares do not entitle the holders to vote on any resolution (other than on a winding up of RTZ, a reduction of share capital or a variation in the rights of the RTZ 'A' Shares) unless at the date of the notice convening the meeting the dividend payable on such shares is six months in arrear.

The RTZ Directors will have the power to disenfranchise holders of RTZ Ordinary Shares and RTZ Voting Preference Shares in the circumstances referred to in paragraph 4(k) above.

The holder of the RTZ Special Voting Share is entitled to vote on resolutions requiring Joint Decisions, on a resolution to amend certain of the provisions of RTZ's Memorandum and Articles of Association and on certain procedural matters, as referred to in paragraph 4(d)(iv) above.

The holder of the RTZ Equalisation Share is not entitled to vote on any resolution at a general meeting of RTZ.

c) Dividends

The RTZ Directors may declare dividends according to the financial position of RTZ. No approval from shareholders is required under the Articles.

The holders of RTZ 'A' Shares and RTZ 'B' Shares are entitled, rateably and in priority to any payment of dividend on any other class of RTZ share, to a fixed cumulative preferential net dividend of 3.325 per cent. per annum and 3.5 per cent. per annum respectively.

The RTZ Special Voting Share shall entitle its holder to a fixed preferential dividend of one penny per annum.

Subject to the special rights for the time being attached to the RTZ 'A' Shares and RTZ 'B' Shares but in priority to the payment of dividends on the RTZ Ordinary Shares, the RTZ Equalisation Share shall carry the right to such dividends as are provided for in the Sharing Agreement which are referred to in paragraph 5 above.

Subject to the special rights attaching to other classes of share, the profits available for distribution shall, subject to the Statutes, be distributed by way of dividend amongst holders of RTZ Ordinary Shares and the RTZ Equalisation Share.

The RTZ Directors may until the annual general meeting in the year 2000 and thereafter, if authorised by an ordinary resolution of RTZ and subject to a separate approval of a Class Rights Action (if applicable), offer holders of RTZ Ordinary Shares (other than holders of Share Warrants) in respect of any dividend the right to elect to receive RTZ Ordinary Shares by way of scrip dividend instead of cash.

The RTZ Directors may withhold payment of all or part of any dividends or other monies payable in respect of RTZ Shares from a person holding 0.25 per cent. or more of any class of RTZ Shares if such a person has been served with a direction notice in relation to a failure to provide RTZ with information concerning interests in those shares required to be provided under the Companies Act (a "Direction Notice").

RTZ may stop sending cheques, warrants or orders by post for any dividend on any shares if cheques for at least two consecutive dividend payments have remained uncashed or been returned undelivered.

Any dividend unclaimed for a period of 12 years after having been declared or become payable shall be forfeited and will thereupon revert to RTZ.

The RTZ Directors will have power to withhold dividends as described in paragraph 4(k).

d) Other distributions

In relation to a liquidation of RTZ, the Articles contain certain provisions relating to the manner and order in which assets are to be distributed to RTZ Shareholders. These provisions are designed to operate in conjunction with the provisions on liquidation set out in the Sharing Agreement (see paragraph 5(c) above).

In relation to a return of assets on liquidation, the Articles provide that the assets of RTZ available for distribution shall be applied in the following order:

- (1) repaying to holders of RTZ 'A' Shares and RTZ 'B' Shares amounts paid up on such shares together with the premium (if any) and any arrears of the fixed dividend. The premium is determined separately in relation to each of the RTZ 'A' Shares and the RTZ 'B' Shares:

- (A) if within six months of the relevant date, the relevant class of shares has not been listed on a recognised stock exchange in Great Britain, then the premium shall be five pence per relevant share;
- (B) if within six months of the relevant date, the relevant class of shares has been so listed, the premium shall be the sum per share equal to the greater of:
  - five pence per share; or
  - the excess (if any) over par of the average of the respective means of the daily quotations during the six month period (or such period as the shares have been listed if listing has been obtained within that period) after deducting from the mean on each day a sum equal to arrears of dividend on that share less an amount equivalent to income tax at the standard rate on such sum;
- (2) repaying amounts payable on a return of capital to other preference shareholders from time to time;
- (3) repaying to the holder of the RTZ Special Voting Share the nominal amount paid up on such share;
- (4) repaying to the holder of the RTZ Equalisation Share (if issued) the nominal amount paid up on such share and any amounts which have been provided for in a separate reserve of the books of RTZ in favour of CRA or in favour of the holder of the RTZ Equalisation Share (if issued) as compensatory payments for previous dividends or distributions which for any reason were lower than the amount otherwise payable in accordance with the Equalisation Ratio (e.g. due to some statutory limitation); and
- (5) paying to holders of Ordinary Shares any amounts provided for in a separate reserve for them as compensatory payments similar to those described above.

The amount of surplus assets of RTZ shall be determined by the liquidator. After a similar process is carried out by the liquidator of CRA (or, if CRA is not being wound up, the relevant amounts are determined by the auditor of CRA), if necessary, a distribution will be made on the RTZ Equalisation Share in priority to further distributions to holders of RTZ Ordinary Shares such that the ratio of the surplus (if any) attributable to each CRA Ordinary Share held by a Public Holder to the surplus (if any) attributable to each RTZ Ordinary Share held by a Public Holder would equal the Equalisation Ratio.

e) Variation of rights

Subject to the provisions of the Statutes, the special rights attached to any class of RTZ Shares may be varied or abrogated, whilst RTZ is a going concern or during or in contemplation of a winding-up, either with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise). Special provisions apply in relation to the RTZ Special Voting Share as referred to in paragraph 4 above.

f) Transfer of shares

Transfers of the RTZ Special Voting Share and RTZ Equalisation Share are restricted as referred to in paragraph 4 above. All transfers of shares may be effected by an instrument of transfer in any usual form or in any other form which the RTZ Directors may approve. The instrument of transfer must be signed by or on behalf of the transferor and (except in the case of fully-paid shares) by, or on behalf of, the transferee. The transferor remains the holder of the shares concerned until the transferee's name is entered in the register. The RTZ Directors may, in their absolute discretion and without giving any reason, decline to register any transfer of any share which is not a fully-paid share provided that, where any such shares are admitted to the Official List of the London Stock Exchange, such discretion may not be exercised in such a way as to prevent dealings of the shares in that class from taking place on an open and proper basis. The RTZ Directors may also decline to register a transfer unless the instrument of transfer:

- is lodged with RTZ accompanied by the relevant share certificate (if it was issued in respect of such share) and such other evidence of the right to transfer as the RTZ Directors may reasonably require;
- is in respect of only one class of share; and
- is in favour of not more than four joint transferees.

The RTZ Directors may also decline to register a transfer of RTZ Shares by a person who has been served with a Direction Notice unless the transfer is shown to the RTZ Directors to be pursuant to an arms length sale (as referred to in the Articles).

*(ii) Meetings*

Subject to the restrictions contained in the Articles, a member of RTZ is entitled to attend any general meeting (or a separate class meeting, if he is a holder of shares of that class) in person, by proxy or, in the case of a corporate member, by a duly authorised corporate representative.

The RTZ 'A' Shares do not entitle their holders to attend general meetings of RTZ unless the business of the meeting includes the consideration of a resolution on which they are entitled to vote.

The RTZ Equalisation Share does not entitle its holder to attend general meetings of RTZ.

The RTZ Directors may make arrangements for simultaneous attendance at and participation in (including by way of a video link) the meeting or adjourned meeting at the place specified in the notice of meeting or any other place by persons entitled to attend the meeting. Persons present at one location have to be able to see and hear, and be seen and heard by, persons attending at the other place or places at which the meeting is convened.

The chairman of the meeting has the power to take such action as he thinks fit to promote the orderly conduct of the business of the meeting as laid down in the notice and the chairman's decision, made in good faith, on matters of procedure shall be final, as shall be his determination, acting in good faith, as to whether any matter is procedural or not.

The chairman of the meeting may at any time without the consent of the meeting adjourn any general meeting where it appears to him that the members wishing to attend cannot be conveniently accommodated in the appointed place for the meeting, that the conduct of persons present prevents or is likely to prevent the orderly continuation of business, that an adjournment is desirable in view of the timing of a general meeting or adjourned general meeting of CRA or that an adjournment is otherwise necessary so that the business of the meeting may be properly conducted.

In the case of a resolution proposed as a special or extraordinary resolution, no amendment thereto (other than a clerical amendment) may in any event be considered or voted upon. In the case of a resolution duly proposed as an ordinary resolution, no amendment thereto (other than a clerical amendment or an amendment to conform such resolution to one duly proposed at the nearly contemporaneous general meeting of CRA) may be considered or voted upon unless notice of such proposed amendment is given at least 48 hours prior to the time appointed for the relevant meeting or adjourned meeting or (in the absence of any such notice) the chairman of the meeting rules, in his absolute discretion, that the amendment shall be considered.



*(iii) Directors*

a) Appointment of directors

RTZ Directors may be elected by members by ordinary resolution (pursuant to a Joint Decision as referred to in paragraph 4(d)(i) above) or appointed by the board of directors of RTZ. No appointment will take effect until such Director has been appointed a Director of CRA. A RTZ Director appointed by the board of directors of RTZ holds office only until the next following annual general meeting and is then eligible for election, but is not taken into account in determining the RTZ Directors who are to retire by rotation at that meeting. The CRA Directors appointed as RTZ Directors on implementation of the DLC merger will not be subject to this requirement (and will be treated for the purposes of retirement by rotation as described in paragraph 6(b)(iii)c) below).

b) Retirement by rotation

At each annual general meeting, one third of the RTZ Directors who are subject to retirement by rotation (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office and be eligible for re-election. The RTZ Directors to retire shall include any director who wishes to retire and not offer himself for re-election. Any further RTZ Directors to retire shall be those who have been longest in office or, in the case of those who were appointed or re-appointed on the same day, will (unless they otherwise agree) be determined by the alphabetical order of their names. The CRA Directors to be appointed to the board of directors of RTZ on completion of implementation of the DLC merger will be treated for the purposes of this Article as though they had been appointed as Directors of RTZ (or last retired by rotation) on their appointment or last retirement by rotation as CRA Directors. This may affect the order in which existing RTZ Directors become due to retire by rotation.

c) Remuneration of directors

The remuneration of the RTZ Directors shall be determined by the board of directors of RTZ, except that the aggregate of their total remuneration and the total of any remuneration they receive as CRA Directors shall not exceed £500,000 per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of RTZ. A notional exchange rate of A\$2.10 to £1 for calculating how amounts paid in Australian dollars will count towards this limit will be included in the new Articles. Any RTZ Director who is appointed to any executive office (including for this purpose the office of Chairman or Deputy Chairman) or who serves on any committee or who otherwise performs services which, in the opinion of the RTZ Directors, are outside the scope of the ordinary duties of a director may be paid extra remuneration by way of salary, commission or otherwise or may receive other benefits as the RTZ Directors may determine. The limit referred to above also excludes any retirement benefits paid by CRA as referred to in paragraph 6(d)(iii)d) below. Each RTZ Director shall be paid his reasonable expenses incurred in connection with the business of RTZ.

d) Pensions and gratuities for directors

The RTZ Directors may pay gratuities, pensions or other benefits to (or to any person in respect of) any RTZ Director or former Director.

e) Permitted interests of directors

Subject to the provisions of the Statutes, and provided he has disclosed the nature and extent of his interest to the board of directors, a RTZ Director may notwithstanding his office:

- contract with RTZ in any manner;
- be a director or other officer of, or otherwise interested in, any company promoted by RTZ or in which RTZ is otherwise interested;
- act in a professional capacity for RTZ (other than as auditor) and be remunerated.

If a RTZ Director complies with the above, no contract in which the director is interested is liable to be avoided, nor is the relevant Director liable to account to RTZ (unless he otherwise agrees)

for any benefit realised under the contract, transaction or arrangement or from such office or employment.

f) Restrictions on voting by a director

Except as mentioned below, no RTZ Director may vote on, or be counted in a quorum in relation to, any board resolution in respect of any contract in which he is materially interested other than by virtue of interests in shares or debentures or other securities of RTZ. These prohibitions do not apply to a RTZ Director:

- in relation to the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him for the benefit of RTZ or any of its subsidiaries;
- in relation to the giving of any guarantee, indemnity or security in respect of a debt or obligation of RTZ or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- where RTZ or any of its subsidiary undertakings is offering securities in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which offer he is to participate;
- in relation to any proposal concerning any other company in which he is interested directly or indirectly in less than one per cent. of the equity share capital or voting rights;
- in relation to any proposal for the benefit of employees of RTZ or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees; and
- in relation to any proposal for the purchase or maintenance of insurance for any director or directors.

g) Indemnity of officers

Subject to the Statutes, RTZ will indemnify any RTZ Director or other officer out of its own funds against any liability incurred in connection with his duties, powers or office. RTZ may purchase and maintain for any RTZ Director, officer or employee insurance against any liability incurred in connection with his duties, powers or office.

*(iv) Borrowing powers*

The RTZ Directors may exercise all the powers of RTZ to borrow money, and to mortgage or to charge any of its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of RTZ or of any third party. The RTZ Directors must however restrict the borrowings of RTZ and exercise all voting and other rights or powers of control exercisable by RTZ in relation to its subsidiaries so as to secure that the aggregate amount from time to time remaining undischarged of all monies borrowed by RTZ and/or CRA and their respective subsidiaries (exclusive of borrowings by RTZ or CRA or any such subsidiary from any company in the RTZ Group or the CRA Group and of certain non-recourse and limited recourse debt) shall not, without the previous sanction of an ordinary resolution of RTZ, exceed an amount equal to one and a half times the unified group share capital and reserves. The unified group share capital and reserves is defined in the Articles to be the amount standing to the credit of the unified share capital account of RTZ and CRA (adjusted to the extent not excluded in the unified balance sheet referred to below to exclude any share capital of RTZ owned by a member of the CRA Group or any share capital of CRA owned by a member of the RTZ Group) plus the aggregate amount standing to the credit of the unified reserves (including any share premium account or capital redemption reserve and the unified profit and loss account of RTZ and its subsidiary undertakings and CRA and its controlled entities (as defined in the Corporations Law)), all as shown in the latest published audited unified balance sheet of RTZ and its subsidiary undertakings and CRA and its controlled entities or, if no such balance sheet has been published, a sum equal to the aggregate of the amounts standing to the credit of the share capital accounts of RTZ and of (so far as not attributable to shares in CRA owned by a member of the RTZ Group) CRA plus the aggregate amounts standing to the credit of the consolidated reserves (including any share premium account or capital

redemption reserve and the consolidated profit and loss accounts) of RTZ and its subsidiary undertakings and of CRA and its controlled entities, all as shown in the latest published consolidated balance sheets of RTZ and its subsidiary undertakings and CRA and its controlled entities but (i) in the case of the amounts standing to the credit of the consolidated reserves of RTZ and its subsidiary undertakings, deducting such part of such amounts as is attributable to the interest of any member of the RTZ Group in CRA; (ii) in the case of the amounts standing to the credit of the consolidated reserves of CRA and its controlled entities, adjusted as may be necessary to convert such amounts to the amounts which would be produced on the basis of UK GAAP.

The Articles further provide that the unified group share capital and reserves:

- a) shall be adjusted to take account of any increase in or reduction of the issued and paid-up share capital of RTZ or CRA since the date to which the unified balance sheet has been made up and any distributions (other than normal preference dividends and interim dividends paid in each case out of profits earned since such date) in cash or in specie made from such reserves or profit and loss account since such date;
- b) shall be exclusive of sums set aside for taxation and share capital or reserves derived from any writing-up by way of revaluation after the date of the adoption of the Articles of RTZ or any of its subsidiary undertakings or CRA or any of its controlled entities (or, in the case of a company becoming a subsidiary undertaking of RTZ or a controlled entity of CRA after that date, the date on which such company became a subsidiary undertaking or controlled entity) of the book values of any fixed assets;
- c) shall be determined after deducting any amount for goodwill or other intangible asset shown as an asset in such balance sheet;
- d) shall not include any amounts attributable to minority interests in subsidiary undertakings of RTZ or controlled entities of CRA; and
- e) shall be decided after making such adjustments as the auditors may consider appropriate.

*(v) Alteration of share capital*

Subject to the provisions of the Sharing Agreement, RTZ may by ordinary resolution increase, consolidate or sub-divide its share capital and may by special resolution reduce its share capital or any capital redemption reserve or share premium account.

*(vi) Purchase of own shares*

Subject to the Statutes, the provisions of the Sharing Agreement and the rights of the holders of any class of RTZ Shares, RTZ may also purchase its own shares.

*(vii) Untraced shareholders*

RTZ may sell the shares of a member or other person entitled if:

- a) during a period of 12 years at least three dividends in respect of the shares have become payable and no dividend in respect of those shares has been claimed;
- b) RTZ, on expiry of the said period, gives notice in both a national newspaper in the United Kingdom and in a newspaper circulating in the area of the last known address of the relevant person of its intention to sell such shares;
- c) during the period of three months following publication of such advertisements, RTZ has received no communication from or on behalf of such member or person; and
- d) RTZ has also given notice to the London Stock Exchange of its intention to make such sale.

The net proceeds of sale shall belong to RTZ which shall be obliged to account to the former member or other person previously entitled for an amount equal to the net proceeds of sale.

*(viii) Members resident abroad*

Members with registered addresses outside the United Kingdom and Australia are not entitled to receive notices or documents from RTZ unless they have given RTZ an address within the United Kingdom or Australia at which such notices or documents may be served.

*(ix) Other*

Certain provisions of the Articles of Association of RTZ are also referred to in the description of the DLC merger in paragraphs 4 and 5 above. Paragraphs 4(b), (c) and (d) contain details of voting under the DLC structure, paragraph 4(k) refers to the situation of a change of control of RTZ or CRA, paragraph 5(b) contains a description of payments of dividends and paragraph 5(c) contains a description of capital rights (including on a liquidation).

**(c) Summary of the proposed amendments to CRA's Memorandum of Association**

*(i) Objects of the company*

As part of the implementation of the DLC merger, CRA will, subject to the passing of a special resolution to be proposed at the CRA General Meeting, include an additional object for which CRA is established. It will be an object of CRA to enter into, operate and carry into effect the Sharing Agreement, the CRA Deed Poll Guarantee and any further agreements or arrangements with or in connection with RTZ which are in the opinion of the CRA Directors necessary or desirable in connection with the DLC merger.

*(ii) Entrenchment*

In addition, CRA will take advantage of a provision of the Corporations Law which enables provisions in its Articles of Association to be entrenched. The new set of Articles of Association (the "Articles") includes certain provisions which are significant to the DLC structure. These Articles, together with those clauses of the Memorandum of significance to the DLC structure ("CRA Entrenched Provisions") are to be entrenched by providing in Clause 5 of the Memorandum that they cannot be altered except by consent of the holder of the CRA Special Voting Share. RTZ Shareholder SVC, as holder of that share, will be bound by the RTZ Shareholder Voting Agreement to withhold its consent to the alteration unless it has been approved by special resolution of the Public Holders of the RTZ Voting Shares, as referred to in paragraph 4(d)(ii)b) above. The entrenching clause in the Memorandum will itself be entrenched in the same way.

**(d) Summary of CRA's proposed Articles of Association**

As part of the implementation of the DLC merger, CRA will, by virtue of the passing of a special resolution to be proposed at the CRA General Meeting, adopt new Articles. The new Articles are available for inspection as set out in paragraph 6 of Part VI below. The new Articles will contain (amongst others) provisions to the following effect:

*(i) Provisions relating to CRA Shares*

a) Share issues

Subject to the special rights of existing shareholders (and in particular the requirements for Class Rights Actions as referred to in paragraph 4(c)(ii) above), shares may be issued with such rights and restrictions as the Board may determine. Preference shares, including redeemable preference shares, may be issued. Subject to the Articles and the provisions of the Sharing Agreement, unissued shares are at the disposal of the CRA Directors.

b) Voting rights

Every holder of CRA Ordinary Shares present in person at a general meeting has upon a show of hands one vote. Every such holder present in person or by proxy has upon a poll one vote for

every share held. On a poll, voting rights may not be exercised by a member who has not paid to CRA all calls and other sums then payable by that member in respect of shares in CRA. Amongst others, the holder of the Special Voting Share is entitled to demand a poll. As mentioned above, Joint Decisions must be made on a poll.

The CRA Directors will have the power to disenfranchise holders of CRA Ordinary Shares in the circumstances described in paragraph 4(k) above.

As referred to in paragraph 4(d)(i) above, the holder of the CRA Special Voting Share is entitled to vote on resolutions requiring Joint Decisions, on certain procedural matters at meetings on which Joint Decisions are being voted and on any resolution to amend certain of the provisions of CRA's Memorandum and Articles of Association but only for the purpose of ensuring that no alteration can occur until such amendment is approved by a special resolution of RTZ Public Shareholders.

The holder of the CRA Equalisation Share is not entitled to vote on any resolution.

c) Dividends

The CRA Board may from time to time declare dividends. No approval from shareholders is required under the Articles. Dividends are not payable otherwise than out of profits or by the application of the share premium account.

The CRA Special Voting Share will not entitle its holder to any dividend.

Dividends declared in respect of the CRA Ordinary Shares are payable pro rata on all CRA Ordinary Shares, including those held by Tinto Holdings Australia.

Subject to the rights of any preference shares but in priority to the payment of dividends on other CRA shares, the CRA Equalisation Share will carry the right to any dividends which are paid under the provisions of the Sharing Agreement, as referred to in paragraph 5(b) above.

The CRA Directors will have the power to withhold dividends from holders of CRA Ordinary Shares in the circumstances described in paragraph 4(k) above.

The CRA Board may, subject to a Class Rights Action (if applicable) as referred to in paragraph 4(c)(ii) above, establish and maintain dividend reinvestment plans so as to offer holders of CRA Ordinary Shares in respect of any dividend the right to elect to receive CRA Ordinary Shares by way of scrip dividend instead of cash. The Directors may also establish a Plan pursuant to which fully paid CRA Ordinary Shares may be issued out of share premium reserve as an alternative to a cash dividend. There is no plan of either kind presently in operation.

d) Other distributions

On a liquidation of CRA, the Articles and the Sharing Agreement contain certain provisions relating to the manner and order in which assets are to be distributed to CRA Shareholders, and in certain circumstances, to RTZ Shareholders.

On a return of assets on liquidation, the Articles and the Sharing Agreement provide that the assets of CRA available for distribution shall be applied in the following order:

- (1) repaying to holders of any preference shares the amount payable on a return of capital of such shares;
- (2) repaying to the holder of the CRA Equalisation Share (if any) the nominal amount paid up on such share and any amounts which have been provided for in a separate reserve of the books of CRA in favour of RTZ, or in favour of the holder of the CRA Equalisation Share (if issued), as compensatory payments for previous dividends or distributions which for any reason were lower than the amount otherwise payable in accordance with the Equalisation Ratio (e.g. due to some statutory limitation);
- (3) paying to holders of CRA Ordinary Shares any amounts provided for in a separate reserve for them as compensatory payments similar to those described in (2) above; and then

- (4) repaying to the holder of the CRA Special Voting Share the nominal amount paid up on such share;

The amount of surplus assets of CRA will be determined by the liquidator. After a similar process is carried out by the liquidator of RTZ (or, if RTZ is not being wound up, the relevant amounts are determined by the auditor of RTZ), if necessary, a distribution will be made on the CRA Equalisation Share in priority to further distributions to holders of CRA Ordinary Shares such that the ratio of the surplus (if any) attributable to each CRA Ordinary Share held by a Public Holder to the surplus (if any) attributable to each RTZ Ordinary Share held by a Public Holder would equal the Equalisation Ratio.

e) Variation of rights

The rights attached to any class of CRA shares may be varied or abrogated either with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of a special resolution passed at a separate special meeting of the holders of the shares of the class (but not otherwise). Special provisions apply in relation to the CRA Special Voting Share as referred to in paragraph 4(e)(i) above.

f) Transfer of shares

Subject to any restrictions in the Articles (particularly restrictions relating to the CRA Special Voting Share and the CRA Equalisation Share), all transfers of shares must be effected by a proper instrument of transfer in any usual form or in any other form which the CRA Directors may prescribe. If required by the Corporations Law, the ASX Listing Rules or the CRA Directors, the instrument of transfer must be signed by or on behalf of the transferor and by or on behalf of the transferee. CRA Ordinary Shares are traded under the computerised transfer system known as CHESSE. Subject to the Corporations Law, the ASX Listing Rules and the Business Rules for CHESSE, the CRA Board may refuse to register any transfer of any share on which CRA has a lien or where the transfer would breach any applicable law or Listing Rule.

*(ii) Meetings*

A member of CRA is entitled to attend any general meeting (or separate class meeting if a holder of shares of that class) in person, by proxy or, in the case of a corporate member, by a duly authorised corporate representative.

The CRA Equalisation Share does not entitle its holder to attend general meetings of CRA.

The chairman of any general meeting is responsible for its general conduct and the procedures to be adopted at the meeting. Except as otherwise required by the Corporations Law or the Articles, the chairman may demand the cessation of debate or discussion on any business, question, notice or resolution being considered by the meeting and require that a vote be taken on such matters if the chairman considers it necessary or desirable for the proper and orderly conduct of the meeting. Likewise, if in the chairman's opinion it is necessary or desirable for the proper and orderly casting or recording of votes at any general meeting, the chairman may require the adoption of any procedures. In addition, the chairman may adjourn any business, motion, question, resolution or debate at the meeting to a later time at the same meeting or to an adjourned meeting.

The quorum for a general meeting is two members present. If within 5 minutes from the time appointed for a general meeting (or such longer time as the chairman allows) a quorum is not present (or ceases to be present at the meeting) then the meeting will be adjourned to a date specified by the chairman, except if the meeting was convened by requisition of members then it will be dissolved.

Notice of a general meeting may be given by the CRA Board in the form and manner as the CRA Board thinks fit, provided that if any election of Directors is to be held at least 60 days' notice of the meeting must be given by advertisement circulating generally throughout Australia and by written notice

to the Australian Stock Exchange (Melbourne office). The non-receipt of a notice of any general meeting by any person entitled to receive a notice does not invalidate any resolution passed at the meeting.

Any member may appoint up to two proxies to vote at a general meeting on that member's behalf, and may direct the proxy or proxies to vote either for or against or to abstain from voting on any resolution. Except in relation to the holder of the CRA Special Voting Share, the instrument appointing a proxy must be deposited with CRA not later than 48 hours (or such lesser period stipulated by the board in the notice of meeting) before the poll at which the person named in the instrument proposes to vote. The CRA Directors may stipulate that the latest time by which a proxy may be validly deposited differs in relation to holders of the same class of shares.

Any member may appoint an attorney by duly executed power of attorney to act on that member's behalf at all or certain specified CRA meetings. Proof of the power of attorney is required to the satisfaction of the CRA board before the attorney is entitled to act.

In the case of a resolution proposed as a special resolution no amendment thereto is permissible (other than a clerical amendment). In the case of a resolution duly proposed as an ordinary resolution, no amendment thereto (other than a clerical amendment or one to conform such resolution to a resolution proposed at the parallel general meeting of RTZ) may be considered or voted upon unless notice of such proposed amendment is given at least 48 hours prior to the time appointed for the relevant meeting or adjourned meeting or (in the absence of any such notice) the chairman of the meeting rules in the chairman's absolute discretion that the amendment is fit for consideration at the meeting.

### *(iii) Directors*

#### a) Appointment and nomination of directors

Pursuant to the terms of the Articles and Sharing Agreement, CRA Directors may be appointed by ordinary resolution (pursuant to a Joint Decision as referred to in paragraph 4(d)(i) above). A person may also be appointed by the CRA board to fill a casual vacancy or as an additional Director. A CRA Director appointed by the CRA board holds office only until the next following annual general meeting and is not taken into account in determining the CRA Directors who are to retire by rotation at that meeting.

In order for a person to be eligible for election as a CRA Director, written notices must be lodged at the CRA registered office between 7 and 42 days prior to the meeting, one signed by a member (other than the person proposed) qualified to vote and the other by the person proposed confirming that person's willingness to be elected as a CRA Director and as a RTZ Director. The CRA Directors must nominate for election as a CRA Director any person duly nominated for election at the parallel general meeting of RTZ.

#### b) Retirement by rotation

At each annual general meeting, one third of the CRA Directors (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office and be eligible for re-election. The CRA Directors to retire shall include any director who wishes to retire and not to stand for re-election. Any further CRA Directors to retire shall be those who have been longest in office or, in the case of those who were appointed or re-appointed on the same day, will (unless they otherwise agree) be determined by the alphabetical order of their names. The Articles will also provide that the present RTZ Directors, who are to be appointed to the CRA board when the Sharing Agreement is completed, will not all be required to retire by rotation at the 1996 annual general meeting of CRA. One third of the entire board, including the new directors, will retire at each of the next three annual general meetings. RTZ Directors appointed to the CRA board on completion of the Sharing Agreement will be treated as though appointed when appointed or last re-appointed to the RTZ board. This may affect the order in which existing CRA Directors become due to retire by rotation.

#### c) Remuneration of directors

The CRA board is to be substantially increased by including all present directors of RTZ. The Articles of CRA will include an overall limit on the fees payable to non-executive directors when

aggregated with all fees received from any subsidiary or from RTZ and any of its subsidiaries (including any fees payable to the Chairman or Deputy Chairman of CRA and any fees payable for serving on any committee). The proposed initial annual limit is A\$2,000,000 (which is higher than the present limit approved by CRA shareholders), and for this purpose any fee payable in sterling is converted at the notional exchange rate £1=A\$2.10. Within that limit, the remuneration of the directors payable by CRA shall be determined by the CRA board. The overall limit may only be increased by ordinary resolution of shareholders. Any CRA Director who is appointed to any executive office or who performs services which, in the opinion of the CRA Directors, are outside the scope of the ordinary duties of a director may be paid such extra remuneration as the directors may determine. Each CRA Director shall be paid any reasonable expenses incurred in connection with the business of CRA.

d) Retirement benefits for directors

Subject to the Corporations Law the CRA Directors may pay retirement benefits to any CRA Director as determined by the CRA board.

e) Permitted interests of directors

Subject to the Corporations Law, a CRA Director is not disqualified from contracting with CRA in any manner or from being a director or other officer of, or otherwise interested in, any company promoted by CRA or in which CRA is otherwise interested. No contract in which the CRA Director is interested is liable to be avoided solely for that reason, nor is the relevant director liable to account to CRA (unless that director otherwise agrees) for any benefit realised by the contract or from such office or employment.

f) Restrictions on directors voting

Except where constrained by the Corporations Law, a CRA Director may vote on any board resolution. However, the Corporations Law presently requires a director to be absent from any discussion, and not vote on any resolution concerning a matter in which that director has a material personal interest unless the remaining directors resolve otherwise.

g) Indemnity of officers

CRA indemnifies each CRA Director and each other officer of CRA or a wholly-owned subsidiary to the maximum extent permitted by law, unless the Board considers that the particular circumstances do not justify the indemnity being granted. In broad terms the Corporations Law permits CRA to indemnify officers against liability to third parties provided the officer acted in good faith. The indemnity is more limited in a case where the officer is sued by the company itself. CRA maintains insurance against liability incurred by officers in the conduct of the business of the group and meets the cost of the insurance premiums.

h) Powers of the board

The management and control of the business and the affairs of CRA are vested in the CRA board. The CRA Directors are authorised by the Articles to carry into effect the provisions of the Sharing Agreement, the CRA Deed Poll Guarantee (both referred to at paragraph 4 above) and any other agreements contemplated thereunder. In particular, the CRA Directors are authorised to enter into a guarantee on behalf of CRA in relation to indebtedness of any member of the RTZ Group and to provide RTZ with any information relating to CRA.

*(iv) Borrowing powers*

The CRA board may exercise all the powers of CRA to borrow money, and to mortgage or to charge any of its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of CRA or of any third party. The Articles do not impose any specific borrowing limit on the CRA board. However, for such time as there



continues to be a borrowing limit for the combined RTZ/CRA entities in the RTZ Articles, the CRA board intends to act in such a way as to ensure that combined borrowings remain within that limit.

*(v) Alteration of share capital*

Subject to the provisions of the Sharing Agreement, CRA may in general meeting alter its share capital in any way provided for by the Corporations Law.

**7. Application of Australian Stock Exchange Listing Rules**

The Australian Stock Exchange (the "ASX") has agreed to modify the application of the following ASX Listing Rules to CRA on a continuing basis after implementation of the DLC merger.

**(a) Issues of securities**

In general terms, Listing Rule 3E(6) prevents CRA from issuing equity securities or other securities with rights of conversion to equity if the nominal value of those securities, when aggregated with the nominal value of any other securities of the same class issued during the previous 12 months, exceeds 10 per cent. of the nominal value of the same class of securities on issue at the commencement of that period of 12 months. This prohibition is subject to certain exceptions, including:

- an issue of securities made with the prior approval of CRA shareholders;
- a pro rata issue of securities to existing shareholders of CRA; and
- an issue made pursuant to a takeover offer complying with the Corporations Law, or to fund the cash consideration payable in respect of valid acceptances of a takeover offer.

For the purposes of the application of this Listing Rule to CRA after implementation of the DLC merger, the ASX has agreed:

- to treat equity securities of equivalent classes in RTZ and CRA as being securities of the same class (that is, a RTZ Ordinary Share would be treated as being in the same class as a CRA Ordinary Share); and
- to apply Listing Rule 3E(6) on the basis that it requires the approval of shareholders to an issue which exceeds the 10 per cent. combined limit (ie, the combined capital of equivalent classes in CRA and RTZ), rather than an issue which exceeds 10 per cent. of CRA's share capital alone.

The ASX has also indicated that it will be of the view that the 10 per cent. limit for the purposes of Listing Rule 3E(6) will be calculated as if any securities of CRA in which RTZ has an interest had not been issued. If RTZ disposes of its interest in any of those securities, the securities it disposes of will be treated as a new issue of securities for the purposes of calculating the 10 per cent. limit.

CRA must consult with the ASX in advance to agree the appropriate application of Listing Rule 3E(6) to any proposal for RTZ or CRA, or both, to issue securities on a pro rata basis to shareholders in either RTZ or CRA in excess of the 10 per cent. limit. Where rights issues are made in both companies which the ASX is satisfied are on matching terms, it is anticipated that no shareholder approval will be required under Listing Rule 3E(6).

**(b) Transactions between the RTZ Group and the CRA Group**

Following implementation of the DLC merger, it is intended that waivers of Listing Rules 3J(3) and 3J(37) will be sought in respect of any such transactions which are proposed between the RTZ Group and the CRA Group. For a discussion of these Listing Rules, see paragraph 9 below.

**(c) Directors**

The ASX has granted a waiver of Listing Rule 3L(1) so as to permit any person appointed by the CRA directors to fill a casual vacancy or as an addition to the board of directors (other than the RTZ directors

referred to below) to retire at the next annual general meeting, rather than at the next general meeting, of CRA as otherwise required by Listing Rule 3L(1).

The ASX has also granted a waiver of Listing Rule 3L(1) in relation to the directors of RTZ who are not already directors of CRA, who will be appointed to the CRA board of directors upon implementation of the DLC merger. The effect of the waiver is that such directors are not all required to retire at the next annual general meeting of CRA, but will retire by rotation in accordance with the amended CRA Articles of Association described in paragraph 6(d) above.

#### **(d) Dividends**

The ASX has granted a waiver of Listing Rule 3J(11) to allow dividends to be withheld in the circumstances described in paragraph 4(k) above.

### **8. Corporations Law – Takeovers**

The ASC has granted an exemption under section 728 of the Corporations Law and has granted certain modifications under section 730 of the Corporations Law to permit the implementation of the DLC merger.

The ASC has indicated that it will grant a modification of section 615 of the Corporations Law by the inclusion of an additional provision prohibiting the acquisition of voting power in CRA if, as a result of that acquisition, any person who has less than the prescribed percentage (currently 20 per cent.) of the voting power in CRA would (or any person and an associate or associates of that person together would) immediately thereafter have the prescribed percentage or more of the voting power in CRA or if a person who has (or a person and an associate or associates of that person together have) the prescribed percentage or more of the voting power in CRA would increase their entitlement. This modification will extend to any person who acquires a voting share in RTZ. The prescribed percentage can be lowered (but not raised) by regulations in force for the time being for the purpose of section 615 of the Corporations Law.

The purpose of this modification is to ensure that a person who acquires more than the prescribed percentage of the voting power in CRA is subject to the provisions of Chapter 6 of the Corporations Law. Without the modification it would be possible for a person to acquire voting shares in RTZ (and, by virtue of the CRA Special Voting Share, more than 20 per cent. of the voting power in respect of a Joint Decision at a CRA general meeting) without having to comply with the provisions of Chapter 6 if RTZ at that time had a relevant interest in less than the prescribed percentage of the voting shares in CRA. This is because section 615 of the Corporations Law applies to the acquisition of “voting shares” rather than the acquisition of “voting power”.

While there is no direct precedent for the exercise of this power, the ASC has formed the view that it has power to grant the modification.

While RTZ and its associates continue to hold 20 per cent. or more of the voting shares in CRA, section 33 of the Corporations Law will deem a person who acquires more than 20 per cent. of the shares in RTZ to have acquired the shares held by RTZ and its associates in CRA.

### **9. Transactions between the RTZ Group and the CRA Group**

At the time of implementation of the DLC merger, RTZ and its subsidiaries may be related parties of CRA for the purposes of Part 3.2A of the Corporations Law. That Part does not prohibit CRA from providing a financial benefit to RTZ if prior shareholder approval is obtained or one of the other exceptions applies. The approval of the DLC merger by CRA shareholders will meet this requirement in respect of the arrangements to be implemented pursuant to the DLC merger.

Six months after implementation of the DLC merger, no member of the RTZ Group will be a related party of CRA for these purposes. If CRA provides a financial benefit to any member of the RTZ Group after that time approval of CRA shareholders will not be required under Part 3.2A of the Corporations Law.

However, unless waived by the ASX, Listing Rule 3J(3) will apply to require the approval of CRA shareholders for any acquisition of assets and/or securities by a member of the CRA Group from a member of the RTZ Group, or a disposal of assets and/or securities by a member of the CRA Group to a member of the RTZ Group, where the consideration payable (or deemed by the ASX to be payable) or the value of the assets or securities concerned exceeds 5 per cent. of the shareholders' funds of CRA as shown in its last audited accounts. Any member of the RTZ Group which holds shares in CRA, and any of its associates, would not be permitted to vote on such a resolution.

Listing Rule 3J(37), unless waived, would also prohibit the purchase of a Business Asset (as defined in the Listing Rules, including a mining exploration area or similar tenement or interest, or other asset whose value cannot be readily ascertained) by CRA or any entity with which it is associated from any member of the RTZ Group for a consideration other than Restricted Securities (as defined in the ASX Listing Rules).

Following implementation of the DLC merger, it is intended that waivers of these Listing Rules will be sought in respect of any such transactions which are proposed between the RTZ Group and the CRA Group.

## **10. Foreign Acquisitions and Takeovers Act**

The Foreign Acquisitions and Takeovers Act 1975 ("FATA") may affect the right of non-Australian residents to acquire or hold CRA Ordinary Shares or, due to RTZ's current interest in securities of CRA and the right to vote at CRA meetings conferred on RTZ Shareholder SVC following implementation of the DLC merger, RTZ Ordinary Shares or RTZ Voting Preference Shares.

A foreign person must notify the Treasurer of Australia of a proposal to acquire a "substantial shareholding" in an Australian corporation, which involves a person, together with its associates, holding 15 per cent. or more of the issued shares or voting power of the corporation. In addition, an acquisition or issue of shares (including an option to acquire shares) in a corporation that carries on an Australian business (such as CRA) which would result in a change in the foreign persons "controlling" it, is also subject to prior notification to, and review and approval by, the Treasurer, who may refuse approval if satisfied that the result would be contrary to the Australian national interest. A foreign person will "control" a corporation if it, together with associates, holds 15 per cent. or more of the issued shares or voting power, unless the Treasurer is satisfied that it is not in a position to determine the policy of the corporation. A number of foreign persons will "control" a corporation if they, together with their associates, hold 40 per cent. or more of the issued shares or voting power, unless the Treasurer is satisfied that they are not in a position to determine the policy of the corporation.

In the context of FATA, a "foreign person" is:

- a) an individual not ordinarily resident in Australia; or
- b) any corporation or trust in which there is a substantial foreign interest.

Unless the Treasurer in the particular circumstances deems otherwise, a substantial foreign interest in a corporation is one of 15 per cent. or more in the ownership or voting power by a single foreign interest either alone or together with associates, or an interest of 40 per cent. or more in aggregate in the ownership or voting power by more than one foreign interest and the associates of any of them. If a single foreign interest (either alone or together with associates) holds a beneficial interest in 15 per cent. or more of the corpus or income of a trust, or if two or more foreign interests (and any associates) together hold 40 per cent. or more, there will be a substantial foreign interest in the trust. A beneficiary under a discretionary trust is deemed, for this purpose, to hold a beneficial interest in the maximum percentage of interest or corpus that could be distributed to him.

RTZ is a UK incorporated company whose shareholders are mostly non-residents of Australia. Tinto Holdings Australia, an indirect wholly-owned subsidiary of RTZ, currently holds approximately 49 per cent. of the issued Ordinary Shares of CRA. Therefore, foreign persons hold an aggregate controlling interest in CRA for the purposes of FATA. RTZ Shareholder SVC is a company incorporated in Victoria, the shares of which are all held by Law Debenture, a UK incorporated company, on trust for the shareholders of RTZ from time to time.

Implementation of the DLC merger will mean that, when the CRA Special Voting Share is issued to RTZ Shareholder SVC, RTZ Shareholder SVC will acquire a "substantial shareholding" in CRA, and the

identity of the foreign persons who collectively hold a controlling interest in CRA will change to include RTZ Shareholder SVC. In addition, the Sharing Agreement may be an agreement under which the business of CRA becomes controlled by foreign persons (i.e. RTZ Shareholder SVC and through that company, the non-Australian shareholders of RTZ) or continues to be controlled by foreign persons including an additional foreign person (RTZ Shareholder SVC).

Each of these matters has been notified to the Australian Treasurer under FATA.

After implementation of the DLC merger, a foreign person who acquires shares in RTZ will also acquire voting power in CRA based on the then current Equalisation Ratio. Any person who proposes to acquire more than 15 per cent. of the voting power in CRA will need to notify the Treasurer of Australia of this in accordance with the provisions of FATA.

#### **11. Naturalisation agreement**

In February 1987, CRA was granted naturalised status under the then applicable Foreign Investment Guidelines of the Australian Commonwealth Government. That status was granted as a result of an agreement between RTZ, CRA and the Commonwealth Government, which required the Articles of Association of CRA to include a requirement that the majority of the members of the board of directors would be Australian citizens, as well as imposing other restrictions upon the control exercised by RTZ over CRA and the management practices of CRA.

If the Australian Treasurer approves the DLC merger under FATA, those restrictions will no longer apply. The amendments to be made to CRA's Articles of Association in connection with the DLC merger include removal of the requirement for a majority of CRA's directors to be Australian citizens.

## Part II

### INFORMATION ON RTZ

#### 1. Business description

##### (a) RTZ Group overview

RTZ is one of the world's leading international mining companies and one of the largest companies in the United Kingdom with a market capitalisation at 14 November 1995 of £9.64 billion. RTZ's substantial interests in mining include: copper, gold, borates, titanium dioxide feedstock, talc, coal and uranium as well as aluminium, iron ore and diamonds through its present 49 per cent. interest in CRA. RTZ's interests are located predominantly in North America and (through CRA) Australasia as well as in Europe, southern Africa and South America. Products are sold worldwide, particularly in North America, Western Europe, Japan and the Pacific Rim.

At 31 December 1994, the RTZ Group had operating assets of £5.2 billion of which 51 per cent. were located in North America. Consolidated net sales for 1994 were £2.3 billion, net earnings were £612 million and, after excluding exceptional items, adjusted earnings were £595 million.

Based on the unaudited interim results (which are the source of all information relating to the results for the first six months of 1995 contained in this Part II) the RTZ Group's consolidated net sales for the first six months of 1995 were £1.3 billion, net earnings were £336 million and, after excluding exceptional items, adjusted earnings were £384 million.

The RTZ Group consists of a number of wholly and partly owned subsidiaries and associated companies. RTZ's three major wholly-owned businesses are Kennecott Corporation ("Kennecott"), the RTZ Borax group ("RTZ Borax") and QIT-Fer et Titane ("QIT"). Kennecott's operations comprise mainly copper, gold and coal operations in the USA, and contributed £203 million to net earnings in 1994 (£161 million in the first six months of 1995). RTZ Borax, based mainly in the USA and Europe, produces borates and silica sands and, together with the Talc group, contributed £84 million to net earnings in 1994 (£45 million in the first six months of 1995). An agreement has been entered into to sell the silica sands business. QIT, which is based in Canada, produces titanium dioxide feedstock, high purity iron, steel billets and metal powders. RTZ's 50 per cent. interest in Richards Bay Minerals ("RBM"), which produces titanium dioxide feedstock in South Africa, is reported jointly with QIT as RTZ Iron & Titanium ("RTZ I&T"). RTZ I&T contributed £49 million to 1994 net earnings (£28 million in the first six months of 1995).

The major associated companies of RTZ are CRA and Minera Escondida Limitada ("Escondida"). Further information on CRA is contained in Part III. RTZ owns a 30 per cent. share in Escondida which owns and operates the Escondida copper mine in Chile and contributed £90 million to RTZ's net earnings in 1994 (£42 million in the first six months of 1995).

##### (b) Objective and strategy

RTZ's fundamental objective is to maximise the overall long term return for its shareholders by operating only in areas of proven expertise where it has a competitive advantage.

RTZ's strategy to achieve this objective is:

- first, to focus on large scale, long life, world competitive mining operations;
- secondly, to invest continuously in such operations throughout their lives so that they maintain their competitive edge; and
- thirdly, to seek overall balance and stability of the RTZ Group's financial performance through geographic and product diversity.

## **(c) Development of RTZ**

### *(i) History*

RTZ was formed in 1962 by the merger of The Rio Tinto Company and The Consolidated Zinc Corporation. The Rio Tinto Company was incorporated in 1873 to reopen ancient copper workings in Spain. By 1962 the company had a range of projects extending across Canada, southern Africa and Australia and included interests in iron ore and uranium as well as in copper. The Consolidated Zinc Corporation's origins trace back to the Australian mining industry at the turn of the century. Operating out of Broken Hill in New South Wales, it came to prominence with the mining of silver, lead and zinc deposits and later expanded into lead and zinc smelting. With the discovery in 1955 of extensive bauxite deposits at Weipa, Queensland, the company came to play a leading role in the development of the aluminium industry in Australia. The 1962 merger also resulted in the creation of CRA in Australia.

Since 1962, RTZ has developed several major projects including Palabora (copper) in South Africa, Rössing (uranium) in Namibia and Neves Corvo (copper and tin) in Portugal. RTZ has also grown through acquisitions, including the Borax group in 1968. In addition, between 1968 and 1985, RTZ developed significant interests in cement, chemicals, oil and gas and manufacturing components for the construction and automotive industries.

A major review of corporate strategy between 1985 and 1987 led to a series of disposals and acquisitions which refocused RTZ solely on mining and related activities. As a result, between 1988 and 1989, RTZ disposed of its oil and gas, cement, chemicals and other minor interests for an aggregate consideration of £1.7 billion.

During 1988 and 1989, acquisitions in mining were made for an aggregate consideration of approximately £2.6 billion. These include the 1989 acquisition of the major part of the minerals businesses of The British Petroleum Company plc at a cost of US\$3.7 billion. Included in this acquisition was Kennecott's Bingham Canyon copper and gold mine in Utah, USA, together with QIT and the 50 per cent. interest in RBM, leading producers of titanium dioxide feedstock. As a result, RTZ enhanced its portfolio of low cost copper mines, gained additional industrial minerals businesses and became one of the world's largest gold producers outside South Africa.

In June 1992, RTZ sold its 51.5 per cent. interest in Rio Algom Limited, a Canadian mining company with interests in uranium, copper, molybdenum, potash and coal and a metals distribution business in North America, Australia and New Zealand. Also, in 1992, RTZ purchased the talc businesses of Cyprus Minerals. The Cyprus talc mines are located primarily in the USA. Now renamed Luzenac America, this business has been integrated with RTZ's existing talc business, Talc de Luzenac, which was acquired in 1988.

### *(ii) Recent corporate activity*

In 1993, RTZ acquired two significant coal mining companies in the United States – Nerco, Inc. and the Cordero Mining Company. These gave RTZ a significant position in low cost, low sulphur, coal operations and created a new business stream for RTZ in the western United States. After the prompt disposal of Nerco's non-strategic assets, the overall net outlay for these businesses was £320 million. In 1994, RTZ expanded its presence in the low sulphur, western US coal market with the purchase of a general partnership interest in the Colowyo Mine, Colorado.

In 1993 and 1994, RTZ sold the businesses managed by its wholly owned industrial products subsidiary, RTZ Pillar, for approximately £900 million. As a result, RTZ is now focused solely on mining related activities.

In March 1995, RTZ signed letters of intent pursuant to which it subsequently acquired 11.8 per cent. of Freeport-McMoRan Copper & Gold Inc. ("FCX") for US\$500 million. FCX's principal asset is its 86 per cent. interest in the Grasberg copper/gold mine in Irian Jaya, Indonesia, one of the world's richest mineral resources. This mine has recently been expanded to a rate at which production in 1996 is forecast to be some 500,000 tonnes of copper and 1.5 million ounces of gold per year. As part of the arrangements, RTZ will also acquire a 40 per cent. interest in agreed future expansions of the Grasberg mine and in FCX's extensive exploration acreage in Irian Jaya. In return, RTZ will fund the next US\$100 million of agreed

exploration work and will provide funding of up to US\$750 million for agreed future expansions of the Grasberg mine. RTZ will be entitled to receive all incremental cashflow from the expansions until it recovers its funding of the expansions plus interest, and then will be entitled to 40 per cent. of all other revenues from expansions. RTZ will also be entitled to 40 per cent. of the revenues from new projects. Any further expansions and new projects at Grasberg would be financed 60 per cent. by FCX and 40 per cent. by RTZ. RTZ and FCX are carrying out feasibility studies for an expansion of the Grasberg mine to between 175,000 and 200,000 tonnes per day of ore from its present nominal capacity of 118,000 tonnes per day throughput.

### *(iii) New projects*

Significant investment projects undertaken in recent years include an expansion of the milling capacity at the Bingham Canyon copper and gold operation in Utah, USA, completed in 1992 at a cost of US\$219 million. Construction of new mining and smelting facilities at RBM (RTZ 50 per cent. owned) was also completed in 1992 at a cost of US\$360 million. This increased capacity of titanium dioxide feedstock at RBM by one third.

Following commissioning of the Escondida copper mine (RTZ 30 per cent. owned) in Chile in late 1990, the first phase of its expansion was completed in October 1993 at a cost of US\$76 million. This expansion raised design production capacity to 400,000 tonnes of copper in concentrates per annum. The second phase of expansion at Escondida, completed in 1994, increased nominal production capacity by a further 80,000 tonnes to 480,000 tonnes of contained copper a year and, together with the construction of a hydrometallurgical plant which is designed to produce up to 80,000 tonnes of copper cathode per annum, cost in total US\$200 million. The mine expansion was completed in May 1994 with the hydrometallurgical plant starting commissioning in late 1994. Some start up problems with that hydrometallurgical plant have been encountered but solutions are now being implemented.

A third phase of expansion at the Escondida copper mine is under way, at a budgeted cost of US\$560 million, which will take annual production to over 800,000 tonnes of copper. This project is scheduled for completion in 1996.

In March 1995, the Papua New Guinea Government approved the Special Mining Lease for the development of a new gold mine on Lihir Island (RTZ 17.1 per cent. owned). Construction of the estimated US\$673 million and anticipated 36 year life mine has begun following the recent successful debt financing and public equity offering. The mine is expected to produce an average of 584,000 ounces of gold per year during the initial 15 years of its life.

Current projects include the US\$880 million new smelter and modernised refinery at Bingham Canyon, completed in July 1995, which is now being commissioned. The new smelter and refinery will treat all the mine's one million tonnes per annum of copper concentrate output and will significantly reduce operating costs at Bingham Canyon while at the same time yielding substantial environmental improvements.

Also in the USA, the US\$80 million redevelopment of the silver, zinc, and gold mine at Greens Creek, Alaska (RTZ 70.3 per cent. owned) has commenced. Mining operations were suspended in 1993 due to low metal prices but the discovery of a new high grade ore zone made the redevelopment of an 18 year mine feasible. The mine is expected to start up in early 1997 at an initial annual production rate of 36,000 tonnes of zinc, 62,000 ounces of gold and 11 million ounces of silver.

A feasibility study has been completed and permits are being sought for the Pipeline gold project in Nevada, USA, near to the existing Cortez mine. Production is expected to start at the US\$270 million Pipeline project in 1998 at a rate of 300,000 ounces of gold per year. RTZ has a 40 per cent interest in, but does not manage, the project. Additional mineralisation has been identified near the main deposit in an area known as South Pipeline. Feasibility studies are in progress for South Pipeline.

In Brazil, engineering work for the US\$233 million Fortaleza nickel mine and refinery has begun. The 20 year operation will produce some 10,000 tonnes of electrolytic nickel annually after it comes into production in early 1998.

**(d) Summary of RTZ Group assets**

A summary of RTZ operating sites and projects including RTZ's present share of CRA assets is shown below.



**KEY**  
 ● Mines & Mining Projects  
 ▲ Smelters, refineries & processing plants (remote from mine)

**MINING AND METALS:**

**COPPER AND GOLD**

**Operating sites:**

- 1 Bingham Canyon (100%) USA
- 2 Escondida (30%) Chile
- 3 Palabora (39%) South Africa
- 4 Neves Corvo (49%) Portugal
- 5 Kclian (44%) Indonesia
- 6 Morro do Ouro (51%) Brazil
- 7 Ridgeway (100%) USA
- 8 Barneys Canyon (100%) USA
- 9 Rawhide (51%) USA
- 10 Cortez (40%) USA
- 11 Flambeau (100%) USA
- 12 Peak (49%) Australia
- 13 Renco, Patchway and Brompton (56%) Zimbabwe
- 14 Bougainville (not operating) (26%) PNG
- 15 Grasberg (10%) Indonesia
- 16 Huacva (12%) Spain

**Projects**

- 17 Lihir (17%) PNG
- 18 Pipeline (40%) USA
- 15 Grasberg Expansion (46%) Indonesia

**IRON ORE**

**Operating sites:**

- 19 Hamersley mines: Mt Tom Price (49%), Paraburdoo (49%) Channar (29%) Marandoo (49%) and Brockman (49%) Australia
- 20 Corumba (49%) Brazil

**Projects**

- 21 Orissa (51%) India

**ALUMINIUM**

- 22 Weipa (33%) Australia
- 23 Queensland Alumina (10%) and Boyne Island (16%) Australia
- 24 Eurallumina Refinery (9%) Italy
- 25 Bell Bay (33%) Australia
- 26 Tiwai Point (26%) New Zealand
- 27 Anglesey Aluminium (51%) UK

**ZINC, LEAD AND SILVER**

**Operating sites:**

- 28 Norzink (50%) Norway
- 29 Comsur (33%) Bolivia
- 30 Aguilar (33%) Argentina

**Projects**

- 31 Greens Creek (70%) USA
- 32 Century (49%) Australia

**NICKEL**

**Operating sites:**

- 13 Empress Nickel Refinery (56%) Zimbabwe

**Projects**

- 33 Fortaleza (100%) Brazil

**COAL AND URANIUM**

- 34 Antelope (100%), Cordero (100%) USA
- 35 Spring Creek (100%), Decker (50%) USA
- 36 Colowyo (20%) USA
- 37 Blair Athol (28%) Australia
- 38 Tarong (49%) Australia
- 39 Kaltim Prima (24%) Indonesia
- 40 West Cliff and Tahmoor (49%) Australia
- 41 Howick (29%) and Vickery (49%) Australia
- 42 Hunter Valley (35%), Mount Thorley (28%) Australia
- 43 Rössing (66%) Namibia

**INDUSTRIAL AND OTHER MINERALS:**

**BORATES**

- 44 Boron (100%) USA
- 45 Tincalayu (100%) Argentina
- 46 U.S. Borax's Wilmington plant (100%) USA
- 47 U.S. Borax's Coudekerque plant (100%)\* France

**TITANIUM DIOXIDE FEEDSTOCK**

**Operating sites:**

- 48 QIT's Lac Allard mine (100%) Canada
- 49 QIT's Sorcl plant (100%) Canada
- 50 Richards Bay Minerals (50%) South Africa

**TALC**

- 51 Talc de Luzenac (100%)\* France
- 52 Luzenac America (HQ) (100%)\* USA

**OTHER MINERALS**

**Operating sites:**

- 53 Argyle (29%) Australia
- 54 U.S. Silica (HQ) (100%)\* USA
- 55 Dampier (32%) Australia
- 56 Lake MacLeod (32%) Australia

**Projects**

- 57 Lac de Gras (60%) Canada

\*Other mines/plants belonging to these operations are not shown.



The RTZ Group reports its product range under two broad headings:

- Mining and metals
  - copper and gold
  - iron ore
  - aluminium
  - zinc, lead and silver
  - coal and uranium
- Industrial and other minerals
  - borates, including talc
  - titanium dioxide feedstock and co-products
  - other minerals

RTZ mines and produces a broad spread of metals and minerals which are sold to a variety of markets with differing economic characteristics and pricing mechanisms. Metals such as copper and aluminium are sold under contract, often long-term, at prices determined by reference to those prevailing on terminal markets (such as the London Metal Exchange ("LME") and Commodity Exchange Inc. in New York ("COMEX")) at the time of delivery. Gold is also priced in a free market in which prices respond to daily changes in quantities offered and demanded. Fluctuations in the market prices of quoted metals, particularly copper, aluminium and gold, inevitably affect the financial results of RTZ's operations. Prices for many of RTZ's other metal and mineral products are determined by direct negotiation between the producer and the consumer and are less susceptible to short term variations. In commodity businesses, especially where there are terminal markets, excess capacity often results in prices falling to levels which may make some producers periodically unprofitable.

The tables in this Part II include RTZ Group's interest in CRA Group assets. The respective methodologies employed by RTZ and CRA for reserves estimates are substantially the same.

*(i) Mining and metals*

RTZ's principal mining and metals interests are in copper and gold, iron ore, aluminium, coal, zinc, lead, silver and uranium. In 1994, the mining and metals segment accounted for approximately 73 per cent. of RTZ Group sales, 77 per cent. of RTZ Group assets at 31 December 1994 and contributed £517 million to RTZ Group's net earnings from operations. The tables on the following pages set out metal mine and refinery production together with coal production at RTZ Group operations for 1992, 1993 and 1994 and the estimated proved and probable reserves of metal mines at 31 December 1994.

## METAL MINE PRODUCTION (a)

(in thousands)

	1992		1993		1994	
	Mine production	RTZ share of mine production	Mine production	RTZ share of mine production	Mine production	RTZ share of mine production
<b>Copper (tonnes)</b>						
Bingham Canyon (USA)	288.7	100.0%	288.7	100.0%	307.0	100.0%
Escondida (Chile)	336.6	30.0%	101.0	30.0%	116.6	30.0%
Neves Corvo (Portugal)	148.6	49.0%	72.8	49.0%	73.4	49.0%
Palabora (S. Africa)	128.8	38.9%	50.1	38.9%	49.2	38.9%
Flambeau (USA)	nil	100.0%	nil	100.0%	24.1	100.0%
Discontinued/others(b)	116.8	(c)	30.5	nil	nil	nil
<b>RTZ total</b>			<u>543.2</u>		<u>570.4</u>	<u>609.9</u>
<b>Gold (ounces)</b>						
Bingham Canyon (USA)	515	100.0%	515	100.0%	516	100.0%
Kelian (Indonesia)	467	44.1%	206	44.1%	205	44.1%
Ridgeway (USA)(d)	161	100.0%	161	100.0%	137	100.0%
Barneys Canyon (USA)	116	100.0%	116	100.0%	107	100.0%
Morro do Ouro (Brazil)	167	51.0%	85	51.0%	89	51.0%
Flambeau (USA)	nil	100.0%	nil	100.0%	88	100.0%
Rawhide (USA)	92	51.0%	47	51.0%	52	51.0%
Peak (Australia)	23	49.0%	11	49.0%	72	49.0%
Rio Tinto Zimbabwe (Zimbabwe)	82	56.1%	46	56.1%	47	56.1%
Others	193	(c)	75	(c)	59	(c)
<b>RTZ total</b>			<u>1,263</u>		<u>1,372</u>	<u>1,298</u>
<b>Molybdenum (tonnes)</b>						
Bingham Canyon (USA)	8.6	100.0%	8.6	100.0%	8.2	100.0%
Discontinued operations(b)	0.8	(b)	0.1	nil	nil	nil
<b>RTZ total</b>			<u>8.7</u>		<u>8.2</u>	<u>8.7</u>
<b>Iron Ore (tonnes)(d)</b>						
Hammersley (Australia)	44,953	49.0%	22,027	49.0%	21,628	49.0%
Channar (Australia)	5,489	29.4%	1,614	29.4%	1,802	29.4%
<b>RTZ total</b>			<u>23,641</u>		<u>23,430</u>	<u>24,000</u>
<b>Bauxite (beneficiated) (tonnes)</b>						
Weipa (Australia)	8,702	32.8%	2,854	32.8%	2,778	32.8%
<b>Zinc (tonnes)</b>						
Pasminco (Australia)(e)(f)	296.0	15.2%	51.2	14.6%	43.3	(e)
Greens Creek (USA)(g)	36.8	54.5%	20.0	54.5%	5.2	70.3%
Others	108.2	(c)	36.5	(c)	35.0	(c)
<b>RTZ total</b>			<u>107.7</u>		<u>83.5</u>	<u>30.1</u>
<b>Lead (tonnes)</b>						
Pasminco (Australia)(e)(f)	203.0	15.2%	35.0	14.6%	29.8	(e)
Greens Creek (USA)(g)	15.1	54.5%	8.2	54.5%	1.9	70.3%
Others	34.1	(c)	11.9	(c)	9.2	(c)
<b>RTZ total</b>			<u>55.1</u>		<u>41.0</u>	<u>8.7</u>
<b>Silver (ounces)</b>						
Bingham Canyon (USA)	4,317	100.0%	4,317	100.0%	4,411	100.0%
Pasminco (Australia)(e)(f)	7,234	15.2%	1,247	14.6%	1,043	(e)
Greens Creek (USA)(g)	6,979	54.5%	3,804	54.5%	940	70.3%
Others	11,041	(c)	4,068	(c)	4,123	(c)
<b>RTZ total</b>			<u>13,436</u>		<u>10,516</u>	<u>8,843</u>
<b>Tin (tonnes)</b>						
Various	3.0	(c)	1.5	(c)	2.6	(c)

- (a) Mine production figures represent metals in concentrates or metal in doré, except for iron ore and beneficiated bauxite which are expressed as saleable ore, and Flambeau copper and gold which are metals contained in ore mined for direct sale.
- (b) Copper and molybdenum production from discontinued operations represents output from mines in which RTZ had an indirect interest via its 51.5 per cent. holding in Rio Algom. RTZ's shareholding in Rio Algom was sold in June 1992. The production data shown for 1992 is only for the period of RTZ's interest.
- (c) RTZ's share of other mines varies from mine to mine.
- (d) Sales of iron ore may differ significantly from quantities produced.
- (e) RTZ's indirect shareholding in Pasminco was reduced to approximately 5 per cent. in May 1994 following the sale by CRA of most of its interest in Pasminco; as a result Pasminco's production is not reported for 1994.
- (f) Pasminco reports results for the financial year ending 30 June. For purposes of this table, production figures have been restated to provide comparative data for the calendar years ending 31 December 1992 and 1993. RTZ's indirect shareholding in Pasminco was reduced from 19.6 per cent. to 15.2 per cent. in July 1992 and then to 14.6 per cent. in the fourth quarter of 1993. RTZ's share of production reflects these changes in shareholding. CRA sold its remaining interest in Pasminco in August 1995.
- (g) Production at Greens Creek was suspended in April 1993, due to low metal prices.

METAL REFINERY PRODUCTION<sup>(a)</sup>

(in thousands)

	1992		1993		1994	
	Total production	RTZ share of production	Total production	RTZ share of production	Total production	RTZ share of production
<b>Copper (tonnes)</b>						
Bingham Canyon (USA)	137.7	100.0%	137.7	100.0%	144.3	100.0%
Palabora (S. Africa)(b)	104.2	38.9%	40.6	38.9%	42.7	38.9%
Southern Copper (Australia)	43.9	29.4%	12.9	29.4%	15.3	29.4%
Escondida (Chile)(c)	-	30.0%	-	30.0%	-	30.0%
<b>RTZ total</b>		<b>191.2</b>		<b>202.3</b>		<b>181.1</b>
<b>Gold (ounces)</b>						
Bingham Canyon (USA)	250	100.0%	250	100.0%	277	100.0%
<b>RTZ total</b>		<b>250</b>		<b>277</b>		<b>228</b>
<b>Aluminium (tonnes)(d)</b>						
Comalco (Australia)(e)	383.6	32.8%	125.8	32.8%	138.3	32.8%
Anglesey Aluminium (UK)	126.9	51.0%	64.7	51.0%	63.7	51.0%
<b>RTZ total</b>		<b>190.5</b>		<b>202.0</b>		<b>207.3</b>
<b>Zinc (tonnes)</b>						
Norzink (Norway)	130.3	50.0%	65.2	50.0%	67.1	50.0%
Pasminco (Australia)(f)(g)	538.0	15.2%	93.3	14.6%	77.1	(f)
Others	34.5	(h)	5.8	(h)	5.2	(h)
<b>RTZ total</b>		<b>164.2</b>		<b>149.4</b>		<b>74.2</b>
<b>Lead (tonnes)</b>						
Pasminco (Australia)(f)(g)	303.0	15.2%	52.4	14.6%	43.8	(f)
<b>RTZ total</b>		<b>52.4</b>		<b>43.8</b>		<b>-</b>
<b>Silver (ounces)</b>						
Bingham Canyon (USA)	2,001	100.0%	2,001	100.0%	2,005	100.0%
Pasminco (Australia)(f)(g)	6,719	15.2%	1,154	14.6%	983	(f)
Southern Copper (Australia)(i)	807	29.4%	237	29.4%	225	29.4%
<b>RTZ total</b>		<b>3,392</b>		<b>3,213</b>		<b>2,084</b>

(a) Figures represent refined metal unless stated otherwise.

(b) Palabora's refined copper production includes a small proportion which is produced from purchased concentrates (in recent years usually 10,000 to 20,000 tonnes).

(c) Refined copper production from Escondida is from the new hydrometallurgical plant which commenced production in November 1994 and was officially opened on 11 January 1995.

(d) Aluminium production data refer to smelter production of primary aluminium.

(e) Includes Comalco's share of primary aluminium production from consortium smelters.

(f) RTZ's indirect shareholding in Pasminco was reduced to 5 per cent. in May 1994 following the sale by CRA of most of its interest in Pasminco; as a result Pasminco's production is not reported for 1994.

(g) Pasminco reports results for the financial year ending 30 June. For the purposes of this table, production figures have been restated to provide comparative data for the calendar years ending 31 December 1992 and 1993. RTZ's indirect shareholding in Pasminco was reduced from 19.6 per cent. to 15.2 per cent. in July 1992 and then to 14.6 per cent. in the fourth quarter of 1993. RTZ's share of production reflects these changes in shareholding. CRA sold its remaining interest in Pasminco in August 1995.

(h) RTZ's share of other refineries varies.

(i) Southern Copper ceased production in January 1995; on 22 December 1994 RTZ's beneficial interest in Southern Copper increased to 49 per cent.

ESTIMATED PROVED AND PROBABLE RESERVES AT METAL MINES (a)

(in millions)

	Type of mine (b)	Proved and probable reserves		Average mill recovery	RTZ interest	RTZ share of recoverable metal (c)
		Ore tonnage	Grade			
<b>Copper (tonnes)</b>						
Escondida (Chile)	O/P	2,107	1.30%	92%	30.0%	7.560
Bingham Canyon (USA)(d)	O/P	1,021	0.59%	90%	100.0%	5.413
Neves Corvo (Portugal)(d)(e):						
(copper ore)	U/G	26.4	6.29%	89%	49.0%	0.726
(tin-copper ore)	U/G	2.2	11.38%	97%	49.0%	0.118
Palabora (S. Africa)(f)	O/P	160	0.60%	85%	38.9%	0.319
Flambeau (USA)(d)	O/P	1.0	8.71%	(g)	100.0%	0.087
<b>RTZ total</b>						<b>14.223</b>
<b>Gold (d)</b>						
		(tonnes)				(ounces)
Bingham Canyon (USA)(d)	O/P	1,021	0.38g/t	69%	100.0%	8.678
Lihir (PNG)	U/G	104.0	4.37g/t	92%	17.1%	2.278
Barnes Canyon (USA)	O/P	11.3	2.26g/t	86%	100.0%	0.708
Ridgeway (USA)	O/P	25.1	0.99g/t	79%	100.0%	0.630
Kelian (Indonesia)	O/P	27.7	1.49g/t	(h)	44.1%	0.585
Morro do Ouro (Brazil)	O/P	92.8	0.47g/t	78%	51.0%	0.565
Rawhide (USA)	O/P	33.3	0.96g/t	70%	51.0%	0.369
Peak (Australia)(i)	U/G	3.5	7.10g/t	96%	49.0%	0.376
Flambeau (USA)(d)	O/P	1.0	3.94g/t	(g)	100.0%	0.127
Rio Tinto Zimbabwe	U/G	0.6	9.95g/t	89%	56.1%	0.091
<b>RTZ total</b>						<b>14.407</b>
<b>Molybdenum (tonnes)</b>						
Bingham Canyon (USA)(d)	O/P	1,021	0.028%	39%	100.0%	0.112
<b>Iron Ore (tonnes)</b>						
Mt. Tom Price and Paraburdoo (Australia)	O/P	545	(j)	(j)	49.0%	267
Marandoo (Australia)	O/P	170	(j)	(j)	49.0%	83
Channar (Australia)	O/P	180	(j)	(j)	29.4%	53
Brockman (Australia)	O/P	10	(j)	(j)	49.0%	5
<b>RTZ total</b>						<b>408</b>
<b>Bauxite (beneficiated) (tonnes)</b>						
Weipa (Australia)(k)	O/P	230	(j)	(j)	32.8%	75
<b>Zinc (tonnes)</b>						
Various (d)	U/G	—	—	—	Various	0.353
<b>Lead (tonnes)</b>						
Various (d)	U/G	—	—	—	Various	0.085
<b>Silver</b>						
		(tonnes)				(ounces)
Bingham Canyon (USA)(d)	O/P	1,021	2.92g/t	80%	100.0%	76.203
Neves Corvo (Portugal)(d)(e):						
(copper ore)	U/G	26.4	50.0g/t	38%	49.0%	7.891
(tin-copper ore)	U/G	2.2	39.6g/t	76%	49.0%	1.029
Flambeau (USA)(d)	O/P	1.0	65.7g/t	(g)	100.0%	2.113
Others	—	—	—	—	—	15.958
<b>RTZ total</b>						<b>103.194</b>
<b>Tin (tonnes)</b>						
Neves Corvo (Portugal)(d)(e):						
(tin-copper ore)	U/G	2.2	2.76%	66%	49.0%	0.020

(a) Reserves are net of dilution and mining losses at 31 December 1994.

(b) O/P — Open pit; U/G — Underground.

(c) RTZ share of reserves are expressed as share of recoverable metal except for Flambeau reserves which are expressed as contained metal in ore for direct sale (see note (g) below) and iron ore and bauxite which are expressed as recoverable reserves of saleable ore. The figures used to calculate RTZ's share of recoverable metal, i.e. ore tonnage, grade, approximate recovery and RTZ's interest, are sometimes more precise than the rounded numbers shown in the table, hence small differences in RTZ's share of recoverable metal may result if the same calculation is repeated with such rounded figures.

(d) Mine has quoted reserves for more than one metal from the same ore tonnage.

(e) Neves Corvo contains two principal economic ore types: copper ore and tin-copper ore. The copper ore is treated to produce copper and by-product silver; the tin-copper ore is treated in a separate plant to produce tin, copper and minor quantities of silver.

(f) Palabora also has 73.5 million tonnes of low grade stockpiled copper mineralization which it plans to use to augment the open pit ore reserves. This material will be blended with the open pit ore during the years 1998-2001. After the open pit reserves have been exhausted in 2001, the remainder of the low grade stockpile will be processed in 2002.

(g) The Flambeau mine sells high grade ore directly. Mill recovery is therefore inappropriate.

(h) The reserves shown for Kelian are quoted as recoverable reserves, net of processing losses, hence mill recovery factors are not shown in this table.

(i) Although principally a gold deposit, Peak also contains recoverable reserves of copper, lead, zinc and silver. The full reserve is 3.5 millions tonnes of ore averaging 7.1 grammes/tonne gold, 5.0 grammes/tonne silver, 0.6 per cent. copper, 0.8 per cent. lead and 0.9 per cent. zinc. These reserves are based on the pre-production ore body model which is scheduled for revision following an in-fill drilling programme initiated in 1994.

(j) The figures for iron ore and bauxite shown in the ore tonnage column are recoverable reserves of saleable product, i.e. after all mining and processing losses. Grades and recoveries are therefore not shown in this table.

(k) The figures shown for Weipa represent proven reserves.

## a) Copper and gold

The RTZ Group's principal interests in copper and gold operations during 1994 consisted of Kennecott's Bingham Canyon mine, as well as a number of other mines owned and operated by Kennecott in the USA; Escondida in Chile; Palabora in South Africa; Neves Corvo in Portugal; Morro do Ouro in Brazil; and CRA's Kelian mine in Indonesia. In 1994, the copper and gold operations accounted for approximately 34 per cent. of RTZ's turnover, 47 per cent. of RTZ's assets at 31 December 1994 and contributed £314 million to RTZ's net earnings.

### Bingham Canyon (RTZ 100 per cent. owned)

Bingham Canyon is wholly owned by Kennecott's principal operating subsidiary, Kennecott Utah Copper Corporation ("KUCC"), and is one of the world's largest open pit mines, producing copper and significant gold, silver and molybdenum by-products. The mine is located in Utah, USA. Production at the mine, which was acquired by RTZ in 1989, commenced in 1904.

Bingham Canyon ore is processed by flotation to produce copper and molybdenum concentrates; gold and silver are recovered in the copper concentrates. Approximately 46 per cent. of copper concentrate production was smelted and refined on-site during 1994 to produce refined cathode copper and refined gold and silver. KUCC currently sells the majority of its cathode copper under short-term contracts to a broad base of copper fabricators throughout the USA. Refined gold and silver are sold on a short-term basis to major bullion dealers. Concentrates are sold to North American and overseas smelters either directly or through merchants. Most sale prices are based on monthly average LME or COMEX metal prices.

Several major investment programmes have been undertaken at Bingham Canyon in the last decade, and others are currently underway. The first major investment was a US\$375 million modernisation programme, completed in 1988, which involved the installation of an in-pit ore crusher, a conveyor system to replace rail haulage for transporting the ore, new grinding and flotation facilities to process the ore into copper and molybdenum concentrates, and pipelines to transport tailings and concentrate.

An expansion of the grinding and flotation facilities was completed at the modernised concentrator in January 1992 and design capacity was reached in April 1992. As a result of this expansion, overall processing capacity at Bingham Canyon increased from 97,000 tonnes of ore per day to an average of 144,000 tonnes per day during 1993 and 1994 — the first two years of full operation. About 20 per cent. of Bingham Canyon ore production continues to be processed at older concentrating facilities constructed before 1988.

KUCC commenced construction of a new smelter and an expanded and modernised copper and new precious metals refinery in 1993, the total cost of which is expected to be US\$880 million. The new smelter will treat one million tonnes of concentrate per annum and the modernised refinery is designed to produce approximately 281,000 tonnes of copper per year. It will enable substantially all the Bingham Canyon concentrates to be smelted and refined on-site. The new smelter employs the latest technology, enabling it to meet current and anticipated environmental regulations, including air quality standards which will become effective on 31 December 1995. Production at the new smelter commenced in the second quarter of 1995. Some initial commissioning difficulties have been encountered but are being resolved. Design capacity is expected to be reached in 1996.

Plans were announced in 1993 for the expansion of the tailings dam at Bingham Canyon. Under current production plans the existing tailings dam will be exhausted by 1999; the new facility will be designed to provide capacity for the remaining life of the mine. Design and permitting activities are in progress and permits are expected to be received by 1996. The project is expected to be completed by 1998 at an estimated cost of US\$510 million.

Several smaller capital projects are being studied to optimise the Bingham Canyon resource and enhance KUCC's position as one of the most modern, low cost producers of copper in the world.

A summary of the principal operating statistics at Bingham Canyon for the last three financial years is given below:

#### BINGHAM CANYON

	1992	1993	1994
Rock mined ('000 tonnes)	90,873	90,423	103,678
Ore milled ('000 tonnes)	49,465	51,493	53,769
Headgrades:			
Copper (%)	0.62	0.63	0.62
Gold (grammes/tonnes)	0.49	0.44	0.42
Silver (grammes/tonne)	3.50	3.29	3.12
Molybdenum (%)	0.044	0.040	0.044
Copper concentrates produced ('000 tonnes)	982.0	1,067.2	1,020.7
Production of metals in concentrates:			
Copper ('000 tonnes)*	288.7	307.0	310.1
Gold ('000 ounces)	515	516	510
Silver ('000 ounces)	4,317	4,411	4,358
Molybdenum concentrates produced ('000 tonnes)	15.9	15.2	16.0
Containing: Molybdenum ('000 tonnes)	8.6	8.2	8.7
Concentrate smelted on-site ('000 tonnes)	473.7	556.8	471.3
Production of refined metals:			
Copper ('000 tonnes)	137.7	144.3	119.7
Gold ('000 ounces)	250	277	228
Silver ('000 ounces)	2,001	2,005	1,885

\*Includes a small amount of copper in precipitates.

Copper production in concentrates increased in 1993 and 1994 mainly due to the expansion of the grinding and flotation facilities described above, improved operating procedures and high equipment availability.

Proved and probable ore reserves at Bingham Canyon as of 31 December 1994 were estimated to be 1,021 million tonnes of ore at average grades of 0.59 per cent. copper, 0.38 grammes/tonne gold, 0.028 per cent. molybdenum, and 2.92 grammes/tonne silver. At planned production levels, reserves are sufficient to support a mine life of approximately 21 years.

Wage-earning employees at Bingham Canyon are represented by 17 unions, the largest of which is United Steelworkers of America (approximately two thirds of hourly paid workers). A labour contract covering all 17 unions expires 30 September 1996. The contract provides for a competitive wage and benefit package, work rules to foster productivity, and the company's ability to train and fully utilise a highly-skilled workforce for its integrated operations, including the new smelter and modernised refinery.

KUCC has full surface and mineral rights to the Bingham Canyon property. The operation obtains the majority of its electric power from the Utah Power and Light Company under long-term contracts; the remaining power requirement is generated by the company's own coal, natural gas and waste heat fired power plants. The new smelter will generate 85 per cent. of its own electrical energy from steam generated by the furnace gases and emission control equipment. The new smelter and refinery will require about 75 per cent. less electrical power and natural gas than that used in the old smelter and refinery per tonne of copper produced. For a description of certain environmental matters involving Bingham Canyon and Kennecott, see paragraph (f) "Environmental Matters" below.

#### Escondida (RTZ 30 per cent. owned)

Escondida is a large, low operating cost open pit copper mine located in the Atacama Desert in northern Chile. In 1985, RTZ acquired a 30 per cent. interest in the project at a cost of US\$55 million. The majority partner and manager is BHP of Australia, which has a 57.5 per cent. interest. The other partners in the venture are a Mitsubishi-led Japanese consortium with 10 per cent. and the International Finance Corporation with 2.5 per cent.

Construction of the mine commenced in August 1988 and production started in November 1990. The total capital cost was US\$824 million which was financed by equity and non-recourse loans. RTZ's share of the equity and subordinated debt at 31 December 1994 was US\$309 million.

The initial production rate was 320,000 tonnes per annum of copper contained in concentrates. Two expansions, completed in 1993 and 1994 at a total cost of US\$276 million, raised copper production capacity to 480,000 tonnes per annum. Included in the second expansion was a hydrometallurgical plant which can recover 80,000 tonnes per annum of copper from concentrates and convert it to cathode copper. Initial production from the leach plant began in late 1994; full production was expected by the end of 1994. However, start-up problems, which are being resolved, have delayed full production. Most of the cathode production from Escondida is sold under evergreen contracts to buyers in Japan, Korea, the USA, Britain, France, Italy, Taiwan and Malaysia.

In 1994, construction began on a third expansion ("Phase 3") which is planned to increase copper output from 480,000 tonnes per annum to over 800,000 tonnes per annum. RTZ expects that Escondida will become the world's largest copper mine upon completion of the Phase 3 expansion. Additional production from Phase 3 began in the middle of 1995, although full production is not expected to be attained until the middle of 1996. The estimated cost of Phase 3 is US\$560 million.

A summary of the principal operating statistics at Escondida for the last three financial years is given below:

#### ESCONDIDA

	1992	1993	1994
Rock mined ('000 tonnes)	107,647	128,044	144,584
Ore milled ('000 tonnes)	14,070	15,260	18,428
Headgrade: Copper (%)	2.78	2.80	2.87
Copper concentrates produced ('000 tonnes)	762.8	886.5	1,099.0
Production of metals in concentrates:			
Copper ('000 tonnes)	336.6	388.8	481.3
Gold ('000 ounces)	65	73	108
Silver ('000 ounces)	2,511	2,564	2,749

Additional drilling substantially increased proved and probable ore reserves during 1994 and as of 31 December 1994 these were estimated to be 2,107 million tonnes of ore at an average grade of 1.30 per cent. copper. At current planned production rates Escondida's mine life is expected to exceed 50 years. In 1994, Escondida produced 1,099,000 tonnes of concentrates containing 481,300 tonnes of copper, 108,000 ounces of gold and 2.75 million ounces of silver.

Prior to constructing the mine, contracts committing most of the concentrate production corresponding to the initial capacity were entered into with smelters in Japan, Germany and Finland. These contracts extend until the end of 2002. Contracts of shorter duration (two to six years), including the additional production from the first two expansions, have been signed with smelters in Spain, South Korea, Brazil, the Philippines, Sweden, Chile, China and the USA, with sales to traders accounting for the small remaining balance. The terms of most of the agreements are negotiated annually, although some are renegotiated every two or three years.

Perpetual rights to exploit the Escondida deposit and related rights of access are conferred on the operation by exploitation concessions from the Chilean Government under the terms of the Chilean Mining Code. Escondida derives most of its electrical power from Edelnor, under a contract which can be terminated by Escondida in 2000 and Edelnor in 2004. A second contract has been signed with Chilgener to purchase additional power from 1995 to 2005.

Palabora (RTZ 38.9 per cent. owned)

The main operation of Palabora Mining Company ("Palabora") is the open pit mining and processing complex which recovers copper and other minerals contained in a large, low grade ore body located near

Phalaborwa in the Northern Transvaal of South Africa. Palabora is a listed South African company. RTZ has a 38.9 per cent. interest in Palabora and manages the operation. Anglo-American Corporation of South Africa Limited and De Beers Holdings (Proprietary) Limited together hold 28.6 per cent.

Mining at Palabora began in 1964. Mining rights are conferred on Palabora by a mining lease from the South African Government over part of the ore body and by precious and base metal claims owned by Palabora over the remainder of the mineralised area. Under the terms of the lease, Palabora has the exclusive right to mine copper and other minerals, except phosphorus-bearing minerals. The lease expires only when the deposits of copper and other minerals have been exhausted.

At 31 December 1994, proved and probable reserves were estimated to be 160 million tonnes at an average grade of 0.60 per cent. copper. In addition, Palabora has 74 million tonnes of low grade copper ore which is stockpiled at surface. Palabora plans to use this material to augment its open pit reserves, by blending and treating it with the ore mined during the period 1998 to 2001. After the open pit reserves have been exhausted in 2001, the remainder of the low grade stockpile will be processed in 2002. Studies on the viability of underground mining beyond the life of the open pit operation after 2002 are continuing but have indicated that maintaining current production levels after 2002 would be uneconomic; however, lower production level options have shown more encouraging results.

A summary of the principal operating statistics of Palabora for the last three financial years is given below:

#### PALABORA

	1992	1993	1994
Rock mined ('000 tonnes)	37,768	37,811	38,224
Ore milled ('000 tonnes)	28,964	28,544	28,352
Headgrade: Copper (%)	0.53	0.53	0.54
Copper concentrates produced ('000 tonnes)	366.2	369.9	380.4
Contained copper ('000 tonnes)	128.8	126.4	127.6
Concentrates smelted on site ('000 tonnes)*	309.0	343.6	378.1
Refined copper produced ('000 tonnes)	104.2	109.7	115.5

\*Includes a small amount of purchased (i.e. non-Palabora) concentrates.

Palabora's copper concentrates are treated at its on-site smelter and refinery which have a nominal capacity to produce 130,000 tonnes of refined (cathode) copper per annum. In mid-1993, a US\$23 million smelter upgrade project was completed which improved performance and increased smelter production during the fourth quarter. During 1994, the smelter treated a record tonnage of concentrates, to produce 115,500 tonnes of refined copper. Over 65 per cent. of the refined copper produced was converted into continuous cast rod for sale to South African fabricators, with the remainder exported in the form of cathodes. Contracts for the sale of refined copper are for a year or in some cases for a longer term, but charges are reviewed annually. Excess copper over and above the amounts to be delivered pursuant to these fixed contracts is sold on the spot market monthly.

Marketable by-products recovered from the processing circuit at Palabora include zirconium compounds, uranium oxide, magnetite and nickel sulphate, as well as small quantities of gold, silver and platinum. In addition, sulphuric acid is produced as a by-product from the smelter. Palabora also owns an adjacent deposit containing vermiculite which is mined and processed for sale worldwide.

Palabora obtains the majority of its power requirements from Eskom, a public utility. The remainder is generated on-site by Palabora's own waste heat power generating plant.

Palabora employs some 3,000 people, of whom 85 per cent. are union members, mainly of the National Union of Mineworkers or the Boilermaker's Society, with whom contract negotiations take place annually.

Neves Corvo (RTZ 49 per cent. owned)

Neves Corvo is a high grade underground copper mine in the Alentejo region of southern Portugal operated by Sociedade Mineira de Neves-Corvo ("Somincor"). RTZ purchased its 49 per cent. interest in



Somincor in 1985 at a cost of US\$89 million. The balance of 51 per cent. is held by the Portuguese state minerals company, Empresa de Desenvolvimento Mineiro. The land is the property of Somincor and mining rights have been granted by the Portuguese State to Somincor for a 90 year period.

The mineralisation at Neves Corvo consists of several deposits of massive sulphide and shale hosted ores. Two principal types of ore are mined: copper ore and tin-copper ore. These two ores require separate treatment. The copper ore is treated in a conventional flotation circuit to produce copper and by-product silver. The tin-copper ore is treated in a separate flotation and gravity plant commissioned in 1990 to produce tin, copper and minor quantities of silver.

Neves Corvo commenced commercial production in March 1989 and in 1994 produced 130,300 tonnes of copper and 4,300 tonnes of tin in concentrates. Poor ground conditions delayed production from new areas in 1994. These poor conditions and lower grade ore are the main causes of the decline in copper and tin output in 1994.

A summary of the principal operating statistics of Neves Corvo for the last three financial years is given below:

#### NEVES CORVO

	1992	1993	1994
Ore mined and hoisted ('000 tonnes)	1,602	1,716	1,716
Ore milled ('000 tonnes):			
Copper production facilities*	1,524	1,610	1,665
Tin production facilities*	385	412	401
Headgrades:			
Copper (%)	10.3	9.8	8.5
Tin (%) (Tin ores only)	1.6	2.2	1.8
Copper concentrates produced ('000 tonnes)	599.5	612.4	534.5
Contained copper ('000 tonnes)	148.6	149.9	130.3
Tin concentrates produced ('000 tonnes)	6.5	10.1	7.8
Contained tin ('000 tonnes)	3.0	5.3	4.3

\*Note: Some ore is treated in both the copper and tin production facilities.

At 31 December 1994, estimated proved and probable reserves of copper ore were 26.4 million tonnes of ore at an average grade of 6.3 per cent. copper and proved and probable reserves of tin-copper ore were estimated to be 2.2 million tonnes averaging 2.8 per cent. tin and 11.4 per cent. copper.

In accordance with the mine plan, a US\$32 million project to deepen the mine in order to access the lower parts of the ore body was completed in mid-1994. A mining rate of 1.8 million tonnes of ore per annum was achieved by the end of 1994, compared with a rate of 1.7 million tonnes in 1993. The mine is currently operating at a rate of 1.9 million tonnes of ore per annum. This increased rate of production will partly offset the decline in ore grades, enabling the mine to sustain an annual production of approximately 120,000 to 125,000 tonnes of copper in concentrate until 1998: after this date there will be a gradual decline in output until 2011 when the mine is predicted to close due to exhaustion of reserves.

The bulk of the copper concentrates are sold under long-term contracts to smelters in Germany, Finland, Spain, Canada, Japan and Brazil. Contracts provide for the periodic negotiation of certain charges, usually every two to three years. Most tin concentrates are sold to smelters in Malaysia.

#### Morro do Ouro (RTZ 51 per cent. owned)

Morro do Ouro is a low grade, open pit gold mine in the State of Minas Gerais, Brazil. RTZ's 51 per cent. interest in Morro do Ouro is held through its Brazilian subsidiary, Rio Paracatu Mineração ("RPM"). The balance of the share capital is held by the Brazilian company Autram Mineração e Participações (49 per cent.). The RTZ Group manages the operation and provides technical expertise.

Exploration commenced in the Morro do Ouro area in 1980. Site preparation and construction of the US\$65 million mine and plant commenced at the start of 1986 and the first gold was produced in

December 1987. Since start-up, production has exceeded rated capacity due to the relatively soft nature of the ore. Plant modifications and alterations in the mining method made in 1992 enabled the mine further to increase the production rate to approximately 13 million tonnes of ore per year; this production rate should be maintained until the end of the mine's life which is expected to be in 2001. During 1994, the plant treated 13 million tonnes of ore to yield 168,750 ounces of gold. Proved and probable reserves at 31 December 1994 were 92.8 million tonnes of ore at an average grade of 0.474 grammes of gold per tonne. Studies are being carried out in order to determine the viability of treating deeper unoxidised mineralisation. Also in early 1994 RPM began an exploration programme to evaluate mineralisation around the present mining area; this work continues.

A summary of the principal operating statistics for Morro do Ouro for the last three financial years is given below.

#### MORRO DO OURO

	1992	1993	1994
Rock mined ('000 tonnes)	10,413	13,083	13,452
Ore milled ('000 tonnes)	10,492	12,973	13,409
Headgrade: Gold (grammes/tonne)	0.590	0.499	0.497
Gold produced ('000 ounces)	166.5	174.3	168.8

Output from Morro do Ouro is sold in Brazil at the Brazilian gold price, which is based on the international spot gold price to which a premium is added. The amount of the premium fluctuates daily and is determined by prevailing political and economic factors. Since 1990, the gold premium has been reduced as a result of a more flexible policy by the Central Bank of Brazil in relation to exchange rates and remittances abroad. During 1994, gold sales from Morro do Ouro were made at an average premium of 2.9 per cent. above the international gold price compared with 3.9 per cent. in 1993 and 9.3 per cent. in 1992.

#### Other Kennecott gold and copper mines

Kennecott owns and operates three wholly-owned mines in the USA: Barneys Canyon gold mine in Utah, Flambeau copper-gold mine in Wisconsin, and Ridgeway gold mine in South Carolina. In addition, Kennecott operates and holds a 51 per cent. interest in Rawhide gold mine in Nevada; the minority shareholders in Rawhide are subsidiaries of Kinross Gold Corporation (which own 49 per cent.). Kennecott also has a 40 per cent. interest in the Cortez gold mine in Nevada, which is managed by Placer Dome, Inc. In 1994, RTZ's beneficial share of production from these mines was 366,000 ounces of gold and 42,000 tonnes of copper.

Barneys Canyon commenced production in 1989 and produced 93,000 ounces of gold in 1994. The mine is estimated to have reserves containing 708,000 ounces of recoverable gold sufficient for a remaining mine life of five years; however, there may be potential for discovery of additional reserves which would extend the life of the mine.

After a number of delays, Kennecott received environmental clearance from the State of Wisconsin in 1992 to develop the high grade Flambeau deposit. Production commenced in the second quarter of 1993. In 1994, the first full year of operation, 42,000 tonnes of copper and 63,000 ounces of gold were produced. Flambeau is expected to produce an annual average of 26,000 tonnes of copper and 33,000 ounces of gold over its remaining two year life.

The Ridgeway mine commenced production in December 1988. Kennecott increased its interest in Ridgeway from 52 per cent. to 100 per cent. in January 1992. Ridgeway produced 120,000 ounces of gold in 1994. The mine is estimated to have reserves containing 630,000 ounces of recoverable gold and a remaining mine life of about five years.

The Rawhide mine, which also produces silver, commenced production in 1990 and produced 121,000 ounces of gold and 981,000 ounces of silver in 1994. The mine is estimated to have reserves

containing 723,000 ounces of recoverable gold and 4.2 million ounces of recoverable silver. (All figures on a 100 per cent. basis). The mine has an estimated remaining life of over six years and there is the potential for discovery of additional reserves which would extend the life of the mine.

Mining began on the Cortez leases in 1969. In 1991, Kennecott increased its interest in Cortez from 28.6 per cent. to 40 per cent. In 1994, the mine produced 70,000 ounces of gold. Reserves contain 428,000 ounces of recoverable gold. (All figures on a 100 per cent. basis). A feasibility study for the development of additional gold mineralisation at the Pipeline/South Pipeline deposits (RTZ 40 per cent., Placer Dome 60 per cent. owned) near the Cortez Mine in Nevada has been completed. For a further discussion of the Pipeline deposits, see (f) "Metals: Projects" below.

#### Other copper and gold properties

RTZ also has a 56.1 per cent. interest in Rio Tinto Zimbabwe, which operates the Renco, Patchway and Brompton underground gold mines in Zimbabwe. In 1994, Rio Tinto Zimbabwe produced 80,000 ounces of gold.

#### b) Iron ore

The RTZ Group's principal iron ore operations during 1994 were held through CRA. In 1994, the iron ore operations accounted for approximately 7 per cent. of RTZ's turnover, 7 per cent. of RTZ's assets at 31 December 1994 and contributed £76 million to RTZ's net earnings.

#### Corumbá

In December 1991, RTZ Mineração Limitada (RTZ 100 per cent. owned), RTZ's Brazilian holding company, acquired a 49 per cent. voting interest in Mineração Corumbaense Reunida ("Corumbá"). Corumbá is a Brazilian company producing iron ore from a mine located in the State of Mato Grosso do Sul, Brazil. In 1994 the mine produced 360,420 tonnes of iron ore and sold 394,506 tonnes of iron ore, mostly to customers in Argentina and Paraguay. In mid 1994 a US\$28 million project to expand the capacity of this operation to 660,000 tonnes of iron ore per year and to acquire and operate a fleet of barges was initiated. Three convoys of barges have since been purchased and sales are presently at a level of 770,000 tonnes per year.

#### c) Aluminium

The RTZ Group's bauxite, alumina and principal aluminium operations during 1994 were held through Comalco, the Australian company, which is 67 per cent. owned by CRA. RTZ also owns 51 per cent. of Anglesey Aluminium located in North Wales. In 1994, the aluminium operations accounted for approximately 13 per cent. of RTZ's turnover, 8 per cent. of RTZ's assets at 31 December 1994 and contributed £42 million to RTZ's net earnings.

#### Anglesey Aluminium (RTZ 51 per cent. owned)

Anglesey Aluminium, in which RTZ has a 51 per cent. interest and Kaiser Aluminum & Chemical Corporation ("Kaiser") has a 49 per cent. interest, owns the aluminium smelter at Holyhead, North Wales, in the UK. It has a nominal capacity of 127,000 tonnes per annum which is produced in various forms suitable for extruding, rolling and re-melting. In 1994, Anglesey Aluminium produced 126,800 tonnes of primary aluminium. RTZ supplies 51 per cent. of Anglesey Aluminium's alumina requirements from purchases on the world market and the balance is supplied by Kaiser. RTZ sells its share of the aluminium produced principally to manufacturers in Europe. Anglesey Aluminium derives its main electrical power requirements under a long term contract which expires early next century.

#### d) Zinc, lead and silver

RTZ's interests in zinc, lead and silver operations comprise interests in the Greens Creek mine in Alaska, 70.3 per cent. owned by Kennecott; the Norzink refinery in Norway, 50 per cent. owned by RTZ; and a

number of small mines owned by the Minera group (RTZ 33 per cent. owned) located in Bolivia and Argentina. Since 1990, RTZ's operations have been adversely affected by low zinc and lead metal prices. As a result, operations have been suspended at some of the RTZ mines. In 1994, zinc, lead and silver operations accounted for approximately 3 per cent. of RTZ's turnover, 2 per cent. of RTZ's assets at 31 December 1994 and contributed £7 million to RTZ's net earnings.

#### Norzink (RTZ 50.0 per cent. owned)

Norzink, in which RTZ and Trelleborg each have a 50 per cent. interest, operates an electrolytic zinc refinery at Eitrheim, Norway. Raw material in the form of zinc concentrate is purchased from mines worldwide. Refined zinc metal and alloys are sold to customers in both Europe and North America. In 1994, Norzink produced 136,800 tonnes of refined zinc. Norzink also operates a facility to produce aluminium fluoride utilising sulphuric acid produced by the zinc smelter. Power requirements for Norzink are met by local hydro-electric sources secured on a long term basis.

#### e) Other zinc and lead properties

##### Minera SA (RTZ 33.3 per cent. owned)

RTZ holds a 33 per cent. interest in Minera SA, whose assets include 100 per cent. interests in Comsur (Bolivia) and Minera Aguilar (Argentina) and a 100 per cent. interest in the Sulfacid zinc refinery in Argentina. Comsur owns and operates five small underground zinc mines with by-product lead and silver, and a silver heap leach site in Bolivia. Minera Aguilar owns and operates the Aguilar underground zinc mine with by-product lead and silver in Argentina. During 1994, Minera SA group mines produced 94,284 tonnes of zinc, 25,219 tonnes of lead, and 4.8 million ounces of silver. In August 1993, Comsur entered into a 50/50 joint venture with the Bolivian state mining company Comibol for the development of the Bolivar Mine, construction of which was completed in December 1994. Production at Bolivar commenced in January 1995 at an initial rate of 800 tonnes of ore per day; the design rate of 1,000 tonnes of ore per day was achieved in April 1995.

##### Greens Creek (RTZ 70.3 per cent. owned)

The Greens Creek underground mine in Alaska, managed by Kennecott, commenced production of concentrates containing silver, gold, zinc and lead in 1989. However, operations at Greens Creek were suspended indefinitely in April 1993 in response to depressed metal prices. In the financial statements for the year ended 31 December 1992, RTZ made provision of US\$48 million after tax against the book value of its investment in Greens Creek. Environmental monitoring, limited development and diamond drilling continued in compliance with permit requirements. The drilling programme discovered a new ore zone in the southwest region and activities were re-focused to this area in 1993. In 1994, a feasibility study to support re-opening the mine was completed and a decision to re-develop the mine was taken in the second quarter of 1995. The capital cost of the re-development is expected to be around US\$85 million (100 per cent. basis). In October 1993, Kennecott increased its interest in Greens Creek from 54.5 per cent. to 57.8 per cent. upon the withdrawal of a minority participant and to 70.3 per cent. in December 1994, with the acquisition of CSX Alaska Mining, Inc.'s interest.

#### f) Metals: Projects

##### Lihir (RTZ 17.1 per cent. owned)

RTZ currently has a 17.1 per cent. beneficial interest in Lihir Gold Limited ("Lihir Gold"), the single purpose project company formed by the original joint venture partners to raise the finance required for the development of a large gold deposit on Lihir Island in Papua New Guinea ("PNG"). Following the debt and equity financing of Lihir Gold, completed in October 1995, the other shareholders in Lihir Gold are now The Papua New Guinea Government (17.1 per cent.), Niugini Mining Limited (17.1 per cent.), Vengold Gold Inc. (5.7 per cent. beneficial) and the public (43 per cent.).

The mineralisation on Lihir Island occurs in an area of former volcanic activity near a deep water harbour. The location, relative lack of infrastructure, the geothermal activity and hydrology on Lihir Island, combined with the deposit's metallurgical characteristics, make this a technically challenging project.

A Feasibility Report and a Proposal for Development of the Lihir property were submitted to the PNG government in March 1992. A Feasibility Report Amendment was submitted in September 1993 and further amendment in October 1994 and May 1995.

The amended Proposal for Development was approved by the PNG Government in March 1995 and the Special Mining Lease, which grants a legal right to carry out mine construction and operation, was issued in March 1995. On 26 April 1995 representatives of the people of Lihir Island signed a compensation agreement clearing the way for the mine's development. Full construction of the RTZ managed project commenced after the debt and equity financing had been completed and is expected to take approximately 26 months. The financing raised US\$300 million in debt finance and US\$450 million in an equity offering to the public completed in October 1995. Over US\$150 million has been spent on bringing the project to the development stage. The Lihir gold deposit will be mined by conventional open pit methods.

The planned development proposes a US\$673 million capital investment to develop and process 2.8 million tonnes of ore on average per annum, averaging 584,000 ounces of gold annually during the first fifteen years. The proposal is based on proven and probable reserves of 104 million tonnes of ore at 4.37 grammes per tonne of gold, at a cut off grade of 2.0 grammes per tonne for sulphide ore and 1.6 grammes per tonne for oxide ore. These reserves are estimated to contain 14.6 million ounces of gold.

Low grade ore will be stockpiled on land and on a waste rock platform in the harbour for treatment after the pit has been mined out. It is anticipated that the mine will operate for 15 years and thereafter the stockpiled ore will be processed for a further 21 years. Pressure oxidation will be used to treat the ore.

#### Fortaleza nickel (RTZ 100 per cent. owned)

In May 1995, RTZ's wholly owned Brazilian subsidiary, RTZ Mineração Limitada, announced the decision to proceed with the development of the Fortaleza high grade nickel sulphide deposit in the state of Minas Gerais, Brazil. The development consists of a mine, concentrator, smelter and refinery. Construction is expected to take 30 months, with commissioning to start in early 1998. The capital cost for the open pit mine and surface facilities is estimated at US\$183 million with an additional US\$50 million for the subsequent commissioning of an underground mine.

The mine has an estimated life of 20 years, with the first five open pit and the remainder underground. Ore reserves total 10.3 million tonnes, grossing 1.89 per cent. nickel, 0.36 per cent. copper, 0.2 per cent. cobalt, and 1.7 grammes/tonne of platinum group metals and gold.

Annual throughput is projected at approximately 550,000 tonnes of ore producing some 10,000 tonnes of electrolytic nickel and several by-products such as sulphuric acid, cobalt, copper sulphate and platinum group metals and gold. Most of the production will be sold in local Brazilian markets.

#### Orissa iron ore (RTZ 51 per cent. owned)

RTZ entered into a joint venture agreement with Orissa Mining Corporation ("OMC") in early 1995 to conduct a pre-feasibility study of two iron ore deposits in the State of Orissa, India. The deposits, which are known as Gandhamardan and Malangtoli, are in the Keonjar-Singbhum region of Orissa, also known as the Bonai Range. The joint venture is subject to the approval of the Government of India.

The first phase of the pre-feasibility study is expected to be completed during 1996 and will be funded by each joint venturer in the same proportion as their respective interests in the project which are RTZ 51 per cent., OMC 49 per cent.

#### Pipeline (RTZ 40 per cent. owned)

Feasibility studies of the Pipeline gold deposit near the Cortez mine in Nevada have been completed. The deposit is managed and 60 per cent. owned by Placer Dome. Legal proceedings between Gold Fields Mining Company (the former owner of a portion of the property containing a significant portion of the

mineral deposit) and Placer Dome, which had threatened to delay development, were settled out of court in March 1995.

On a 100 per cent. basis, the Pipeline deposit is estimated to contain 32 million tonnes of mineable ore, grading 0.32 ounces per tonne and yielding 3.7 million recoverable ounces of gold. Permit applications for development of the Pipeline deposit are expected to be issued in 1996. Assuming issuance of permits, it is expected that a decision will be taken to develop the Pipeline deposit at an estimated initial capital cost of US\$270 million. Production of 300,000 ounces of gold per year could commence in 1998.

Additional mineralisation has been identified near the main deposit in an area known as South Pipeline. Feasibility studies for South Pipeline are in progress and, assuming favourable results, permit applications will be submitted in 1996.

g) Coal

The RTZ Group's interests in coal operations are held through Kennecott Energy and Coal Company in the USA and CRA in Australia and Indonesia. In 1994, the coal operations, together with the uranium operations of Rössing Uranium in Namibia, accounted for approximately 15 per cent. of RTZ's turnover, 11 per cent. of RTZ's assets at 31 December 1994 and contributed £77 million to RTZ's net earnings.

The following table sets forth coal production at major RTZ Group operations for 1992, 1993 and 1994 and the estimated proved and probable reserves of coal mines at 31 December 1994.

## COAL MINE PRODUCTION

(in thousands of tonnes)

	Coal type (a)	1992			1993			1994		
		Production	RTZ share of production		Production	RTZ share of production		Production	RTZ share of production	
<b>Kennecott Energy (b)</b>										
Cordero (USA)	SC	12,100*	nil	nil	11,800*	100.0%	7,500(b)	14,900	100.0%	14,900
Antelope (USA)	SC	5,200*	nil	nil	6,600*	100.0%	5,700(b)	7,500	100.0%	7,500
Spring Creek (USA)	SC	6,000*	nil	nil	6,500*	100.0%	5,700(b)	9,000	100.0%	9,000
Decker (USA)	SC	10,600*	nil	nil	9,800*	50.0%	4,300(b)	9,800	50.0%	4,900
Colowyo (USA)	SC	4,200*	nil	nil	4,300*	nil	nil	4,100*	(c)	300(c)
<b>RTZ total</b>				nil			23,200			36,600
<b>Pacific Coal</b>										
Tarong (Australia)	SC	5,355	49.0%	2,624	5,310	49.0%	2,602	5,228	49.0%	2,562
Blair Athol (Australia)	SC	8,286	28.0%	2,320	9,329	28.0%	2,612	9,725	28.0%	2,723
<b>RTZ total</b>				4,944			5,214			5,285
<b>Kaltim Prima (Indonesia) (d)</b>	SC	6,887	21.2%	1,459	8,871	21.2%	1,880	9,932	21.2%	2,105
<b>Kembla Coal and Coke (Australia)</b>										
	MC	3,152	49.0%	1,545	3,108	49.0%	1,523	1,998	49.0%	979
	SC	259	49.0%	127	111	49.0%	54	110	49.0%	54
	C	248	49.0%	121	236	49.0%	115	242	49.0%	119
<b>RTZ total</b>				1,793			1,692			1,152
<b>Novacoal</b>										
Howick (Australia)	SC	2,563	29.4%	754	2,512	29.4%	739	2,683	29.4%	789
	MC	853	29.4%	251	857	29.4%	252	919	29.4%	270
Western Main (Australia) (e)	SC	675	49.0%	331	498	49.0%	244	484	49.0%	237
Vickery (Australia)	SC	307	49.0%	150	700	49.0%	343	674	49.0%	330
<b>RTZ total</b>				1,486			1,578			1,626
<b>Coal &amp; Allied (f)</b>										
Hunter Valley (Australia)	SC	1,822	18.4%	335	2,638	34.6%	776	2,392	34.6%	829
	MC	3,064	18.4%	563	3,014	34.6%	886	3,052	34.6%	1,057
Mount Thorley (Australia)	SC	1,986	14.7%	292	1,694	27.7%	403	1,879	27.7%	521
	MC	2,201	14.7%	324	2,948	27.7%	702	2,162	27.7%	599
Lake Macquarie (Australia) (g)	SC	2,023	18.4%	372	1,362	34.6%	405	295	34.6%	102
<b>RTZ total</b>				1,886			3,172			3,108
<b>Discontinued operations (h)</b>	MC	799	(h)	120	nil	nil	nil	nil	nil	nil
<b>RTZ grand total</b>				11,686			36,737			49,876

(a) SC — Steam coal; MC — Metallurgical coal; C — Coke.

(b) The figures shown for RTZ's share of Kennecott's coal production are from the effective date of acquisition of these mines (i.e. Cordero from 4 June 1993; Antelope, Spring Creek and Decker from 17 February 1993; and Colowyo from 6 December 1994).

(c) Kennecott Energy is responsible under a management agreement for the operation of the Colowyo mine, but most production is contracted for delivery to local utilities until at least 2003. Proceeds from these sales will go directly to service payments on the collateralised bonds of Colowyo Coal Company, L.P. After the coal supply contracts expire and the collateralised bonds have been repaid in 2011, RTZ, through Kennecott Energy, will have sole rights to all coal production and reserves from Colowyo.

(d) Under the terms of Kaltim Prima's mining permit, the Indonesian state coal company P.T. (Persero) Tambang Batubara Bukit Asam is entitled to a 13.5 per cent. share of Kaltim Prima's coal production. RTZ's share of production reflects this agreement.

(e) Western Main mine ceased production on 31 October 1994.

(f) RTZ's indirect interest in Coal & Allied Industries increased to 34.6 per cent. in April 1993; RTZ's share of production for 1993 reflects this change in shareholding.

(g) The Lake Macquarie operations were sold on 6 April 1994.

(h) Production from discontinued operations represents output from mines in which RTZ had an indirect interest via its 51.5 per cent. interest in Rio Algom. RTZ's shareholding in Rio Algom was sold in June 1992. The production data shown for 1992 is only for the period of RTZ's interest.

\* Indicates full production including quantities produced prior to acquisition by the RTZ Group.

## ESTIMATED PROVED AND PROBABLE RESERVES AT COAL MINES

(in millions of tonnes)

	Type of reserve (a)	Coal type (b)	Calorific value (c) (d) (BTU/pound)	Sulphur content (d)	Mine reserves (e) (millions of tonnes)	RTZ interest	RTZ share of recoverable reserves (e) (millions of tonnes)
<b>Kennecott Energy</b>							
Cordero (USA)	O/C	SC	8,400	0.33%	360	100.0%	360
Antelope (USA)	O/C	SC	8,800	0.31%	181	100.0%	181
Spring Creek (USA)	O/C	SC	9,300	0.33%	163	100.0%	163
Colowyo (USA)	O/C	SC	10,500	0.43%	172	(f)	172(f)
Decker (USA)	O/C	SC	9,400	0.40%	288	50.0%	144
<b>RTZ total</b>							<b>1,020</b>
<b>Pacific Coal</b>							
Tarong (Australia)	O/C	SC	9,050	0.30%	252	49.0%	123
Blair Athol (Australia)	O/C	SC	11,900	0.30%	174	28.0%	49
<b>RTZ total</b>							<b>172</b>
<b>Kaltim Prima (Indonesia) (g)(h)</b>							
<b>Surface</b>							
Pinang grade	O/C	SC	10,936	0.57%	87	21.2%	18
Prima grade	O/C	SC	12,332	0.64%	182	21.2%	39
Underground	U/G	SC	12,750	0.40%	37	21.2%	8
<b>RTZ total</b>							<b>65</b>
<b>Kembla Coal &amp; Coke (Australia)</b>							
	U/G	MC	n/a	0.35%	74	49.0%	36
<b>Novacoal</b>							
Howick (Australia)	O/C	SC&MC	12,510	0.65%	96	29.4%	28
Vickery (Australia)	O/C	SC	12,640	0.40%	4	49.0%	2
<b>RTZ total</b>							<b>30</b>
<b>Coal &amp; Allied</b>							
<b>Hunter Valley (Australia)</b>							
	O/C	SC	12,240	0.50%	98	34.6%	34
	O/C	MC	13,140	0.60%	61	34.6%	21
<b>Mount Thorley (Australia)</b>							
	O/C	SC	11,970	0.50%	44	27.7%	12
	O/C	MC	13,140	0.55%	48	27.7%	13
<b>RTZ total</b>							<b>80</b>
<b>RTZ grand total</b>							<b>1,403</b>

(a) OC — Open cut; U/G — Underground.

(b) SC — Steam coal; MC — Metallurgical coal.

(c) BTU — British Thermal Unit.

(d) Analyses of coals from Kennecott Energy were undertaken according to "American Standard Testing Methods" (ASTM) on an "As Received" moisture basis whereas the coals from Australia and Indonesia have been analysed on an "Air Dried" moisture basis according to Australian Standards (AS).

(e) Reserves are net of mining losses and losses due to beneficiation (e.g. washing).

(f) Kennecott Energy is responsible under a management agreement for the operation of the Colowyo mine but most production is contracted for delivery to local utilities until at least 2003. Proceeds from these sales will go directly to service payments on the collateralised bonds of Colowyo Coal Company, L.P. After the coal supply contracts expire and the collateralised bonds have been repaid in 2011, RTZ, through Kennecott Energy, will have sole rights to all coal production and reserves from Colowyo.

(g) Under the terms of Kaltim Prima's mining permit, the Indonesian state coal company P.T. (Persero) Tambang Batubara Bukit Asam is entitled to a 13.5 per cent. share of Kaltim Prima's coal production. RTZ's share of reserves reflects this agreement.

(h) Kaltim Prima produces two qualities of steam coal known as Prima grade and Pinang grade; the surface reserves of these two coal types are identified separately.

### Kennecott Energy and Coal Company (RTZ 100 per cent. owned)

In 1993, RTZ acquired Nercos Inc. ("Nercos") and Cordero Mining Co. With these acquisitions, RTZ, through its affiliates, became the fifth largest coal producer in the USA. Nercos was acquired for US\$470 million and the assumption of US\$684 million in debt; PacifiCorp, the majority owner of Nercos, provided US\$225 million of the consideration to be serviced and repaid from certain future contract revenues. Nercos also had substantial gas and oil interests and gold and silver properties. Since these assets were not compatible with RTZ's strategic objectives, RTZ disposed of them in 1993 for proceeds totalling US\$575 million. Cordero was acquired from Sun Company for US\$121 million. RTZ's results reflect the activities of Nercos and Cordero effective from 17 February and 4 June 1993, respectively.



In 1994, RTZ expanded its presence in the coal market with the purchase of a general partnership interest in Colowyo Coal Company, L.P. ("CCC"), which owns and operates the Colowyo Mine. The acquisition was completed on 6 December 1994 and resulted in Kennecott Energy and Coal Company ("Kennecott Energy"), through its subsidiary, becoming the general partner and manager of CCC with W R Grace Company (the former general partner) becoming the limited partner. As part of the purchase W R Grace Company received US\$26 million in cash from Kennecott Energy and US\$192 million in proceeds from a non-recourse financing arrangement secured by the revenue stream from certain of Colowyo's long-term coal contracts.

Under the terms of the Partnership Agreement, Kennecott Energy is required to pay all operating and capital costs of the mine and to deliver scheduled coal volumes totalling about 60 million tonnes under certain long-term contracts, the revenue streams from which are pledged to service partnership debt. Kennecott Energy receives a mining fee for these contract coal sales, 20 per cent. residual cash flow from these contracts after servicing the debt (W R Grace receives the remaining 80 per cent. share) and all revenues from the sale of additional coal.

W R Grace retains a limited partnership interest in Colowyo entitling it to share in the proceeds from the long-term coal contracts.

As a result of the above acquisitions, Kennecott Energy manages the operations of several wholly-owned, low sulphur, surface steam coal mines: Antelope, Spring Creek, and Cordero, in the Powder River Basin of Montana and Wyoming and the newly acquired Colowyo mine in the Danforth Hills coal field in northwestern Colorado. The Decker Mine located in Montana, which is 50 per cent. owned by RTZ, is managed by a subsidiary of Peter Kiewit Sons, Inc. ("Kiewit"). RTZ's share of the coal production from these mines in 1994 totalled 36.6 million tonnes.

The Antelope mine in Wyoming commenced operations in 1985. Coal reserves at 31 December 1994 were estimated to be 181 million tonnes. Production in 1994 totalled 7.5 million tonnes. During the year, the mine expanded from a single pit to a dual pit operation to meet changes in the quality requirements of the mine's largest customer. Completion of the second pit development in 1994 increased the mine's capacity to 9.1 million tonnes of coal per annum. This second pit provides lower sodium and lower strip ratio coal, thereby increasing marketing flexibility. Planned coal storage facility upgrades will allow annual mine capacity to increase to 10.9 million tonnes of coal by 1997.

The Colowyo mine commenced operations in 1977. The mine produced 4.1 million tonnes of coal in 1994, and contains an estimated 172 million tonnes of coal reserves. It is planned to increase annual mine capacity to 4.5 million tonnes of coal by 1997 through equipment upgrades.

The Cordero mine in Wyoming commenced operations in 1976. Coal reserves at 31 December 1994 were estimated to be 360 million tonnes. Production in 1994 was 14.9 million tonnes. A dragline was installed in 1992 to improve overburden removal capacity and productivity, raising annual production capacity to 16.3 million tonnes of coal. Nearly 40 per cent. of the shipments in 1994 were to spot market customers.

The Spring Creek mine in Montana began operations in 1980. As at 31 December 1994, the mine's coal reserves were estimated to be 163 million tonnes. In 1994 Spring Creek produced 9.0 million tonnes of coal. The operation includes a coal handling system where coal is blended in a storage barn and loaded to rail cars. Installation of a new overland conveyor was completed during 1993 which allowed cost reductions through elimination of higher cost truck haulage and rationalisation of manpower.

The Decker mine in Montana commenced operations in 1971. The joint venture is overseen by a four person management committee, with two members appointed by each of the joint venture partners. Kiewit, as mine manager, receives a management fee and markets the entire production from the mine. Both partners share equally in the proceeds of the venture. Unless terminated earlier by the partners, the joint venture will continue until 2030 or until the coal resources at the Decker properties have been fully mined. As at 31 December 1994, the mine had proven coal reserves of 288 million tonnes (100 per cent. basis). RTZ's share of 1994 sales was 4.9 million tonnes.

The mines' coal reserves are leased from the US Government, certain states and private parties. The leases require minimum production levels, adherence to permit requirements, and compliance with state

and federal statutes. All operations are surface mines and utilise large draglines for overburden removal and truck/shovel fleets for prestripping and coal production. The coal is transported by haul trucks and conveyors to mine site plant facilities where it is crushed and sized to customer specifications. The coal shipments are transported from the mines primarily by rail. The coal is either delivered direct to the customer or to shipping terminals where it is transferred from trains into vessels or barges for movement on the Great Lakes and the midwest river system or for export.

Coal is sold principally to electric utility customers in the western, midwestern, and southeastern regions of the USA. Industrial customers and exports account for less than 3 per cent. of total sales. Transportation costs are a major element of the delivered cost of coal and hence restrict markets in which Kennecott Energy's products are competitive.

Coal sales are made under multi-year contracts and on a spot basis for terms of one year or less. Multi-year sales contracts contain various price adjustment provisions which are based on published price indexes and, in some cases, actual mine production costs. RTZ's share of sales in 1994 under multi-year contracts totalled 23.7 million tonnes, representing 65 per cent. of total sales, declining from the 83 per cent. in 1993 due to increased production and spot market sales. The following table sets out expiry dates for coal contracts in place for each mine at 31 December 1994:

	<b>Expiry dates</b>
Antelope	1997-2016
Cordero	1995-2002
Colowyo	1995-2017
Decker	1996-2015
Spring Creek	1995-2011

The Antelope, Colowyo, Cordero, and Spring Creek mines are non-union operations. The Decker mine labour force is organised under the United Mine Workers of America with whom a new agreement providing labour stability for the next four years was successfully negotiated effective 1 January 1995. Electric power is supplied to the Antelope, Spring Creek, and Decker mines by Pacific Power. Tri-County Electric Co-operative provides electric power to the Cordero mine. White River Electric supplies power to the Colowyo mine. All Powder River Basin mines are serviced by the Burlington Northern Railroad Company. The Antelope and Cordero mines are also served by the Chicago and North Western Transportation Company. The Colowyo mine is served by the South Pacific Railroad.

#### h) Uranium

RTZ's interest in uranium is held through the 66.2 per cent. owned Rössing Uranium in Namibia.

Rössing Uranium (RTZ 66.2 per cent. owned)

RTZ manages Rössing. In September 1994, RTZ increased its holding in Rössing to 56.3 per cent. Additional interests were acquired by RTZ, increasing its holding to the current 66.2 per cent., following the withdrawal of minority participants in 1995. RTZ's involvement in the Rössing project dates from 1966 when the first option was negotiated on uranium deposits in the Namib Desert in Namibia. The Rössing mine commenced production in 1976.

Uranium ore is extracted from the open pit mine and processed on site into uranium oxide for export. The mine and plant were designed to produce 4,536 tonnes (5,000 short tons) of uranium oxide per annum. During 1991, annual production was reduced to 2,890 tonnes. The decrease in production was necessitated by a reduction in sales caused by weak uranium market conditions. In 1992, Rössing's production of uranium oxide was reduced further to 1,973 tonnes, a level at which current production and contract sales would produce a stock reduction. During 1993, the production level remained similar

at 1,966 tonnes. In 1994, the production level increased by 14 per cent. to 2,242 tonnes in line with delivery requirements. Through rationalisation of support personnel and non-mining activities the workforce has been reduced from over 2,500 in 1990 to 1,243 at the end of 1994. The uranium oxide is supplied for use by electricity generating companies throughout the world and these supply contracts are subject to rigorous national and international safeguards.

*(ii) Industrial and other minerals*

RTZ's industrial and other minerals sector consists mainly of the activities of RTZ Borax (RTZ 100 per cent. owned), the world's principal producer of boron products, and RTZ I&T comprising QIT (RTZ 100 per cent. owned) and RBM (RTZ 50 per cent. owned), both important producers of titanium dioxide feedstock, which is supplied to the pigment industry, as well as several co-products including iron and zircon. In addition, the RTZ Group produces talc, diamonds and other industrial minerals. In 1994, the industrial minerals sector accounted for approximately 27 per cent. of RTZ Group turnover, 23 per cent. of RTZ Group assets at 31 December 1994 and contributed £158 million to RTZ Group's net earnings from operations.

The following tables set out production of the more important industrial minerals from RTZ Group operations for 1992, 1993 and 1994 and estimated proved and probable reserves as at 31 December 1994.

**INDUSTRIAL MINERALS PRODUCTION**

*(in thousands)*

	1992		1993		1994	
	Total production	RTZ share of production	Total production	RTZ share of production	Total production	RTZ share of production
<b>Borates (tonnes)(a)</b>						
Boron mine (USA)	436	100.0%	436	100.0%	477	100.0%
Tincalayu (Argentina)	16	100.0%	16	100.0%	16	100.0%
<b>RTZ total</b>		<u>452</u>		<u>467</u>		<u>493</u>
<b>Titanium dioxide feedstock (tonnes)</b>						
RTZ Iron and Titanium (Canada/S. Africa)(b)	1,637	(b)	1,195	(b)	1,537	(b)
<b>Talc (tonnes)</b>						
Luzenac Group (Europe/North America)(c)	861	99.9%	860	99.9%	1,022	99.9%
<b>Diamonds (carats)</b>						
Argyle (Australia)	39,002	29.3%	11,408	29.3%	12,520	29.3%
<b>Silica sand (tonnes)</b>						
US Silica (USA)	4,382	100.0%	4,382	100.0%	4,823	100.0%
<b>Salt (tonnes)</b>						
Dampier (Australia)	3,823	31.8%	1,216	31.8%	1,177	31.8%
Discontinued operations(d)	245	(d)	126	(d)	nil	(d)
<b>RTZ total</b>		<u>1,342</u>		<u>1,223</u>		<u>1,177</u>
<b>Potash (tonnes)</b>						
Discontinued operations(d)	551	(d)	284	(d)	nil	(d)

(a) Production is expressed as B<sub>2</sub>O<sub>3</sub> content.

(b) Production comprises 100 per cent. of QIT and 50 per cent. of RBM.

(c) Talc production is based on mill output which includes some product derived from purchased talc ores.

(d) Production from discontinued operations represents output from mines in which RTZ had an indirect interest via its 51.5 per cent. interest in Rio Algom. RTZ's shareholding in Rio Algom was sold in June 1992. The 1992 production data shown are only for the period of RTZ's interest.

## ESTIMATED PROVED AND PROBABLE RESERVES AT INDUSTRIAL MINERALS MINES

(in thousands)

	Type of reserves (a)	Proved and probable reserves (b)	RTZ interest	RTZ share of reserves (b)
<b>Borates (tonnes) (c)</b>				
Boron mine (USA)	O/P	24,619	100.0%	24,619
Tincalayu (Argentina)	O/P	260	100.0%	260
<b>RTZ total</b>				<b>24,879</b>
<b>Titanium Dioxide Feedstock (tonnes)</b>				
RTZ Iron & Titanium(d) (Canada/S. Africa)	O/P and D/O	79,800	(d)	63,600
<b>Talc (tonnes)</b>				
Luzenac Group (Europe/North America)	O/P and U/G	82,335	99.9%	82,247
<b>Diamonds (carats)</b>				
Argyle (Australia)(e)	O/P	257,500	29.3%	75,400
<b>Silica Sand (tonnes)</b>				
US Silica (USA)	O/P	241,979	100.0%	241,979

(a) O/P — Open pit; D/O — Dredging operation; U/G — Underground.

(b) Reserves are expressed in terms of the recoverable quantities of saleable product (i.e. after all mining and processing losses).

(c) Reserves are expressed as saleable B<sub>2</sub>O<sub>3</sub> content.

(d) Comprises reserves at QIT (RTZ 100 per cent. owned) and RBM (RTZ 50 per cent. owned).

(e) Reserves include both hard rock and alluvial reserves.

### a) Borates

Borax through US Borax Inc. ("US Borax") (RTZ 100 per cent. owned) owns and operates the world's largest borate mine at Boron, in the Californian Mojave Desert, 120 miles northeast of Los Angeles. The ore is mined by conventional open pit methods and processed locally into a wide range of boron products, some of which are further refined at the Borax group's refineries at Wilmington, in the Los Angeles harbour area, and Coudekerque, France. Boric acid is produced in a separate plant at Boron, while purchased minerals are converted to boric acid in the Coudekerque refinery.

There are few identified economically viable deposits of minerals containing boron in the world. According to the US Bureau of Mines, the USA has about one-third of the world reserves. Extensive reserves also occur in Turkey, the CIS and China.

The Boron mine has been in operation since 1927. It was converted from underground to open pit methods in 1957. Crushed ore is carried from the pit by conveyor to an adjacent refinery. At the end of 1994, proved and probable reserves of borate ore were estimated to be approximately 24.6 million tonnes of saleable B<sub>2</sub>O<sub>3</sub> content. In 1994, 477,000 tonnes of saleable B<sub>2</sub>O<sub>3</sub> content were produced.

A wide range of products are made at Boron, including pentahydrate borax, decahydrate borax, anhydrous borax and boric acid. Boric acid is produced by a proprietary process. All of the power and much of the steam required by the plants at Boron are generated by its on-site cogeneration power units. Excess electricity is sold to the local utility.

The Wilmington operations also serve as a bulk terminal from which borates are shipped to the Borax group's 70,000 tonne terminal at Rotterdam and to other parts of the world.

The Borax group owns and operates another smaller borate mine at Tincalayu located in the Argentine Andes. At the end of 1994, proved and probable reserves were 260,000 tonnes of saleable B<sub>2</sub>O<sub>3</sub> content. In 1994, Tincalayu produced 16,000 tonnes of saleable B<sub>2</sub>O<sub>3</sub> content.

Boron products have a wide variety of applications. In the USA, borates are commonly used in vitreous applications, including fibreglass, glass wool, high temperature glasses and enamels. Other important uses include detergents, ceramics, fertilisers, flame retardants, timber preservation and corrosion inhibition. The perborate industry is the most important market for borax in Europe, where it is used as a bleaching component in detergent powders. The perborate market is smaller in the USA because of lower washing temperatures and different bleaching practices, but consumption is increasing following the successful introduction of perborate-containing detergent powders.

## b) Titanium dioxide feedstock

### RTZ Iron & Titanium

RTZ I&T comprises QIT-Fer et Titane (RTZ 100 per cent. owned) and Richards Bay Minerals (RTZ 50 per cent. owned). During 1994, RTZ I&T's share of production was 1.151 million tonnes of titanium dioxide feedstock and at 31 December 1994 its share of reserves was 63.6 million tonnes.

#### QIT-Fer et Titane (RTZ 100 per cent. owned)

QIT mines and smelts ilmenite in Quebec, Canada, to produce titanium dioxide feedstock (80 per cent. titanium dioxide) and iron co-products. Titanium dioxide feedstock is used in the production of titanium dioxide pigments. The iron co-product is marketed in three forms: high purity iron, and, after further value-added processing, steel billets and metal powders.

QIT mines a hard rock deposit in the Lac Allard area of Saguenay County, Province of Quebec, 27 miles from Havre St. Pierre on the St. Lawrence River. All processing is carried out at Tracy (Sorel), Quebec. The ore is primarily ilmenite and haematite with an average combined grade of 85 per cent. iron and titanium oxides. The ore is mined by conventional open pit methods, crushed, transported to Havre St. Pierre, and then shipped up the St. Lawrence seaway to Tracy. The mining and shipping season is restricted by weather conditions to the March to December period. Following a diamond drilling campaign completed in 1994, proven and probable reserves of recoverable titanium dioxide feedstock have been increased by 9.9 million tonnes.

QIT has nine furnaces at Sorel with a combined capacity slightly exceeding one million tonnes of titanium dioxide feedstock per annum. Power is a major component of the cost of production. QIT has a long-term contract with Hydro-Quebec for the provision of electricity. Under the terms of this contract, Hydro-Quebec has the right, subject to certain conditions, to reduce temporarily the supply of electricity to QIT, usually during the winter season. In 1994, production was not affected by these arrangements.

Some 95 per cent. of the western world's production of titanium bearing minerals is used to make titanium dioxide pigment, the production of which is dominated by four large companies who control almost two-thirds of the western world's total. The white pigment has a variety of end uses, 59 per cent. going into paints and other coatings, 14 per cent. into paper, 19 per cent. into plastics and the remaining 8 per cent. into a variety of other uses. Demand for titanium dioxide has grown considerably over the past 20 years but with marked cyclical downturns in periods of economic recession. After more than three years of stagnation as a result of the latest economic downturn, global pigment demand clearly recovered in 1994 to surpass its pre-recession level. The recovery is based on increased economic activity in most major sectors including end-use markets of TiO<sub>2</sub> pigment, and has caused tightness in pigment supply/demand in some regions.

There are two principal methods of producing titanium dioxide pigment: the sulphate process and the chloride process. The older sulphate process still predominates in Europe, while most North American producers have adopted the chloride process. While the sulphate process plants represent approximately 47 per cent. of existing pigment capacity in the industry, the more favourable costs of constructing and operating new chloride process plants means that they are expected to account for nearly all future capacity increases. Feedstock from QIT has an alkaline composition from its hard rock origins which currently confines its application to the sulphate process, but Richards Bay feedstock (discussed below) can be used in either process. QIT has developed a proprietary process to convert traditional sulphate feedstock, made from its massive ilmenite reserves in Canada, into an upgraded product ("UGS") which is suitable for processes using chlorinatable feedstock and meets all foreseeable international specifications. The UGS process has been demonstrated in a small pilot plant and, in 1995, has been successfully tested on a larger scale. QIT's major product is "Sorelslag", a feedstock containing about 80 per cent. titanium dioxide. Sorelslag is believed to be the most cost effective feedstock for the majority of sulphate process pigment plants. European pigment producers were particularly affected by the decline in pigment demand in the recent recession, but benefited from a return to better market conditions in 1994. Consequently, production of Sorelslag during 1994 recovered, with still higher rates expected in the future as overall demand for pigment increases.

QIT supplies high purity iron sold as "Sorelmetal" to the ductile iron casting industry. Sorelmetal competes with high purity irons produced from blast furnaces and by other means. QIT also produces high quality steel billets, sold as "Sorelsteel", which are used in the cold heading, cold drawing and welding wire markets. Production of Sorelsteel commenced in 1987. QIT's steel plant has operated at full capacity since mid-1993 with production for the full calendar year 1994 of 395,000 tonnes. A portion of the QIT molten iron and molten steel is converted into iron and steel powders by QIT's 100 per cent. subsidiary, Quebec Metal Powders. These metal powders are sold mainly to North American automobile parts manufacturers.

#### Richards Bay Minerals (RTZ 50 per cent. owned)

RBM mines heavy mineral sands on the coast of Natal, South Africa, and upgrades ilmenite into titanium dioxide feedstock and pig iron. RBM's beneficial ownership is split equally between RTZ and Gencor Limited.

Mineral-bearing sand is mined from the dunes by suction dredges floating on artificial ponds. Gravity, magnetic and electrostatic processes are used to extract economic heavy minerals (ilmenite, zircon and rutile). The ilmenite is smelted by RBM to produce an 85 per cent. titanium dioxide feedstock and pig iron. The ilmenite at Richards Bay has a low alkali content, which makes the product suitable for the chloride process of producing titanium dioxide pigment. The zircon and rutile are separated and concentrated into individual products and sold in their mineral form. Rutile contains about 95 per cent. titanium dioxide and is also sold to pigment producers. Zircon is sold mainly to ceramic and steel refractory manufacturers. During 1994, smelter furnace upgrading work in the first half of the year and a work stoppage in the final quarter resulted in a reduction in the level of titanium dioxide feedstock produced. Shipments, however, were unaffected and normal production was restored in December 1994.

#### c) Talc

In 1988, RTZ acquired a significant interest in Talc de Luzenac ("TdL"), Europe's leading producer of talc. Further TdL shares have been purchased by RTZ since that time, increasing RTZ's holding to over 99 per cent. TdL operates the world's largest talc mine near Luzenac in southwest France and has other major operations in Austria, with further smaller facilities in Italy, Spain and Canada. Processes used include grinding and classification. The acquisition of Cyprus Minerals Company's talc operations, the largest talc business in the USA, was completed in mid-1992. This business comprises mines and processing facilities principally in Montana and Vermont in the USA and in Belgium.

RTZ's talc operations have been organised into two separate management entities: Luzenac Europe and Luzenac North America. Reorganisation of these operations has yielded a staff reduction of nearly 13 per cent. to approximately 1,300. RTZ had invested a total of some US\$245 million in talc activities by the end of 1994. Talc is an industrial mineral with a wide range of end-uses, principally as a filler and a coater in paper, paint and plastics, but also in other industrial applications, as well as its more widely known cosmetic usage. Products are marketed largely by Luzenac's own sales force. In 1994 RTZ's talc operations produced a total of 1.022 million tonnes of saleable talc.

#### d) Other industrial minerals

##### Silica Sand

US Silica Company (US Borax 100 per cent. owned) was formed in 1987 by the merger of Pennsylvania Glass Sand (acquired in 1985) and Ottawa Silica Company (acquired in 1986). The activities of US Silica include the production of silica sand, principally for the glass and metal casting industries. US Silica is one of the largest silica sand producers in the USA. Raw materials are recovered by different mining methods at sites in 18 States in the USA. Processes used include crushing, milling, washing and classification. Products are marketed by US Silica's own sales force.

Following a review of options for the future of this business, US Borax announced on 30 October 1995 that it had agreed to sell US Silica, excluding Floridin Company which is subject to a separate transaction, to D George Harris and Associates for US\$120 million in cash with further deferred payments

up to a maximum of US\$20 million. The sale reflects US Silica's incompatibility with RTZ's focus on internationally oriented operations which are large in relation to their industry. The transaction will make no material change to the financial position of RTZ.

**e) Industrial minerals: Projects**

QIT has a 49 per cent. stake in a joint venture with OMNIS, an agency of the Government of Madagascar, to explore and, if appropriate, develop large mineral sands deposits in the southeast of Madagascar. QIT is funding the pre-development cost and will operate any resulting mine. QIT also has the right to acquire at least 90 per cent. of the ilmenite and to market the other products (rutile, zircon, monazite). Madagascar is a potential source of low alkali, and therefore chlorinatable, titanium dioxide feedstock. Studies are continuing to determine whether development would be economically and environmentally feasible.

**(e) Exploration and development**

Historically, RTZ Group companies (including CRA) have played a major role in the discovery and/or development of many large scale mines. These include Bougainville (Papua New Guinea, copper and gold), Hamersley and Channar (Australia, iron ore), Palabora (South Africa, copper) and Rossing (Namibia, uranium). More recent discoveries include Argyle (Australia, diamonds), Kaltim Prima (Indonesia, coal), Kelian (Indonesia, gold) and Morro do Ouro (Brazil, gold).

RTZ's exploration activities have identified a number of projects for possible future development in Canada, the USA, South America, Europe and Africa.

RTZ's share of exploration and research costs after tax and minority interests was £78 million in 1994 (£81 million in 1993). The main criteria for the geographical distribution of the exploration budget are geological potential and investment climate. Some 63 per cent. of exploration expenditure was spent in North America and Australia, with the remainder being distributed between Europe, South America, Africa and CIS. Approximately 50 per cent. was spent on base metals exploration and the remainder split principally between gold and diamonds. This is expected to remain broadly the same in 1995.

**(f) Environmental matters**

It is RTZ's policy with respect to environmental matters, including health and safety, that all subsidiaries build from a foundation of compliance with the legal requirements of the countries in which their operations and activities are conducted and that operations apply best contemporary practice to these matters using techniques appropriate to the situation, taking into account environmental, social and economic factors.

The formulation and review of the RTZ Health, Safety and Environmental policy is the responsibility of the RTZ Board and the Environmental Committee of the Board which reviews the policy's implementation. Primary responsibility for environmental matters rests with local management of RTZ's subsidiaries which are required to adopt environmental practices reflecting the principles of the RTZ policy and to designate a senior executive with overall responsibility for environmental affairs at their operations.

Among other things, the policy also requires RTZ subsidiaries to: assess the costs of meeting environmental obligations and make the necessary financial provisions in their accounts; establish and test plans for handling emergencies; evaluate and take action to minimise any risks associated with their activities; prepare and periodically update closure plans for all operations; and review and report environmental performance to their boards.

Environmental reviews of operations, new projects and potential acquisitions are undertaken or overseen by environmental scientists from RTZ's Technical Department. RTZ's Risk Management Department assists subsidiary companies with risk management assessments and evaluations of any risks or hazards associated with their activities.

In accordance with its policy, RTZ has accrued and continues to accrue financial provisions for meeting environmental obligations such as cleanup and closure costs together with other long term

liabilities related to the activities of its subsidiaries. As of 31 December 1994, the total projected cost of environmental obligations related to RTZ's subsidiary companies was estimated to be £520 million (in 1994 terms); the majority of this amount is for eventual closure and £253 million has already been accrued for environmental costs. Estimates of these costs are based upon available facts, existing technology, and currently applicable laws and regulations. Further financial provisions for closure will be made by an annual charge over the remaining life of each operation. Provisions for environmental obligations other than closure are made when it is probable that a cost will be incurred and the cost can be reasonably estimated.

#### Environmental claims

In 1986 the state of Utah filed a natural resource damage claim against the predecessor in interest to Kennecott Utah Copper Corporation alleging damages in the amount of US\$129 million for contamination to ground and surface water in the vicinity of the Bingham Canyon Mine. In August 1995 the Federal District Court in Utah approved the consent decree agreed by KUCC, the state of Utah, and the Salt Lake County Water Conservancy District, an intervenor in the case, to settle the claim.

Under the consent decree, KUCC will pay the state of Utah US\$9 million and provide a US\$28 million irrevocable letter of credit to be used by the state of Utah to restore or acquire replacement water for the public in the affected area. Subject to certain conditions, KUCC may obtain a credit against the US\$28 million for municipal quality water otherwise provided by the company. In addition, KUCC is required to complete the east side collection system and the Bingham Creek cutoff system, extract an average of 400 acre feet per year over a five year period from the plume of heavy metals contaminated ground water, and complete the remedial investigation and feasibility study ("RI/FS") on alternative measures to address the ground water contamination. KUCC has made financial provisions that will cover these costs. Upon completion of the RI/FS in 1998, further decisions on remedy may be made but these are not within the scope of the consent decree.

Since 1991, KUCC has spent approximately US\$150 million on cleanup work to address contamination on and from the Bingham Canyon Mine property. Much of the contamination was the result of historic mining activities in the area. Notwithstanding KUCC's cleanup work, in January 1994 the US Environmental Protection Agency ("EPA") proposed that two large zones of property in and around the Bingham Canyon operations be listed on the Comprehensive Environmental Response, Compensation and Liability Act's ("Superfund") National Priorities List ("NPL"). Since early 1994, EPA, the state of Utah and Kennecott have been working to develop an alternative approach to allow remediation work to be completed outside of the customary NPL process. In September 1995, EPA, the state of Utah and Kennecott signed a Memorandum of Understanding wherein EPA agrees not to take any further action relating to the final listing of KUCC property on the NPL if KUCC completes certain studies, cleanup projects, and source control measures, all of which are now in progress. When the cleanup projects are completed, EPA will withdraw the listing proposal.

In addition to cleanup work underway at Bingham Canyon and other activities related to closure, RTZ subsidiaries are currently participating in cleanup activities at 14 other sites in the USA under the oversight of the EPA or state regulatory agencies. At many of these sites there are several other parties involved in addition to the RTZ subsidiary. Of these 14 sites, only two are listed on the Superfund's NPL; neither of these two sites has been owned or operated by an RTZ subsidiary. In addition, there are several other sites under investigation where an RTZ subsidiary may have involvement. The number of sites in itself does not represent a relevant measure of liability because the nature and extent of environmental concerns vary from site to site, as does a company's possible share of liability. Although the ultimate costs associated with these sites cannot be determined with certainty due to such factors as the exact nature or extent of environmental impacts and the cleanup actions which may be required, based on current estimates and evaluation of the subsidiaries' liability, RTZ believes that the potential liability for these sites will not be material to RTZ. It is possible that other sites will be identified in the future.



## **2. Financial Information to 31 December 1994**

### **(a) Nature of financial information**

The financial information contained in this paragraph 2 of Part II has been extracted without material adjustment, save for the adoption of Financial Reporting Standard No. 4 – Capital Instruments referred to below, from the audited consolidated financial statements of RTZ for the three years ended 31 December 1994 which were prepared in accordance with Accounting Standards in the United Kingdom. The notes to the financial information set out in paragraph (g) below are abridged notes extracted from the notes to the audited consolidated financial statements of RTZ for the three years ended 31 December 1994.

The financial information does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

As a consequence of the implementation of Financial Reporting Standard No. 4, commercial paper borrowings for 1994, 1993 and 1992 have been reclassified as short term debt.

Full statutory accounts for each of the three years ended 31 December 1994 have been delivered to the Registrar of Companies in England and Wales. The auditors, Coopers & Lybrand, Chartered Accountants and Registered Auditors, of 1 Embankment Place, London WC2N 6NN have issued reports under Section 235 of the Companies Act 1985 on each of these statutory accounts, the audit opinions on which were unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

(b) Consolidated profit and loss accounts

	Note	Years ended 31 December		
		1994 £m	1993 £m	1992 £m
<b>Group Turnover</b>				
Continuing operations		3,942	3,483	3,015
Acquisitions		—	177	—
		<hr/>	<hr/>	<hr/>
Discontinued operations		3,942	3,660	3,015
		—	1,162	1,598
		<hr/>	<hr/>	<hr/>
		3,942	4,822	4,613
Share of associates' turnover		(1,654)	(1,638)	(1,365)
		<hr/>	<hr/>	<hr/>
Turnover		2,288	3,184	3,248
Operating costs	(ii)	(1,770)	(2,826)	(2,893)
		<hr/>	<hr/>	<hr/>
Operating profit				
Continuing operations		518	262	309
Acquisitions		—	48	—
		<hr/>	<hr/>	<hr/>
Discontinued operations		518	310	309
		—	48	46
		<hr/>	<hr/>	<hr/>
		518	358	355
Share of associates' profit		389	315	273
		<hr/>	<hr/>	<hr/>
<b>Profit before exceptional items</b>		907	673	628
Exceptional items	(iii)	7	(217)	(93)
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities before interest		914	456	535
Net interest receivable/(payable)	(iv)	8	(21)	(14)
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities before taxation		922	435	521
Taxation – Before exceptional items	(v)	(275)	(246)	(240)
– Exceptional items	(iii), (v)	10	131	(6)
		<hr/>	<hr/>	<hr/>
		(265)	(115)	(246)
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities after taxation		657	320	275
Attributable to outside shareholders		(45)	(33)	(36)
		<hr/>	<hr/>	<hr/>
<b>Profit for the financial year</b>	(i)	612	287	239
Dividends to RTZ shareholders	(vii)	(294)	(214)	(196)
		<hr/>	<hr/>	<hr/>
Retained profit for the financial year		318	73	43
		<hr/>	<hr/>	<hr/>
Earnings per ordinary share	(vi)	57.4p	27.0p	22.5p
<b>Adjusted earnings</b>	(vi)	£595m	£373m	£338m
Adjusted earnings per ordinary share	(vi)	55.8p	35.1p	31.9p
Dividends per share				
– Actual	(vii)	27.5p	20.5p	19.5p
– Excluding enhancement	(vii)	23.4p	20.5p	19.5p

(c) Consolidated balance sheets

	Note	As at 31 December		
		1994 £m	1993 £m	1992 £m
<b>Fixed assets</b>				
Intangible assets	(viii)	111	101	109
Tangible assets	(ix)	2,607	2,419	2,514
Investments	(x)	1,453	1,319	1,246
		<u>4,171</u>	<u>3,839</u>	<u>3,869</u>
<b>Current assets</b>				
Stock/inventories	(xi)	402	414	620
Debtors/accounts receivable and prepayments	(xii)	750	622	861
Investments	(xiii)	270	114	117
Cash at bank and in hand	(xiv)	858	977	588
		<u>2,280</u>	<u>2,127</u>	<u>2,186</u>
<b>Creditors due within one year</b>				
Short term debt	(xv)	(994)	(932)	(1,389)
Creditors/accounts payable and accruals	(xvi)	(699)	(423)	(679)
		<u>(1,693)</u>	<u>(1,355)</u>	<u>(2,068)</u>
<b>Net current assets</b>		<u>587</u>	<u>772</u>	<u>118</u>
<b>Total assets less current liabilities</b>		<u>4,758</u>	<u>4,611</u>	<u>3,987</u>
<b>Creditors due after one year</b>				
Medium and long term loans	(xvii)	(406)	(543)	(357)
<b>Provisions for liabilities and charges</b>	(xviii)	(776)	(764)	(741)
<b>Outside shareholders' interests (equity)</b>		(128)	(114)	(119)
		<u>3,448</u>	<u>3,190</u>	<u>2,770</u>
<b>Capital and reserves</b>				
Called up share capital (includes non-equity)	(xxi)	118	117	112
Share premium account		1,036	1,025	1,025
Other reserves		167	156	155
Profit and loss account		2,127	1,892	1,478
<b>RTZ shareholders' funds</b>		<u>3,448</u>	<u>3,190</u>	<u>2,770</u>

(d) Consolidated cash flow statements

	Years ended 31 December		
	1994	1993	1992
Note	£m	£m	£m
Operating profit	518	310	309
Depreciation and amortisation	228	210	163
Provisions – against exploration	78	72	38
– other	50	47	22
Utilisation of provisions	(64)	(52)	(16)
Net change in working capital	(75)	(9)	22
Other items	(2)	(3)	—
<b>Operating cash flow from continuing operations</b>	<b>733</b>	<b>575</b>	<b>538</b>
Operating cash flow from discontinued operations	—	60	134
<b>Cash flow from operating activities</b>	<b>733</b>	<b>635</b>	<b>672</b>
Dividends from associated companies and investments	183	124	112
Interest received	79	68	80
Interest paid	(81)	(101)	(103)
Dividends paid	(190)	(49)	(210)
Net interest and dividends paid by discontinued operations	—	—	(5)
<b>Cash flow from returns on investments and servicing of finance</b>	<b>(9)</b>	<b>42</b>	<b>(126)</b>
<b>Tax paid</b> (1993 includes £19 million relating to discontinued operations, 1992 £20 million)	<b>(105)</b>	<b>(132)</b>	<b>(143)</b>
Purchase of property, plant and equipment	(534)	(276)	(230)
Exploration and development expenditure	(95)	(77)	(54)
Purchases of subsidiaries and associated companies	(50)	(748)	(71)
Sales of property, plant and equipment	17	11	9
Sales of subsidiaries and associated companies	96	1,255	27
Investing cash flow from discontinued operations	—	(44)	(93)
<b>Cash flow from long term investing activities</b>	<b>(566)</b>	<b>121</b>	<b>(412)</b>
<b>Cash flow before changes in short term investments and financing</b>	<b>53</b>	<b>666</b>	<b>(9)</b>
Realisation/(purchase) of short term investments	243	(111)	45
<b>Net cash flow before financing</b>	<b>296</b>	<b>555</b>	<b>36</b>
Ordinary shares issued (excluding scrip dividends)	12	5	1
Loans received	190	1,197	119
Loans repaid	(145)	(1,402)	(175)
<b>Cash flow from financing</b>	<b>57</b>	<b>(200)</b>	<b>(55)</b>
<b>Increase/(decrease) in cash and cash equivalents</b> (xiv)	<b>353</b>	<b>355</b>	<b>(19)</b>

(e) Reconciliation of movement in shareholders' funds

	Years ended 31 December		
	1994 £m	1993 £m	1992 £m
Profit for the financial year	612	287	239
Dividends	(294)	(214)	(196)
	318	73	43
Adjustment on translation of foreign currency net investment	(35)	9	254
New share capital subscribed	12	5	14
Goodwill arising on acquisitions written off	(41)	(321)	(8)
Goodwill relating to disposals transferred to the profit and loss account	—	404	22
Dividends written back where election made for scrip dividend alternative (note vii)	4	250	—
	258	420	325
Opening shareholders' funds	3,190	2,899	2,544
Prior year adjustment (note xx)	—	(129)	(99)
	3,448	3,190	2,770

**(f) Principal accounting policies**

The principal accounting policies of RTZ are detailed below:

*(i) Basis of Group Accounts*

The accounts have been prepared in accordance with UK accounting standards and consist of the consolidation of the accounts of all subsidiary undertakings (subsidiaries) prepared on the historical cost basis, which does not include the revaluation of fixed assets. The Group's share of post-acquisition earnings and reserves of related undertakings (associated companies), other than those arising on the revaluation of fixed assets, is included.

As a consequence of the implementation of Financial Reporting Standard No. 4, commercial paper borrowings for 1994, 1993 and 1992 have been reclassified as short term debt.

The accounting policies followed are otherwise consistent over the three years.

*(ii) Currency translation*

Overseas companies' profit and loss accounts are translated into sterling at average rates of exchange. Overseas companies' balance sheets are translated into sterling at year end exchange rates. Certain non-US overseas companies whose functional currency is the US dollar account in that currency. Exchange differences on translation of the net assets of overseas companies, less offsetting exchange differences on foreign currency loans financing those net assets, are dealt with through reserves. All other exchange differences are dealt with in the profit and loss account.

*(iii) Goodwill*

Goodwill represents the difference between the cost of acquisition and the fair value of the net tangible assets acquired. Goodwill is normally written off to reserves in the year of acquisition.

*(iv) Exploration and development*

During the initial exploration stage of projects, full provision is made in respect of the costs thereof by charge against profits of the year.

Expenditure on projects after they have reached a stage at which there is a high degree of confidence in their viability is carried forward and transferred to mining properties if the project proceeds. If a project does not prove viable all irrecoverable costs associated with the project are written off. Where expenditure is carried forward in respect of a project which will not proceed to commercial development for some time, provision is made against the possibility of non-development by charge against profits over periods of up to seven years. On development, any provisions made in previous years are reversed.

*(v) Mining properties and leases*

Once mining projects have been established as commercially viable, expenditure other than that on buildings, plant and equipment is capitalised under mining properties together with any amount transferred from exploration and development expenditure. Such expenditure incurred up to the start of commercial production is amortised against profits on the same basis as buildings, plant and equipment.

*(vi) Capitalisation of interest*

Net interest before tax payable on borrowings related to major construction or development projects is normally charged as part of the capital cost up to the start of commercial operations.

*(vii) Depreciation*

Depreciation of property, plant and equipment is calculated on a straight line basis with the exception of assets at certain mines which are depreciated on a depletion basis related to extraction. Assets are fully

depreciated over their economic lives, or over the remaining life of the mine if shorter. Depreciation rates for the principal assets of the group vary from 5 per cent. to 10 per cent. per annum.

*(viii) Close down and restoration costs*

Close down and restoration costs are provided for over the life of mines on a unit of production basis.

*(ix) Stocks*

Stocks are valued at the lower of cost and net realisable value. Cost for raw materials and stores is purchase price and for partly processed and saleable products is generally the cost of production, including the appropriate proportion of depreciation and overheads.

*(x) Deferred tax*

Deferred tax is provided using the liability method in respect of all timing differences to the extent that, in the opinion of the directors, they are expected to reverse in the foreseeable future. Advance Corporation Tax is deducted in arriving at the net deferred tax provision to the maximum extent possible. Any remaining Advance Corporation Tax is written off in the profit and loss account unless its recovery can be predicted with a high degree of confidence.

*(xi) Post retirement benefits*

The expected costs of post retirement benefits under defined benefit arrangements are charged to the profit and loss account so as to spread the costs over the service lives of employees entitled to those benefits. Variations from the regular cost are spread on a straight line basis over the expected average remaining service lives of relevant current employees. Costs are assessed in accordance with the advice of qualified actuaries.

**(g) Notes to the financial information**

The following information has been extracted from the published audited consolidated financial statements of RTZ for the three years ended 31 December 1994.

*(i) Segment analysis*

	Group operating assets			Net earnings		
	As at 31 December			Years ended 31 December		
	1994	1993	1992	1994	1993	1992
	£m	£m	£m	£m	£m	£m
<b>Industry segment</b>						
Copper & gold	2,464	2,215	2,093	314	166	199
Iron ore	387	292	292	76	91	73
Coal and uranium	581	553	393	77	98	25
Aluminium	407	365	308	42	16	14
Lead & zinc	79	91	84	7	(5)	(3)
Other	83	79	57	1	(17)	(3)
	4,001	3,595	3,227	517	349	305
Industrial minerals	1,192	1,174	1,096	158	135	125
	5,193	4,769	4,323	675	484	430
Exploration and development				(78)	(81)	(48)
				597	403	382
Corporate items				5	(31)	(40)
Net finance charges				(7)	(30)	(27)
Continuing operations before exceptional items	5,193	4,769	4,323	595	342	315
Discontinued operations and exceptional items	—	—	597	17	(55)	(76)
<b>Total</b>	<b>5,193</b>	<b>4,769</b>	<b>4,920</b>	<b>612</b>	<b>287</b>	<b>239</b>
<b>Geographical segment</b>						
North America	2,666	2,411	2,001	307	168	168
Australia & New Zealand	1,119	920	849	120	134	93
Africa	386	418	530	53	48	45
Europe (including UK)	437	452	462	3	(38)	(21)
South America	378	332	296	97	37	49
Other countries	207	236	185	22	23	8
	5,193	4,769	4,323	602	372	342
Net finance charges				(7)	(30)	(27)
Continuing operations before exceptional items	5,193	4,769	4,323	595	342	315
Discontinued operations and exceptional items	—	—	597	17	(55)	(76)
<b>Total</b>	<b>5,193</b>	<b>4,769</b>	<b>4,920</b>	<b>612</b>	<b>287</b>	<b>239</b>



(ii) Operating costs

	Continuing operations			Discontinued operations	
	1994 £m	1993 £m	1992 £m	1993 £m	1992 £m
Raw materials and consumables	663	652	517	595	793
Other external charges	347	287	235	159	277
Staff costs	388	414	329	303	392
Depreciation and amortisation	228	210	163	41	59
Provisions	50	47	22	—	—
Exploration and development	78	72	38	—	3
Research	12	12	10	—	—
Royalties	18	14	2	—	2
Hire and lease – plant and equipment	3	2	1	8	12
– land and buildings	1	1	3	9	10
Auditors' remuneration: group £1,880,000 (1993: £2,210,000, 1992: £3,630,000); company £159,000 (1993: £166,000, 1992: £148,000)	2	2	2	—	2
	<u>1,790</u>	<u>1,713</u>	<u>1,322</u>	<u>1,115</u>	<u>1,550</u>
Deduct:					
– Change in stocks of finished goods and work in progress	11	27	52	—	4
– Own work capitalised	(4)	(3)	(5)	(1)	(1)
– Other operating income	(27)	(25)	(28)	—	(1)
Total continuing operations	<u>1,770</u>	<u>1,712</u>	<u>1,341</u>		
Discontinued operations	<u>—</u>	<u>1,114</u>	<u>1,552</u>	<u>1,114</u>	<u>1,552</u>
All operations	<u><u>1,770</u></u>	<u><u>2,826</u></u>	<u><u>2,893</u></u>		

Auditors' remuneration for non-audit work performed for UK operations in the year ended 31 December 1994 was £284,000 (1993: £727,000, 1992: £484,000). Certain taxes on output included within royalties in 1993 have been reclassified as other external charges.

(iii) *Exceptional items*

	Years ended 31 December								
	1994			1993			1992		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Profit on sale of fixed assets	45	(7)	38	—	—	—	—	—	—
Provision for losses on disposal of fixed assets	(38)	17	(21)	(10)	—	(10)	(7)	5	(2)
Provision for losses on businesses to be discontinued	—	—	—	—	—	—	(86)	19	(67)
Losses on sale or termination of discontinued businesses	—	—	—	(207)	42	(165)	—	(30)	(30)
Reduction in Advance Corporation Tax payable as a result of enhanced scrip dividends	—	—	—	—	68	68	—	—	—
Reduction in deferred tax following a change in Australian tax rates	—	—	—	—	21	21	—	—	—
	7	10	17	(217)	131	(86)	(93)	(6)	(99)

(iv) *Net interest receivable/(payable)*

	Years ended 31 December		
	1994 £m	1993 £m	1992 £m
Interest payable and similar charges	(68)	(94)	(102)
Interest receivable and similar income	76	73	88
Net interest receivable/(payable)	8	(21)	(14)

(v) *Taxation*

	Years ended 31 December		
	1994	1993	1992
	£m	£m	£m
<b>UK</b>			
Corporation tax – current	91	43	108
– deferred	9	(3)	3
Deduct: Relief for overseas taxes	(65)	(26)	(62)
Advance Corporation Tax	—	(26)	9
	<u>35</u>	<u>(12)</u>	<u>58</u>
<b>Overseas</b>			
Overseas taxation – current	116	76	100
– deferred	35	(24)	(8)
Associated companies – charge for year	79	75	96
	<u>265</u>	<u>115</u>	<u>246</u>
Arising from			
Continuing operations	275	230	221
Discontinued operations	—	16	19
	<u>275</u>	<u>246</u>	<u>240</u>
Exceptional items (note iii)	(10)	(131)	6
	<u>265</u>	<u>115</u>	<u>246</u>

Current and deferred UK corporation tax has been provided at 33 per cent. (1993: 33 per cent., 1992: 33 per cent.)

(vi) *Earnings per ordinary share*

The calculation of earnings per ordinary share is based on the profit for the financial year of £612 million (1993: £287 million, 1992: £239 million). Preference dividends are deducted and net earnings are expressed in relation to the average number of ordinary shares in issue during the year as adjusted for shares issued under enhanced scrip dividend alternatives of 1,066 million (1993: 1,063 million, 1992: 1,061 million). Adjusted earnings and adjusted earnings per share are shown because they reflect the underlying performance by excluding the effect of exceptional items.

	1994	1994	1993	1993	1992	1992
	£m	Pence per share	£m	Pence per share	£m	Pence per share
<b>Earnings/earnings per share</b>	612	57.4	287	27.0	239	22.5
Exceptional items (net of tax)	(17)	(1.6)	86	8.1	99	9.4
<b>Adjusted earnings/earnings per share</b>	<u>595</u>	<u>55.8</u>	<u>373</u>	<u>35.1</u>	<u>338</u>	<u>31.9</u>

(vii) *Dividends to RTZ Shareholders*

The dividends payable are as follows:

	Years ended 31 December					
	1994		1993		1992	
	Rate per share	£m	Rate per share	£m	Rate per share	£m
Preference						
3.325% 'A' cumulative preference shares of £1 each		0.3		0.3		0.3
3.5% 'B' cumulative preference shares of £1 each		0.1		0.1		0.1
		<u>0.4</u>		<u>0.4</u>		<u>0.4</u>
Ordinary						
Interim dividend on 1,067 million ordinary shares (1993: 1,033 million shares, 1992: 1,003 million shares)						
- Conventional dividend		—	13.5p	139.4	6.0p	60.2
- Foreign income dividend	9.0p	96.0		—		—
Final dividend on 1,067 million ordinary shares (1993: 1,064 million shares, 1992: 1,003 million shares)						
- Conventional dividend	7.0p	74.7	7.0p	74.4	13.5p	135.7
- Foreign income dividend	11.5p	122.7		—		—
	27.5p	<u>293.4</u>	20.5p	<u>213.8</u>	19.5p	<u>195.9</u>
		<u>293.8</u>		<u>214.2</u>		<u>196.3</u>

The majority of the 1994 dividends are designated Foreign Income Dividends to enable the company to recover the Advance Corporation Tax. The Foreign Income Dividends have been enhanced by 25 per cent. to preserve the net income of those shareholders who are able to recover the tax credits on conventional dividends. Total dividends for 1994 are equivalent to conventional dividends of 23.4p per share (29.25p gross) for tax exempt UK resident shareholders. Total dividends for 1994 are equivalent to gross dividends of 34.375p per share (1993: 25.625p per share, 1992: 24.875p per share) after including the imputed tax credit of 20 per cent. (1992 25 per cent. for interim and 20 per cent. for final dividend) available to UK tax paying shareholders.

Under the terms of the enhanced scrip alternatives to the 1992 final and 1993 interim dividends, shareholders elected to receive shares instead of cash dividends of £250 million. The full amount of the cash dividend forgone was reported in the profit and loss account as an appropriation of profits. That part of the dividend taken in the form of shares was written back to reserves. The issue of shares was shown as a capitalisation of the share premium account.

(viii) *Intangible assets: exploration and development*

	As at 31 December		
	1994 £m	1993 £m	1992 £m
At cost less amounts written off	217	197	178
Provision/amortisation	(106)	(96)	(69)
Net balance sheet amount	111	101	109

(ix) *Tangible assets*

	Mining properties and leases £m	Land and buildings £m	Plant and equipment £m	Capital works in progress £m	Total £m
Net book value as at 31 December 1994	282	360	1,541	424	2,607
31 December 1993	319	326	1,534	240	2,419
31 December 1992	326	441	1,603	144	2,514

(x) *Fixed asset investments*

	As at 31 December		
	1994 £m	1993 £m	1992 £m
Investments in associated companies	1,407	1,251	1,205
Loans to associated companies	30	34	—
Other investments	16	34	41
	1,453	1,319	1,246
<b>Investments in and loans to associated companies</b>			
<b>Listed shares</b>			
CRA Limited	980	853	794
<b>Non listed shares</b>			
Sociedade Mineira de Neves-Corvo SA	159	162	171
Minera Escondida Limitada	224	166	131
Richards Bay Minerals	53	58	55
Others	21	46	54
	1,437	1,285	1,205
<b>Other investments – at cost less amounts written off</b>			
Shares listed on recognised stock exchanges	3	7	11
Other shares	13	27	30
	16	34	41

**Net debt of associated companies**

	<b>Net debt at 31 December 1994</b>
CRA Limited	A\$1,178m
Sociedade Mineira de Neves-Corvo S.A.	Esc 16,941m
Minera Escondida Limitada	US\$185m
Richards Bay Minerals:	R555m
Richards Bay Iron and Titanium Limited	
Tisand Limited	
Colowyo Coal Company L.P.	US\$193m

RTZ has a 20 per cent. general partnership interest in the Colowyo Coal Company L.P. and has undertaken, via a subsidiary company which entered into a management agreement, to cause the limited partnership to perform its obligations under certain coal supply contracts. The debt of US\$193 million owed by the Colowyo Coal Company L.P. is to be serviced and repaid out of the proceeds of these contracts.

*(xi) Inventories*

	<b>As at 31 December</b>		
	<b>1994</b>	<b>1993</b>	<b>1992</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Raw materials and purchased components	53	61	144
Consumable stores	80	81	83
Work in progress	85	71	97
Finished goods and goods for resale	184	201	296
	<u>402</u>	<u>414</u>	<u>620</u>

*(xii) Debtors*

	<b>As at 31 December</b>		
	<b>1994</b>	<b>1993</b>	<b>1992</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Trade debtors	337	277	416
Amounts owed by associated companies	54	52	73
Other debtors	170	137	200
Pension prepayments	158	124	118
Prepayments and accrued income	31	32	54
	<u>750</u>	<u>622</u>	<u>861</u>
Included in the above are amounts, including pension prepayments, recoverable beyond one year	<u>189</u>	<u>124</u>	<u>206</u>

(xiii) *Current asset investments*

	As at 31 December		
	1994	1993	1992
	£m	£m	£m
Listed investments	—	—	3
Unlisted investments (at cost)	270	114	114
	<u>270</u>	<u>114</u>	<u>117</u>

(xiv) *Cash and cash equivalents*

	As at 31 December		
	1994	1993	1992
	£m	£m	£m
At 1 January	543	186	203
Adjustment on currency translation	(25)	2	2
Inflow in year	353	355	(19)
At 31 December	<u>871</u>	<u>543</u>	<u>186</u>
Comprising:			
Cash at bank and in hand as shown in the Group balance sheet	858	977	588
Deduct: Deposits with an original maturity of more than three months	(88)	(424)	(319)
	<u>770</u>	<u>553</u>	<u>269</u>
Investments	134	70	80
Bank overdrafts and notes	(33)	(80)	(163)
	<u>871</u>	<u>543</u>	<u>186</u>

(xv) *Short term debt*

	As at 31 December		
	1994	1993	1992
	£m	£m	£m
Commercial paper	891	795	1,003
Bank loans repayable within twelve months	13	23	143
Debentures and other loans repayable within twelve months	57	34	80
	<u>961</u>	<u>852</u>	<u>1,226</u>
Bank overdrafts and notes — secured £1 million (1993 £4 million, 1992 £8 million)	33	80	163
	<u>994</u>	<u>932</u>	<u>1,389</u>

Commercial paper outstanding at 31 December 1994 includes US\$1,394 million of US dollar short-term borrowing raised in the commercial paper markets in the US and Canada. As a result of the implementation of Financial Reporting Standard No. 4, these are classified as current liabilities although they are largely backed by medium term committed standby facilities with groups of banks. At 31 December 1994, the standby facilities totalled US\$1,213 million of which US\$313 million extends to 13 December 1995 and US\$900 million to 30 November 1999. The commercial paper programmes are guaranteed by RTZ.

(xvi) *Creditors due within one year*

	As at 31 December		
	1994	1993	1992
	£m	£m	£m
Trade creditors	132	110	200
Amounts owed to associated companies	1	1	1
Other creditors	71	55	50
Tax on profits	138	30	102
Other taxation and social security	39	34	28
Accruals and deferred income	102	104	143
Dividends payable to outside shareholders of subsidiaries	18	14	19
Dividends payable to RTZ shareholders	198	75	136
	<u>699</u>	<u>423</u>	<u>679</u>

(xvii) *Medium and long term loans*

	As at 31 December		
	1994	1993	1992
	£m	£m	£m
Bank loans	23	89	196
Debentures & other loans	383	454	161
	<u>406</u>	<u>543</u>	<u>357</u>
Repayable as follows:			
1 – 2 years	44	81	138
2 – 3 years	78	80	38
3 – 4 years	189	92	76
4 – 5 years	49	188	77
After 5 years, repayable principally before 2001 — by instalment	46	102	28
	<u>406</u>	<u>543</u>	<u>357</u>

(xviii) *Provision for liabilities and charges*

	As at 31 December		
	1994	1993	1992
	£m	£m	£m
Deferred taxation (note xix)	175	154	181
Post retirement healthcare (note xx)	218	211	187
Other provisions	383	399	373
	<u>776</u>	<u>764</u>	<u>741</u>

Other provisions comprise amounts set aside for future close down, environmental and restoration costs and other deferred costs. These are principally the proportion of estimated close down and restoration costs attributable to past production, and costs of meeting environmental standards adopted by the Group and/or agreed with the relevant authorities.



(xix) *Deferred Taxation*

The provision for deferred taxation and the amounts for which provision has not been made are as follows:

	1994 £m	1993 £m	1992 £m
<b>Provided in accounts</b>			
Accelerated capital allowances	296	283	244
Other timing differences	(23)	(39)	29
	<u>273</u>	<u>244</u>	<u>273</u>
Deduct: Advance Corporation Tax recoverable	(31)	(26)	(37)
Overseas tax credits recoverable	(67)	(64)	(55)
	<u>175</u>	<u>154</u>	<u>181</u>
<b>Amount unprovided</b>			
Accelerated capital allowances	31	37	62
Other timing differences	—	—	4
	<u>31</u>	<u>37</u>	<u>66</u>
Deduct: Advance Corporation Tax recoverable	—	—	(9)
	<u>31</u>	<u>37</u>	<u>57</u>

(xx) *Post retirement benefits*

RTZ Group operates a number of pension schemes around the world. The major schemes are of the defined benefit type with assets held in separate trustee administered funds.

RTZ Group's UK schemes were reviewed by independent qualified actuaries as at 30 September 1994 using the projected unit method. The main financial assumptions used for the valuations were the same as those used in 1993 and were: rate of return on investments 8.5 per cent. (1992: 9 per cent.), rate of earnings growth 6.5 per cent. (1992: 6.5 per cent.) plus promotional salary scale, rate of pension increase 4.5 per cent. (1992: 4.5 per cent.), effective rate of growth of dividends 4.25 per cent (1992: 4.5 per cent.).

At the date of the latest actuarial review, the actuarial value of the assets was sufficient to cover 149 per cent. (1993: 137 per cent., 1992: 155 per cent.) of the benefits that has accrued to members after allowing for expected increases in earnings. The market value of the assets was £682 million (1993: £676 million, 1992: £686 million).

The overseas schemes were assessed at various dates during 1992, 1993 and 1994. The total market value of the assets at the assessment dates was £523 million (1993: £608 million, 1992: £500 million). The actuarial value of the total assets of these schemes was sufficient to cover 111 per cent. (1993: 115 per cent., 1992: 117 per cent.) of the benefits that had accrued to members after allowing for expected increases in earnings. Within the total there were plans which had deficits amounting to £44 million (1993: £43 million).

The expected average remaining service life in the major schemes ranges from 10 to 21 years with an overall average of 14 years.

Certain subsidiaries of the Group, mainly in the USA, provide health and life insurance benefits to retired employees and in some cases their beneficiaries and covered dependants. Eligibility for cover is dependent upon certain age and service criteria. In the case of KUCC, the company is only responsible for

the cost of cover provided for eligible employees retiring after January 1989, the effective date of acquisition by the RTZ Group. These arrangements are unfunded, and prior to 1993 benefit payments were charged to profit and loss account as they were incurred. Commencing 1 January 1993, the Group recognised these liabilities on an accruals basis over the working life of eligible employees. The unprovided obligation at transition was recognised by means of a prior year adjustment in the 1993 accounts.

On 1 January 1994, the (unfunded) accumulated post retirement benefits obligation and annual cost of accrual of benefits were determined by independent actuaries using the projected unit method. In the USA, the main financial assumptions were discount rate 7.5 per cent. (1993: 8 per cent.), Medical Trend Rate 12.5 per cent. reducing to 5.5 per cent. after 11 years (1993: initially 14 per cent. reducing to 6 per cent. after 14 years) and claims cost based on individual company experience. The assumptions were consistent with those adopted for determining pension costs. At 1 January 1994 the unfunded accumulated post retirement obligation (excluding associates) was £228 million of which £211 million was provided as of that date.

*(xxi) Share Capital*

	As at 31 December		
	1994	1993	1992
	£m	£m	£m
<b>Issued and fully paid share capital</b>			
3.325% 'A' cumulative preference shares of £1 each (non-equity)	8	8	8
3.5% 'B' cumulative preference shares of £1 each (non-equity)	3	3	3
Ordinary shares of 10p each (equity)	107	106	101
	<hr/>	<hr/>	<hr/>
Total issued share capital	118	117	112
<b>Unissued share capital</b>			
Ordinary shares of 10p each	24	25	30
	<hr/>	<hr/>	<hr/>
Total authorised share capital	142	142	142
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*(xxii) Commitments and contingencies*

	As at 31 December		
	1994	1993	1992
	£m	£m	£m
Capital expenditure authorised by the appropriate boards and outstanding at 31 December			
— contracted	95	206	129
— not contracted	475	689	572
Other guarantees	179	103	117

No loss is expected in respect of the contingent liabilities included above, or on other guarantees and undertakings which cannot be quantified. RTZ Group companies are involved in various legal actions throughout the world, which are not expected to result in material loss to the RTZ Group.

Authorised capital expenditure includes expenditure on a US\$880 million new copper smelter and refinery expansion and a US\$500 million enlargement of the tailings dam at Kennecott's Utah copper operation in the USA.

(xxiii) *Currency analysis of net debt*

	1994	1993	1992
	£m	£m	£m
<b>Borrowings</b>			
Total outstanding indebtedness, being short term debt plus medium and long term loans, is repayable in the following currencies:			
Sterling	211	239	82
United States dollar	1,132	1,115	1,449
Canadian dollar	17	27	37
French franc	7	56	72
South African rand	26	27	53
Other currencies	7	11	53
	<u>1,400</u>	<u>1,475</u>	<u>1,746</u>
<b>Cash</b>			
Current asset investment and cash at bank and in hand are held in the following currencies:			
Sterling	291	600	245
United States dollar	762	377	261
Canadian dollar	3	7	11
French franc	7	4	2
South African rand	36	38	40
Australian dollar	7	38	115
Other currencies	22	27	31
	<u>1,128</u>	<u>1,091</u>	<u>705</u>
<b>Net Debt</b>	<u><u>272</u></u>	<u><u>384</u></u>	<u><u>1,041</u></u>

### 3. Restatement of RTZ reported net earnings and shareholders' funds to Australian GAAP

The following reconciliations have been prepared to show the approximate effect of the application of Australian GAAP on RTZ net earnings and shareholders' funds.

#### (a) RTZ net earnings

		Years ended 31 December		
		1994	1993	1992
Net earnings as reported under UK GAAP	£m	612	287	239
	A\$m*	1,282	634	576
Goodwill amortisation		(163)	(159)	(200)
Adjustment of deferred tax to the full provision basis		8	4	24
Pension accounting		(2)	(51)	(5)
Other		—	(2)	—
Approximate net earnings under Australian GAAP (equity basis)	A\$m	1,125	426	395
Adjustment to exclude earnings retained in associated companies		(262)	(236)	(151)
Approximate net earnings under Australian GAAP (statutory basis)	A\$m	863	190	244

\*Conversion to Australian dollars has been made using the average exchange rates for 1994, 1993 and 1992 which were £1=A\$2.095, £1 = A\$2.210 and £1 = A\$2.410 respectively.

#### (b) RTZ shareholders' funds

		As at 31 December		
		1994	1993	1992
Shareholders' funds as reported under UK GAAP	£m	3,448	3,190	2,770
	A\$m*	6,955	6,954	6,102
Goodwill not recognised under UK GAAP		2,192	2,625	2,716
Adjustment of deferred tax to the full provision basis		(63)	(81)	(145)
Pension accounting		(52)	(50)	267
Other		—	—	(2)
Approximate shareholders' funds under Australian GAAP (equity basis)	A\$m	9,032	9,448	8,938
Adjustment to exclude accumulated profits retained in associated companies		(2,227)	(2,006)	(1,778)
Approximate shareholders' funds under Australian GAAP (statutory basis)	A\$m	6,805	7,442	7,160

\*Conversion to Australian dollars has been made using the closing exchange rates at 31 December 1994, 1993 and 1992 which were £1=A\$2.017, £1 = A\$2.180 and £1 = A\$2.203 respectively.

#### 4. Interim results to 30 June 1995

Set out below is the text of RTZ's unaudited interim statement for the six months to 30 June 1995, released on 6 September 1995:

##### "RTZ'S RECORD HALF YEAR EARNINGS"

RTZ's profit before tax and exceptional items in the first half of 1995 at £639 million increased by 67 per cent. over the first half of 1994. After tax, RTZ's adjusted earnings, which also exclude exceptional items, were up 59 per cent. at £384 million.

RTZ's profit before tax but after exceptional items in the first half of 1995 was £570 million, 33 per cent. higher than in the first half of 1994. Net earnings increased by 20 per cent. to £336 million after an exceptional charge of £48 million, compared with £280 million in 1994 when there was an exceptional gain of £38 million.

An interim Foreign Income Dividend ("FID") of 10.5p per share has been declared for 1995 (1994: interim FID 9.0p).

The principal items in the RTZ profit and loss account for the six months to 30 June were:

	<b>First Half 1995 £m</b>	<b>First Half 1994 £m</b>	<b>Change</b>
Group turnover	2,062	1,857	+11%
Profit before tax and exceptionals	639	382	+67%
Profit before tax but after exceptionals	570	427	+33%
Net earnings	336	280	+20%
Adjusted earnings	384	242	+59%
Earnings per share	31.5p	26.3p	+20%
Adjusted earnings per share	36.0p	22.7p	+59%
<b>Foreign Income Dividend per share</b>	<b>10.5p</b>	<b>9.0p</b>	<b>+17%</b>

Mr Robert Wilson, RTZ's chief executive, said of the results:

"The first half of 1995 has been good for RTZ. The company generated record levels both of earnings and of operating cash flow, primarily reflecting generally higher commodity prices. In other respects, too, this has been a good half year, resulting in several new investment and development initiatives.

"In March, we announced our prospective partnership with Freeport-McMoRan Copper & Gold ("FCX") which has since been formalised. As a result, RTZ holds just under 12 per cent. of FCX, acquired at a cost of US\$500 million. We also agreed in May to proceed immediately with studies on an expansion of FCX's Grasberg mine, through which RTZ would have an additional direct 40 per cent. interest in the incremental production. Our participation in this, one of the greatest non-ferrous orebodies ever discovered, is obviously excellent news.

"In addition, the half year has been notable for progress on several other projects, including the Lihir gold, Fortaleza nickel, Greens Creek silver/zinc and Century zinc mines, plus aluminium smelter expansions in Australia and New Zealand, which together will contribute substantially to the further expansion of our business. There has also been encouraging progress on a number of exploration prospects, perhaps most notably for diamonds in Canada.

"Our net debt to total capital ratio was only 10 per cent. at 30 June, 1995, even though there were major investments in FCX and in the new Bingham smelter which started commissioning at the beginning of June."

Group turnover at £2,062 million in the first half of 1995 was 11 per cent. higher than a year earlier. The increase resulted mainly from higher prices for most products.

The tax charge (before exceptional items) in the period increased to a rate of 34.6 per cent. compared with 31.9 per cent. a year earlier. This primarily reflected a rise in the Australian corporation tax rate (from 33 to 36 per cent.) which adversely affected CRA's current and deferred tax charge.

The exceptional charge of £48 million after tax in the first half of 1995 resulted mainly from CRA's decision to write down Kembla Coal & Coke. In the first half of 1994, an exceptional profit of £38 million was due to CRA's disposal of most of its Pasmenco holding.

**RTZ's mining and metals operations** contributed £341 million to earnings in the first half of 1995, compared with £212 million in the same period of 1994. The Economist index of non-ferrous metals prices increased by 42 per cent. and 12 per cent. respectively over the first and second halves of 1994. Higher iron ore and internationally traded coal prices took effect from the second quarter of 1995, whilst US domestic coal prices and the average gold price were broadly unchanged. Volume growth resulting from RTZ's continuing investments throughout the economic cycle also contributed to earnings but was offset by lower output at Escondida.

**RTZ's industrial minerals businesses** contributed £86 million to earnings in the first half of 1995, compared with £74 million in the same period of 1994. Prices and volumes of RTZ's principal industrial minerals products were firmer reflecting generally good demand in most markets. However, diamond prices were lower.

**RTZ's exploration activity** continued at a high level with several promising prospects at the evaluation stage. The exploration charge against earnings was comparable to that for the first half of 1994 at £35 million.

Sir Derek Birkin, RTZ's chairman, commenting on the prospects said:

"A revival of the US economy from its spring pause, modest growth in European activity, and the continued rapid expansion of Asian economies other than Japan, ensure that global demand for most minerals and metals is expanding.

"Rising demand is continuing the process of mopping up surplus inventories. Consequently physical supplies and demand for all mineral products and metals are in better balance than we have witnessed for some years. Prices have been reflecting this situation and, despite some recent easing, should remain strong.

"As a result of our confidence in the future and the higher first half earnings, the Board has increased the interim dividend by 17 per cent. to 10.5p."

## **FINANCIAL REVIEW**

### **Balance sheet**

Net debt increased from £272 million at the end of 1994 to £382 million at 30 June 1995, representing 10 per cent. of total capital compared with 7 per cent. at the end of 1994. RTZ shareholders' funds at 30 June 1995 were £3,256 million, a reduction of £192 million from 31 December 1994 with goodwill arising on the acquisition of Freeport, and reductions due to exchange rates, exceeding retained earnings for the period. Over the half year, sterling strengthened by 11 per cent. against the Australian currency and 1 per cent. against the US dollar.

### **Cash flow**

High profitability produced cash flow from operating activities of £426 million in the first half of 1995. Cash outflow before changes in short term investments and financing was confined to £119 million despite continued high levels of investment expenditure: £216 million on property, plant and equipment and £290 million on the first stage of the investment in FCX. As usual, no payment of dividends occurred in the first half.

## Dividends

An interim dividend, which will be paid as a FID at a rate of 10.5p per 10p ordinary share will be paid to registered holders on 11 December 1995 and to holders of shares in bearer form on or after that date against coupon 73. For income tax purposes the FID is treated as having suffered income tax at the lower rate of 20 per cent., but this income tax is not repayable to shareholders.

Dividends of 1.6625p per 'A' preference share and 1.75p per 'B' preference share for the second half of 1995 will be paid to registered holders on 2 January 1996 and to holders of 'B' preference shares in bearer form on or after that date against coupon 67.

All dividends will be paid to holders registered at close of business on 24 October 1995. The ex-dividend date will be 16 October 1995.

Payment of the dividend to ADR holders will be made by the Bank of New York on 21 December 1995 to holders registered at the close of business on 24 October 1995 in US currency at the exchange rate ruling on or about 11 December 1995.

It is not permissible to offer a scrip dividend alternative to a FID, but it is intended to continue to offer a scrip dividend alternative to future conventional dividends.

The number of shares outstanding at 30 June 1995 was 1,067,746,037 and the average for the first six months of the year was 1,067,371,818 (1994: 1,065,350,897).

### Notes to the following financial statements

1. The exceptional charge primarily related to the write down by CRA of its investment in Kembla Coal & Coke in the first half of 1995; in the first half of 1994 there was a gain on the sale of most of CRA's holding in Pasmenco.
2. Adjusted earnings and adjusted earnings per share exclude exceptional items (and exceptional tax items) and therefore better reflect underlying performance.
3. Results for the year 1994 have been extracted from the full accounts prepared on a historical cost basis as filed with the Registrar of Companies. The auditors' report on the accounts of the Group for the year ended 31 December 1994 was unqualified and neither contained statements under section 237(2) of the Companies Act 1985 (accounting records or returns inadequate or accounts not agreeing with records and returns), nor under section 237(3) (failure to obtain necessary information and explanations).
4. The adjustments made to bring the accounting policies of CRA into line with RTZ accounting policies and UK Statements of Standard Accounting Practice were as follows:

	<u>£m</u>
RTZ share of CRA reported earnings	33
Adjustments:	
Elimination of revaluation depreciation	3
Other adjustments	4
	<hr/>
RTZ share of earnings — UK basis	40
Exceptional items	20
	<hr/>
RTZ share of earnings — adjusted	60
	<hr/> <hr/>

**RTZ Group profit and loss account (unaudited)**

	First half 1995 £m	First half 1994 £m	Year 1994 £m
<b>Group turnover</b>	2,062	1,857	3,942
Share of associates' turnover	(790)	(795)	(1,654)
Turnover	1,272	1,062	2,288
Operating costs	(852)	(856)	(1,770)
Operating profit	420	206	518
Share of associates' profit	217	179	389
<b>Profit before exceptional items</b>	637	385	907
Exceptional items (note 1)	(69)	45	7
Profit on ordinary activities before interest	568	430	914
Interest receivable/(payable) (net)	2	(3)	8
Profit on ordinary activities before taxation	570	427	922
Taxation			
Before exceptional items	(221)	(122)	(275)
Exceptional items	21	(7)	10
	(200)	(129)	(265)
Profit on ordinary activities after taxation	370	298	657
Attributable to outside shareholders	(34)	(18)	(45)
<b>Profit for the period</b>	336	280	612
Dividends to RTZ shareholders	(111)	(96)	(294)
Retained profit for the period	225	184	318
Earnings per ordinary share	31.5p	26.3p	57.4p
<b>Adjusted earnings</b> (note 2)	£384m	£242m	£595m
Adjusted earnings per ordinary share	36.0p	22.7p	55.8p



**RTZ Group cash flow statement (unaudited)**

	First half 1995 £m	First half 1994 £m	Year 1994 £m
Operating profit	420	206	518
Depreciation and amortisation	114	109	228
Provisions	14	51	128
Utilisation of provisions	(14)	(11)	(64)
Net change in working capital	(106)	(12)	(75)
Other items	(2)	(7)	(2)
<b>Cash flow from operating activities</b>	<b>426</b>	<b>336</b>	<b>733</b>
Dividends from associates and investments	67	84	183
Net interest (paid)/received	(6)	4	(2)
Dividends paid			
to RTZ shareholders	—	—	(168)
to outside shareholders	(29)	(17)	(22)
<b>Cash flow from returns on investment and servicing of finance</b>	<b>32</b>	<b>71</b>	<b>(9)</b>
Tax paid	(108)	(53)	(105)
Purchase of property, plant and equipment	(216)	(241)	(534)
Exploration and development expenditure	(45)	(35)	(95)
Investments in associates	(290)	(13)	(50)
Sale of property, plant and equipment	13	10	17
Sales of subsidiaries and associates	69	79	96
<b>Cash flow from long term investing activities</b>	<b>(469)</b>	<b>(200)</b>	<b>(566)</b>
<b>Cash flow before changes in short term investments and financing</b>	<b>(119)</b>	<b>154</b>	<b>53</b>
(Purchase)/realisation of short term investments	125	(43)	243
Net cash flow before financing	6	111	296
Ordinary shares issued (excluding scrip dividends)	2	7	12
Net loans raised/(repaid)	(123)	(138)	45
<b>Cash flow from financing</b>	<b>(121)</b>	<b>(131)</b>	<b>57</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(115)</b>	<b>(20)</b>	<b>353</b>

**RTZ Group balance sheet (unaudited)**

	30 June 1995 £m	31 December 1994 £m	30 June 1994 £m
<b>Fixed assets</b>			
Property, plant and equipment	2,717	2,718	2,521
Investments	1,446	1,453	1,447
	<u>4,163</u>	<u>4,171</u>	<u>3,968</u>
<b>Current assets</b>			
Working capital	413	453	435
Cash and short term investments less short term debt	740	1,025	1,002
Commercial paper	(770)	(891)	(755)
	<u>383</u>	<u>587</u>	<u>682</u>
<b>Total assets less current liabilities</b>	<u>4,546</u>	<u>4,758</u>	<u>4,650</u>
Medium and long term loans	(352)	(406)	(443)
Provisions for liabilities and charges	(799)	(776)	(753)
Outside shareholders' interests	(139)	(128)	(118)
	<u>3,256</u>	<u>3,448</u>	<u>3,336</u>
<b>Capital and reserves</b>			
Called up share capital	118	118	117
Share premium account	1,039	1,036	1,032
Profit and loss account	2,099	2,294	2,187
<b>RTZ shareholders' funds</b>	<u>3,256</u>	<u>3,448</u>	<u>3,336</u>

**Contributions to RTZ earnings by company (unaudited)**

	RTZ interest %	First half 1995 £m	First half 1994 £m	Year 1994 £m
Kennecott	100	161	75	203
RTZ Borax	100	45	47	84
RTZ Iron & Titanium	100	28	16	49
CRA	49	60	56	139
Escondida	30	42	39	90
Palabora	38.9	12	7	18
Somincor	49	8	3	8
Freeport	11.8	3	-	-
Other operations less miscellaneous costs		24	-	(4)
Net interest (see note)		1	(1)	8
Adjusted earnings		<u>384</u>	<u>242</u>	<u>595</u>
Exceptional items		(48)	38	17
<b>Profit for the period</b>		<u>336</u>	<u>280</u>	<u>612</u>

Contributions of wholly-owned subsidiaries represent their operating profits after tax but before finance charges. Finance charges of the parent company and wholly-owned subsidiaries are shown separately net of tax. Contributions of partly-owned companies are shown net of their finance charges and tax. Exceptional items are shown separately net of tax.

## Product and geographical analyses (unaudited)

Net earnings attributable to RTZ shareholders

	First half 1995		First half 1994		Year 1994	
	£m	%	£m	%	£m	%
<b>Product</b>						
Mining and Metals	341	80	212	74	517	77
Industrial Minerals	86	20	74	26	158	23
	<u>427</u>	<u>100</u>	<u>286</u>	<u>100</u>	<u>675</u>	<u>100</u>
Exploration and development	(35)		(37)		(78)	
Head office costs	(13)		(11)		(25)	
Corporate items	13		11		30	
Net finance charges (see note)	(8)		(7)		(7)	
Adjusted earnings	<u>384</u>		<u>242</u>		<u>595</u>	
Exceptional items	(48)		38		17	
Profit for the period	<u><u>336</u></u>		<u><u>280</u></u>		<u><u>612</u></u>	
<b>Geographical</b>						
North America	218	56	121	49	307	51
Australia and New Zealand	56	14	47	19	120	20
Africa	44	11	26	10	53	9
Europe (including UK)	21	5	3	1	3	—
South America	40	11	41	16	97	16
Other countries	13	3	11	5	22	4
	<u>392</u>	<u>100</u>	<u>249</u>	<u>100</u>	<u>602</u>	<u>100</u>
Net finance charges (see note)	(8)		(7)		(7)	
Adjusted earnings	<u>384</u>		<u>242</u>		<u>595</u>	
Exceptional items	(48)		38		17	
Profit for the period	<u><u>336</u></u>		<u><u>280</u></u>		<u><u>612</u></u>	

Segmental net attributable earnings are stated after tax. All finance charges, including RTZ's share of associated companies, are shown in "Net finance charges".

## METAL PRICES AND EXCHANGE RATES

### Metal prices

Average market prices for the periods were:

	First half 1995	First half 1994	Change 1H v 1H	Year 1994
Copper — US cents/lb	132	91	+45%	105
Aluminium — US cents/lb	84	59	+42%	67
Gold — US\$ per troy oz	384	383	—	384
Lead — US cents/lb	28	22	+27%	25
Silver — US\$ per troy oz	5.1	5.3	-4%	5.3
Zinc — Special high grade US cents/lb	48	43	+12%	45

### Exchange Rates

Average market exchange rates for the periods were:

	First half 1995	First half 1994	Change against sterling	Year 1994
Rate to £				
United States	1.59	1.50	-6%	1.53
Australia	2.16	2.09	-3%	2.10
Canada	2.21	2.04	-8%	2.09
South Africa	5.73	5.28	-9%	5.44

Translation rates for Balance Sheet purposes were:

	30 June 1995	30 June 1994	31 December 1994
Rate to £			
United States	1.59	1.54	1.57
Australia	2.24	2.11	2.02
Canada	2.19	2.13	2.20
South Africa	5.79	5.64	5.55

## REVIEW OF OPERATIONS

Half year ended 30 June 1995

(Contributions are shown before exploration and interest charges. Production references are to RTZ's share of subsidiary and associated companies' volumes. All dollars are US dollars.)

### MINING AND METALS

#### Copper and gold

Copper and gold contributed £223 million to RTZ earnings in the first half of 1995, nearly double the £120 million in the same period of 1994.

RTZ's mined copper production was some 2 per cent. more in the first half of 1995 than in the first half of 1994. The average LME copper price, at 132 US cents per pound, was 45 per cent. higher.

At Bingham Canyon, Utah, USA, mined copper production in the first half of 1995 increased by 5 per cent. over the corresponding period of 1994. Higher ore grade more than offset a reduction in throughput resulting from adverse spring weather. Output of molybdenum, a significant by-product, rose

by 40 per cent. Refined copper production was 25 per cent. down due to the start up of the new smelter and interruptions associated with the refinery modernisation, resulting in increased sales of copper in concentrate. Commissioning of the new smelter and refining complex is on schedule and design capacity is expected to be achieved by the first quarter of 1996.

Engineering and operational solutions have been put in hand at the Escondida mine in Chile to overcome pit slope instability (which delayed access to some high grade ore) and difficulties associated with processing ore with higher than normal clay content. These caused a 10 per cent. reduction in copper output in the first half of 1995. Actions taken to resolve start up problems at the new cathode plant are expected to result in design output being achieved by year end. Construction of the Phase 3 mine expansion is on schedule for completion in December, 1995.

Copper in concentrate produced was 4 per cent. higher than in the same period last year at Palabora in South Africa, but increased smelter maintenance adversely affected refined copper output. At Neves Corvo in Portugal, ore throughput was 12 per cent. up but copper production was 5 per cent. down, due to lower grade ore being mined in the new North Neves and Lower Corvo areas.

The Grasberg mine in Indonesia made an initial contribution to RTZ's share of production in May and June. RTZ's mined gold production was 6 per cent. higher than in the same period of 1994. The average gold price at US\$384 per ounce was similar to that a year earlier.

In the USA, mining of higher grade ore at Bingham Canyon increased output by 9 per cent. However, refined gold production was 25 per cent. lower due to the smelter start-up and the commissioning of the smelter and the new precious metals refinery. Elsewhere, mine production of gold was broadly similar except at Cortez, Nevada, where increased mill throughput and higher grade ore from the Crescent pit, completed in September 1994, raised gold output.

Lower recovery at Morro do Ouro, Brazil and lower grade ore at Kelian, Indonesia reduced output by 2 per cent. and 14 per cent. respectively. Production at the Peak mine in Australia was 14 per cent. up due mainly to higher gold grade.

### **Iron ore**

Iron ore contributed £35 million to RTZ's earnings in the first half of 1995, marginally below the £36 million in the same period of 1994.

Production at Hamersley's mines in Western Australia was at a similar level in the first half of 1995 to that in 1994. Prices for the 1995 delivery year, most of which became effective in April, are on average 7 per cent. higher. Increased sales were reflected in record half yearly shipments to Korea, Europe and China, and overall first half shipments in 1995 were 9.5 per cent. more than the previous record set in the first half of 1993.

The Marandoo mine, which started operations in October, 1994 at an initial rate of 4 million tonnes per annum, continued steadily to increase output towards its full 12 million tonnes per year design capacity. Construction started on a plant at Paraburdoo to beneficiate fine ore by reducing impurities; the plant is currently being commissioned. Between 200 and 300 million tonnes of iron ore have been identified in preliminary analysis of the Yandicoogina deposit.

### **Aluminium**

Aluminium contributed £41 million to RTZ's earnings in the first half of 1995, an increase of £30 million on the first half of 1994.

RTZ's share of Group bauxite production was up by 6 per cent and of aluminium metal by one per cent. The average LME aluminium price was 42 per cent higher at 84 cents per pound and market stocks fell by almost one million tonnes in the first half of 1995.

In Australia, a new bauxite handling facility at Weipa, Queensland, was commissioned. The Queensland Alumina refinery operated at full capacity, whilst maintenance work at Eurallumina in Sardinia resulted in output being slightly below capacity.

Comalco's Commonwealth Aluminium rolling and recycling business at Lewisport, USA, has been sold and its rolling, extruding and distribution businesses in Australia and New Zealand have been offered for sale.

In the UK, record production was achieved at Anglesey Aluminium and smelting costs were again reduced in real terms.

### **Coal and Uranium**

Coal and uranium contributed £38 million to RTZ's earnings in the first half of 1995, compared with £40 million in the first half of 1994.

RTZ's share of coal production increased by 13 per cent. US spot prices moderated from the higher levels recorded in 1994 when rail congestion in the Powder River Basin hampered most utilities' ability to rebuild stocks. Contract prices for internationally traded steam and metallurgical coal with effect from the second quarter of 1995 were between 12 and 17 per cent higher in response to strong demand and supply disruptions.

At RTZ's Powder River Basin mines, record production was achieved at Antelope, where the use of large trucks and shovels and completion of development work in a new mining area contributed towards lower operating costs. This, together with higher output at Decker, more than offset lower production at Spring Creek resulting from surplus, low cost hydro-electric power availability. In Colorado, Colowyo's production and productivity levels were higher than in the same period a year earlier which was prior to RTZ's ownership.

In Queensland, Australia, output from the Blair Athol mine increased by 11 per cent. in response to strong export demand but the opening of a new mining area and wet weather at Tarong reduced production by 5 per cent. Production at Mount Thorley and Hunter Valley open cut mines, New South Wales, was adversely affected by inflexible working practices. At Howick, the introduction of a new loader and additional haul trucks will increase production in the second half of 1995 and an environmental impact study for an expansion project is being prepared. Geological problems at Tahmoor and prolonged industrial unrest at West Cliff, the coal mines in New South Wales operated by Kembla Coal & Coke, resulted in only 0.7 million tonnes of coal being produced and increased losses being incurred. The delay in the arrival of additional trucks at Kaltim Prima, Indonesia, limited production.

RTZ's share of uranium production at Rössing, Namibia was 5 per cent. lower in the first half of 1995 than in the equivalent period a year earlier. The higher level of production in 1994 was due to normal mine scheduling in advance of significant maintenance in the second half of that year. Uranium spot market prices firmed during the first half of 1995.

### **NEW PROJECTS**

#### **Freeport-McMoRan Copper & Gold**

An interest of 11.8 per cent. in Freeport-McMoRan Copper & Gold (FCX) has been acquired at a total cost of approximately US\$500 million; of this amount US\$114 million has been added to the balance sheet value of investments in associates and the remainder has been written off as goodwill. Recent expansion of FCX's Grasberg mine in Indonesia resulted in 119,200 tonnes of ore per day being milled in June, the first full month of production. RTZ and FCX have already commenced a feasibility study on the mine's further expansion to lift milling rates to between 175 and 200 thousand tonnes of ore per day.

#### **Other new projects**

The Government of Papua New Guinea issued the Special Mining Lease for the Lihir gold project in March, and agreements with the Lihirian community for its development were signed in April, 1995. Construction of this RTZ managed project is scheduled to take 26 months from completion of project financing, which is expected in October 1995.

Engineering design work commenced in May for the Fortaleza nickel mine and smelter in central Brazil. Commissioning of the US\$233 million project is scheduled in the first quarter of 1998. It will produce 10,000 tonnes of nickel per year during its 20 year life.

A decision to redevelop Greens Creek, Alaska, was taken in May 1995 following feasibility studies based on the discovery of a new, higher grade extension of the ore body. The US\$80 million recommissioning project is expected to take 18 months. The mine is planned to produce 36,000 tonnes of zinc, 18,000 tonnes of lead, 11 million ounces of silver and 62,000 ounces of gold in the first full year of its 18 year life.

Construction of the third potline at the Boyne Island, Queensland smelter began in June 1995; it will increase capacity by an additional 219,000 tonnes of aluminium per year when commissioned in the third quarter of 1997. Work on the Tiwai Point, New Zealand smelter upgrade progressed well towards completion in late 1996.

Work continued on the definitive feasibility study for the Century Zinc project in Queensland, Australia. A decision on the development of a mine capable of producing 450,000 tonnes of zinc and 40,000 tonnes of lead a year is expected late in 1995.

Other projects in various feasibility study stages include the Pipeline gold project in Nevada, US, the Orissa iron ore project in India, processing of oxide ore at the Escondida copper mine in Chile, and underground mining at the Palabora copper mine in South Africa following exhaustion of open pit reserves early next century.

## **INDUSTRIAL MINERALS**

### **Borax, silica sand and talc**

RTZ's borax, silica sand and talc businesses contributed £45 million to earnings in the first half of 1995, compared with £47 million in the first half of 1994. This partially reflects the weaker US dollar but also additional costs at Boron associated with exceptional rainfall.

Overall, borate revenue was 8 per cent. higher than in the comparable period of 1994. Although the strong growth in demand for borates previously enjoyed in North America faltered in the spring, it strengthened elsewhere as the year progressed and was particularly evident for European insulation fibreglass. Demand for talc in the US slowed in the second quarter of 1995 and the recovery in Europe was also weak. The possibility of divestiture of the US silica sands activity is under review and a number of parties have expressed interest in buying this business which continued to produce good results.

### **Titanium dioxide feedstock and co-products**

RTZ's titanium dioxide feedstock and co-products businesses contributed £30 million to earnings in the first half of 1995, an increase of 67 per cent. on the £18 million earned in the same period in 1994.

Titanium dioxide feedstock sales benefited from higher pigment demand reflecting improved economic conditions in most markets. The market for chlorinatable feedstock was also tighter as a result of the interruption of supplies from a rutile mine in Sierra Leone. North American iron and steel markets, particularly for metal powders, continued to strengthen. Zircon demand increased again in the first half of 1995, mainly for ceramic applications and the average zircon price was 40 per cent. higher than in the comparable period of 1994.

The pilot plant for QIT's new upgraded slag (UGS) project was commissioned in April; work is proceeding well and in line with expectations. The process removes naturally occurring alkalis and will permit QIT to offer product suitable for the chloride sector of the pigment market where future growth is anticipated.

### **Other mineral products**

Diamond production at Argyle, Western Australia was marginally below that in the first half of 1994. Processing plant throughput was constrained by the failure of a conveyor from the primary stockpile. The jewellery market continued to grow but large scale selling from the Russian stockpile adversely affected the market for rough and polished diamonds. Deferred purchases by the Central Selling Organisation remain at 15 per cent. and the CSO have reduced Argyle's selling prices by 11 per cent. for sales in the second half of 1995.

Demand for salt in the first half of 1995 increased, reflecting restocking by Japanese chemical producers. Production at the Western Australian salt fields was lower, but shipments higher, than in the same period in 1994.

## EXPLORATION

RTZ's exploration charge against earnings, including RTZ's share of CRA exploration, was £35 million in the first half of 1995, compared with £37 million in the same period of 1994.

In Canada, a delineation drilling and mini-bulk sampling programme on the diamond prospective Diavik property was completed on the A-154 South pipe with good results. A decision was made to take a larger bulk sample from underground to confirm the results of previous sampling. Delineation drilling programmes were also undertaken on the A-154 North, A-418 and A-21 pipes. Six new kimberlite pipes have been discovered so far this year, some of which remain to be tested. In the USA, several intersections of precious and base metals mineralisation are being followed up. In Latin America, drilling was conducted mainly for copper in Chile and Peru, precious metals in Bolivia and Ecuador, and gold and diamonds in Brazil.

Drilling continued in several European countries, with intersections of copper mineralisation in Spain and zinc/lead mineralisation in Portugal. Exploration for base metals and diamonds is being conducted in Finland. A pre-feasibility study is underway at the medium sized Svetlinskoye gold deposit in Russia, in which RTZ has a 55 per cent. interest.

The exploration programme in Africa remains at an early stage and concentrated on base metals prospects in Namibia and Zambia and diamonds in Namibia, Botswana, Zimbabwe and Tanzania.

RTZ began to contribute to FCX's exploration activities in Indonesia in May. Exploration drilling has been successful in identifying and expanding on the current known mineralisation in locations adjacent to the current mining area.

In Australia, CRA continued drilling aimed at increasing the size of the resources, and carried out metallurgical testwork on material from each deposit, at the Honeymoon Well nickel prospect in Western Australia and deferred pre-feasibility study until the results are known.

Large resources of high brightness kaolin have been identified in the south west of Western Australia. Resource definition drilling has confirmed the size and continuity of one prospect and a bulk sample is being collected for processing trials. A pre-feasibility study will be completed by year end. Exploration near existing iron ore, diamond and coal mines was stepped up and testing of gold and copper-gold prospects continued in a number of other areas.

High grade copper, as well as gold mineralisation, was intersected by CRA's drilling at Sepon, Central Laos where an evaluation drilling programme will start in the fourth quarter of 1995. In Papua New Guinea, further significant mineralisation, including a high grade epithermal copper deposit, has been identified at Wafi, and exploration also recommenced at the Hidden Valley gold prospect."



## 5. Production figures for the nine months ended 30 September 1995

RTZ's production and exploration report for the quarter ended 30 September 1995 was released on 2 November 1995. The following information on production derives from that report. The figures include production figures in respect of assets owned by CRA.

### METAL MINE PRODUCTION<sup>(a)</sup>

(in thousands)

	Nine months ended 30 September 1995		
	Mine production	RTZ share of mine production	
<b>Copper (tonnes)</b>			
Bingham Canyon	244.2	100%	244.2
Escondida	360.1	30%	108.0
Grasberg	326.4	10%	18.5 <sup>(b)</sup>
Neves Corvo	94.0	49%	46.1
Palabora	100.3	39%	39.0
Flambeau	32.6	100%	32.6
<b>RTZ total</b>			<b>488.4</b>
<b>Gold (ounces)</b>			
Bingham Canyon	432	100%	432
Grasberg	931	10%	52 <sup>(b)</sup>
Kelian	269	44%	119
Ridgeway	81	100%	81
Barneys Canyon	65	100%	65
Morro do Ouro	122	51%	62
Flambeau	64	100%	64
Rawhide	82	51%	42
Peak	102	49%	50
Rio Tinto Zimbabwe	64	56%	36
Others	182	<sup>(c)</sup>	65
<b>RTZ total</b>			<b>1,067</b>
<b>Molybdenum (tonnes)</b>			
Bingham Canyon	8.3	100%	8.3
<b>Iron ore (tonnes)</b>			
Hamersley	34,199	49%	16,758
Channar	4,280	29%	1,258
<b>RTZ total</b>			<b>18,016</b>
<b>Bauxite: Beneficiated (tonnes)</b>			
Weipa	6,992	33%	2,293
<b>Lead (tonnes)</b>			
Various	20.9	<sup>(c)</sup>	7.0
<b>Zinc (tonnes)</b>			
Various	83.5	<sup>(c)</sup>	27.8
<b>Silver (ounces)</b>			
Bingham Canyon	3,487	100%	3,487
Grasberg	1,503	10%	89 <sup>(b)</sup>
Others	9,190	<sup>(c)</sup>	3,849
<b>RTZ total</b>			<b>7,425</b>
<b>Tin (tonnes)</b>			
Neves Corvo	3.8	49%	1.8

(a) Metal mine production figures refer to the quantity of metal contained in concentrates or bullion, except for iron ore and beneficiated bauxite which are expressed as saleable ore, and Flambeau's copper and gold which are metals contained in ore mined for direct sale.

(b) The figures shown for RTZ's share of production are from the date of acquisition but the figures shown for mine production indicate full production.

(c) RTZ's share of other mines varies from mine to mine.

## REFINED METAL PRODUCTION

(in thousands)

	Nine months ended 30 September 1995		
	Refined production	RTZ share of refined production	
<b>Copper (tonnes)</b>			
Bingham Canyon	58.4	100%	58.4
Palabora	83.7	39%	32.6
Huelva	91.3	12%	5.2 <sup>(c)</sup>
Southern Copper	2.1	29%	0.6
Escondida	20.3	30%	6.1
<b>RTZ total</b>			<u>102.9</u>
<b>Gold (ounces)</b>			
Bingham Canyon	99	100%	<u>99</u>
<b>Aluminium (tonnes)</b>			
Comalco <sup>(a)</sup>	327.0	33%	107.3
Anglesey	98.2	51%	50.1
<b>RTZ total</b>			<u>157.3</u>
<b>Zinc(tonnes)</b>			
Norzink	98.9	50%	49.4
Others	26.6	<sup>(b)</sup>	4.4
<b>RTZ total</b>			<u>53.9</u>
<b>Silver (ounces)</b>			
Bingham Canyon	502	100%	502
Southern Copper	28	29%	8
<b>RTZ total</b>			<u>510</u>

(a) Comalco's production is its share of aluminium production.

(b) RTZ's share of other mines varies from mine to mine.

(c) The figures shown for RTZ's share of production are from the date of acquisition but the figures shown for refined production indicate full production.

**COAL AND URANIUM**  
(in thousands)

Nine months ended 30 September 1995				
	Coal type <sup>(a)</sup>	Mine production	RTZ share of mine production	
<b>Coal (tonnes)</b>				
<b>Kennecott Energy:</b>				
Cordero	SC	10,211	100%	10,211
Antelope	SC	7,537	100%	7,537
Spring Creek	SC	5,450	100%	5,450
Decker	SC	6,949	50%	3,475
Colowyo <sup>(b)</sup>	SC	3,003	100%	3,003
<b>Total Kennecott operations</b>				<b>29,676</b>
<hr/>				
<b>Pacific Coal:</b>				
Tarong	SC	3,981	49%	1,951
Blair Athol	SC	7,911	28%	2,215
<b>Kembla Coal &amp; Coke:</b>				
	MC	1,500	49%	735
	SC	43	49%	21
	C	181	49%	89
Kaltim Prima	SC	7,175	21%	1,521
<b>Novacoal:</b>				
Howick	SC	2,445	29%	719
	MC	326	29%	96
Vickery	SC	268	49%	131
<b>Coal and Allied Industries:</b>				
Hunter Valley	SC & MC	4,261	35%	1,476
Mount Thorley	SC & MC	2,992	28%	829
<b>Total operations held through CRA</b>				<b>9,783</b>
<hr/>				
<b>Uranium (U<sub>3</sub>O<sub>8</sub>)</b>				
Rössing		1,677	66% <sup>(c)</sup>	1,014 <sup>(c)</sup>

(a) SC = Steam coal, MC = Metallurgical coal, C = Coke.

(b) Kennecott Energy has a general partnership interest in the Colowyo mine, but, as it is responsible under a management agreement for the operation of the mine, all of Colowyo's output is included in RTZ's share of production.

(c) RTZ share of production reflects RTZ's weighted average interest in Rössing during the period.

**INDUSTRIAL MINERALS**  
(in thousands)

Nine months ended 30 September 1995			
	Mine production	RTZ share of mine production	
<b>Borates (tonnes)<sup>(a)</sup></b>			
Boron mine	393	100%	393
<hr/>			
<b>Titanium dioxide feedstock (tonnes)</b>			
RTZ Iron & Titanium			965
<hr/>			
<b>Diamonds (carats)</b>			
Argyle	27,951	29%	8,176
<hr/>			
<b>Silica sand (tonnes)</b>			
US Silica	3,646	100%	3,646
<hr/>			
<b>Salt (tonnes)</b>			
Dampier	2,578	32%	820
<hr/>			
<b>Talc (tonnes)</b>			
Luzenac Group	812	99.9%	811

(a) Production is expressed as B<sub>2</sub>O<sub>3</sub> Content.

**6. Material changes**

There has been no significant change in the financial or trading position of the RTZ Group since 30 June 1995, being the date to which the last published unaudited interim results of the RTZ Group were drawn up.

## Part III

### INFORMATION ON CRA

#### 1. Business description

##### (a) CRA Group overview

A predecessor of the CRA Group began in 1905 by employing new technology to treat zinc-bearing residues at Broken Hill in the State of New South Wales, Australia. In 1962, Conzinc Riotinto of Australia Limited was formed as a limited liability company under the laws of the State of Victoria, Australia through the merging of the Australian interests of Consolidated Zinc Corporation and the Rio Tinto Company Limited of the United Kingdom. In 1980, Conzinc Riotinto of Australia Limited changed its name to CRA Limited. Public ownership of CRA increased markedly in the 1980's as RTZ reduced its holding in CRA to 49 per cent. by 1986, in order for CRA to become an Australianised company under the terms of the Australian Government's foreign investment guidelines.

The CRA Group is a leading mining and metals producer. CRA is one of Australia's largest publicly listed corporations with a market capitalisation of A\$12.5 billion as at 14 November 1995. The CRA Group had consolidated assets of A\$9.2 billion as of 31 December 1994, and had consolidated sales revenues of A\$5.8 billion in 1994. Exports from CRA's Australian subsidiary businesses totalled A\$3.2 billion in 1994.

At 30 June 1995 CRA had consolidated group assets of A\$8.9 billion. Consolidated group sales revenue was A\$2.8 billion for the first six months of 1995. These are figures deriving from CRA's interim statement for the first six months to 30 June which was subject to a limited audit review.

The CRA Group has substantial mining and processing interests in iron ore, coal and aluminium (including bauxite and alumina). The Group also has significant mining and processing interests in diamonds, gold and salt. Large reserves are available to the CRA Group to support each of its core operations. In addition to its major operations in Australia, CRA has interests in mines, smelters and fabrication plants principally in Indonesia, New Zealand and Italy. The principal markets into which CRA sells are in Japan, Australia, North America, Europe, South Korea, China and other countries in the Asian region.

The CRA Group is comprised of both wholly and partially owned companies. References to CRA's ownership of other businesses include both direct and indirect equity interests. CRA's businesses operate through a decentralised management structure with a high level of delegated authority. A planning and policy orientated headquarters is located in Melbourne and provides financial and certain other services in the CRA Group's businesses.

CRA's corporate strategy is:

- to improve the international competitiveness of its existing businesses;
- to create future opportunities by maintaining strong exploration and research and development programmes;
- to grow existing operations where appropriate opportunities exist; and
- to acquire economically first class assets in fields in which it has strengths and which add to shareholder value.

The principal subsidiaries and associated companies comprising the CRA Group and the business area in which they operate are set out below.

- Hamersley Iron Pty Limited ("Hamersley Iron"), a wholly owned subsidiary, is one of the world's largest producers of iron ore with mines in the Pilbara region in the State of Western Australia.
- Comalco Limited, which is 67 per cent. owned by CRA, and its subsidiaries and interests in joint venture companies (collectively "Comalco"), is an integrated producer of bauxite, kaolin, alumina,

aluminium metal and semi-fabricated and fabricated products, with operations in Australia and New Zealand.

- Argyle Diamond Mines Joint Venture (“Argyle”), which is 59.7 per cent. owned by CRA, is a major diamond mining operation which mines gem, near gem and industrial grade diamonds from a diamond mine in the East Kimberly region, Western Australia and markets them world-wide.
- Pacific Coal Pty. Limited (“Pacific Coal”), a wholly owned subsidiary, manages two large scale steaming coal mines, the Blair Athol Coal Project (“Blair Athol”), which is 57.2 per cent. owned by CRA and located in central Queensland, Australia, and Tarong, wholly owned by CRA, which is located in south east Queensland.
- PT Kaltim Prima Coal (“Kaltim Prima”), which is 50 per cent. owned by CRA, is a steaming coal mine in East Kalimantan, Indonesia.
- Kembla Coal & Coke Limited (“KCC”), a wholly owned subsidiary, produces mainly coking coal from underground mines in the Illawarra region of southern New South Wales, Australia.
- Novacoal Australia Pty. Limited (“Novacoal”), a wholly owned subsidiary, operates two mines in New South Wales producing mainly steaming coal.
- Coal & Allied Industries Limited (“Coal & Allied”), which is 70.7 per cent. owned by CRA, is one of the largest producers of coal in New South Wales. Coal & Allied operates two large open cut steaming and coking coal mines and two large coal preparation plants in the Hunter Valley region of New South Wales.
- PT Kelian Equatorial Mining (“Kelian”), which is a 90 per cent. owned subsidiary, operates a gold mine in East Kalimantan, Indonesia.
- Dampier Salt Limited (“DSL”), which is a 64.9 per cent. owned subsidiary, produces salt from operations located in Western Australia.
- Peak Gold Mines Pty. Limited (“Peak”), a wholly owned subsidiary, is an underground gold mine located at Cobar, New South Wales.
- Southern Copper Limited (“Southern Copper”), which is a 100 per cent. owned subsidiary, is a copper smelter and refinery located at Port Kembla, in New South Wales, Australia. Southern Copper ceased operation in January 1995 and is now on a care and maintenance regime.
- Bougainville Copper Limited (“BCL”), which is 53.6 per cent. owned by CRA, has a copper and gold mine located in Papua New Guinea. However, BCL’s mine has not operated since 15 May 1989 due to civil disruption and a breakdown of law and order. See paragraph 1(c)(i)d) below.

#### **(b) Major business operations**

The CRA Group categorises its operations into six industry segments:

- Iron ore
- Coal and coke
- Aluminium
- Gold and copper
- Diamonds
- Other (including salt, zinc, lead, silver, industrial components, engineering and other development and exploration and evaluation expenditure which has not been allocated to an industry segment).

The geographical areas in which the CRA Group facilities are located are categorised as Australia, New Zealand, Papua New Guinea, North America, Europe and Other (including Asia, Africa and Chile).

In this Part III, ore reserves are reported by CRA in accordance with the "Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves" as recommended by the Joint Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Australian Mining Industry Council on Ore Reserves (September 1992). The ore reserve estimates of CRA in this Part III have been drawn from its most recent Form 20-F filing with the US Securities & Exchange Commission which allows for the summation of proved and probable ore reserves. Accordingly, proved and probable ore reserves have not been reported separately in this Part III. The methodologies employed by CRA and RTZ for reserve estimates are substantially the same.

(i) *Iron ore*

The CRA Group's iron operations are conducted by Hamersley Iron. Iron ore contributed approximately 20 per cent. of CRA's 1994 consolidated group sales revenues and as at 31 December 1994, accounted for 27 per cent. of consolidated group assets. In 1994, iron ore operations contributed approximately A\$420 million of CRA's operating earnings, which compares with A\$553 million in 1993 and A\$550 million in 1992.

The following table shows mine production of iron ore at CRA Group operations for 1992, 1993 and 1994.

**IRON ORE PRODUCTION**

(in thousands)

	1992		1993		1994	
	Mine production	CRA equity share of mine production	Mine production	CRA equity share of mine production	Mine production	CRA equity share of mine production
<b>Iron ore (tonnes)</b>						
Hamersley Iron's mines (Australia)	44,953	100.0%	44,953	100.0%	44,139	100.0%
Channar (Australia)	5,489	60.0%	3,293	60.0%	3,678	60.0%
<b>CRA total</b>		<u>48,246</u>		<u>47,817</u>		<u>48,979</u>

The following table shows proved ore reserves and probable ore reserves of iron ore at 31 December 1994.

**ESTIMATED PROVED AND PROBABLE RESERVES OF IRON ORE (a)**

(in millions)

	Type of mine (b)	Proved and probable reserves		Approximate mill recovery	CRA interest	CRA equity share of recoverable ore (c)
		Ore tonnage	Grade			
<b>Iron ore (tonnes)</b>						
Hamersley Iron's mines (Australia)						
Mt. Tom Price/Paraburdoo	O/P	545	(d)	(d)	100.0%	545
Marandoo (e)	O/P	170	(d)	(d)	100.0%	170
Brockman No. 2 (detritals)	O/P	10			100.0%	10
Channar (Australia)	O/P	180	(d)	(d)	60.0%	108
<b>CRA total</b>		<u>905</u>				<u>833</u>

(a) Reserves are net of dilution and mining losses.

(b) O/P - Open pit.

(c) CRA's equity share of reserves is expressed as recoverable reserves of saleable ore.

(d) Figures quoted in the Ore tonnage column are recoverable reserves of saleable products, i.e. after all mining and processing losses. Grades and recoveries are therefore not shown in this table.

(e) Marandoo commenced production in the third quarter of 1994.

Hamersley Iron operates four wholly owned mines in the Hamersley Ranges of Western Australia. The mines are located at Mount Tom Price, Paraburdoo, Brockman and a new mine at Marandoo. Hamersley Iron owns and operates a standard gauge railway. The railway runs from Paraburdoo to the port of Dampier, through Mount Tom Price. Dampier is located on the north west coast of Western Australia. Hamersley Iron operates a 120 megawatt power generating station at Dampier that provides power for its Pilbara operations. Hamersley Iron's head office is located in Perth, Western Australia. Hamersley Iron employs 2,600 people across all operations.

In addition, within the Hamersley Ranges, Hamersley Iron also operates the Channar mine on behalf of a joint venture ("Channar Joint Venture") in which Hamersley Iron has a 60 per cent. interest and a wholly owned Australian subsidiary of China Iron & Steel Group of Companies (formerly China Metallurgical Import & Export Corporation) ("CISG"), a corporation wholly owned by The People's Republic of China, has a 40 per cent. interest.

The mines at Mount Tom Price, Paraburdoo and Marandoo each have their own management, equipment, services, and support facilities. The Brockman mine is operated by an independent contractor. The Marandoo workforce lives in Mount Tom Price and commutes 50 kilometres to the mine on a daily basis. The management and service facilities at Paraburdoo also support the Channar mine, which is approximately 20 kilometres away from the Paraburdoo operations and is connected by conveyor. Planning of pit development and production schedules at all sites is closely coordinated and technical liaison is maintained to enhance operating efficiency and resource utilisation.

All mines owned or operated by Hamersley Iron produce two types of high grade iron ore: lump ore and fine ore. Both of these ores are used in the production of steel. Lump ore has the physical strength to be charged directly into the blast furnaces used in producing hot metal for steel-making. Fine ore requires agglomeration by means of sintering or other processes before being suitable as a blast furnace charge. Hamersley Iron is one of the few producers in the world supplying large quantities of sized high grade lump ore suitable for direct charging to blast furnaces.

Conventional open pit mining methods are used at all the Hamersley Iron mines. Material is drilled and blasted in benches, loaded into trucks by shovels, hydraulic excavators or front end loaders, and then transported to crushers or dumps. High grade ore crushing and screening operations are conducted at Mount Tom Price, Paraburdoo and Marandoo where the ore is separated into lump and fine ore. The ore produced is blended and stockpiled at each mine. Thereafter, lump or fine ore is reclaimed from stockpiles and loaded into ore wagons for transportation by rail to Dampier.

In addition to producing high grade ore at Mount Tom Price a significant quantity of low grade ore is also mined. After being crushed and screened, the low grade ore is upgraded in a concentrator at Mount Tom Price to produce high grade lump and fine ore products that are blended with run of mine high grade products on the stockpiles.

To improve the quality of Hamersley Iron's product, a fine ore processing plant has been constructed at Paraburdoo. The plant is designed to significantly reduce alumina levels within the Hamersley blend. The fines processing plant is being commissioned.

Hamersley Iron's railway from Paraburdoo to Dampier through Mount Tom Price covers a distance of 388 kilometres. The main line is predominantly single track with passing sidings at approximately 20 kilometre intervals. Between Mount Tom Price and Dampier, three diesel-electric locomotives haul trains of up to 224 wagons. Each wagon has a nominal capacity of 105 tonnes. Additional locomotives are added for the up-grade haul from Paraburdoo to Mount Tom Price.

A replacement fleet of 29 new mainline locomotives has been commissioned during 1995. The new locomotives will increase the productivity of the rail system and provide maintenance benefits. The new fleet is significantly smaller than the previous fleet.

The port of Dampier is situated in sheltered waters and has a history of high availability for shipping. Only minimal delays are experienced from occasional seasonal tropical cyclones. Within the port, there are separate train unloading and ship loading terminal facilities at Parker Point and three kilometres to the west on East Intercourse Island ("EII"). The Parker Point facility is capable of handling fully loaded

vessels up to 140,000 dead weight tonnes ("DWT"). The EII berth can accommodate vessels up to 250,000 DWT. The operating procedures at each terminal are similar. Wagons are unloaded by rotary car dumpers and the ore is carried by a system of conveyors onto blending stockpiles. The ore types from each mine differ slightly in grade and impurity content and must therefore be blended carefully to maintain a consistent quality of shipped product.

The Channar mine was developed pursuant to a 1987 agreement between Hamersley Iron and a subsidiary of CISG, and production at Channar commenced in January 1990. Under the agreement, Hamersley Iron manages the mining operations and the ore is fed into Hamersley Iron's processing and port facilities. CISG is a 40 per cent. participant in the joint venture and is obliged to pay its proportionate share of the operating costs of the mine and a servicing and processing fee to Hamersley Iron. In return, CISG is entitled to receive 40 per cent. of the output from the mine. All mine production from Channar is sold to buyers in the People's Republic of China pursuant to a long term contract with CISG. The contracts provide for the purchase price for ore to be negotiated annually. The Channar mine was financed on a fully secured, multi-currency, limited recourse basis involving debt funds and underwritten facilities totalling US\$230 million.

At the Brockman No. 2 Detritals ore body, which is located north west of Mount Tom Price, the ore is crushed and screened in a new plant adjacent to the mine site. The operation is linked to Hamersley Iron's main railway line by a 42 kilometre rail spur. The mine is being operated by an independent contractor. Hamersley Iron pays a fee to the contractor for each tonne of ore delivered. This ore augments, and is blended with, the iron ore products from Hamersley Iron's other mines. Total proved ore resources of saleable iron ore products are 10 million tonnes (which are included in Hamersley's overall reserve estimate stated above). The life of the operation is expected to be between two and three years at a rate of 4 million tonnes per annum.

During 1990, the nominal annual rated capacity of Hamersley Iron's operations was lifted from 46 to 50 million tonnes as a result of improved productivity, better work practices, the replacement of key mobile equipment and the removal of inefficiencies through plant modifications. During 1993, the nominal rated capacity was further increased to 55 million tonnes as a result of continual process refinements.

In 1994, a total of 51.3 million tonnes of saleable product, including the 5.9 million tonnes produced at the Channar mine, was produced and railed to Dampier. A total of 51.7 million tonnes was shipped.

At 31 December 1994, proved ore reserves and probable ore reserves at Mount Tom Price, Paraburdoo, Marandoo and Brockman No. 2 Detritals were, after allowing for all mining and processing losses, estimated to be 725 million tonnes of saleable ore product. At the same date, Channar had proved ore reserves and probable ore reserves of 180 million tonnes of saleable ore, after all mining and processing losses are taken into account.

The Marandoo mine commenced production in the third quarter 1994, achieving the planned start-up 4 million tonnes per annum rate. The mineral rights cover 170 million tonnes of proved ore reserves, which could be mined to yield approximately 12 million tonnes per annum of lump and fine ore. The development of Marandoo is designed to maintain Hamersley Iron's ore production and sales levels while optimising the extraction of the remaining high grade ore reserve of the Mount Tom Price mine.

Hamersley Iron exports almost 100 per cent. of its production of high grade lump and fine ore typically under medium and long term supply contracts with major integrated steel mill customers in Japan, China, Korea, Taiwan and Europe. In general, shipments to Asia are made on a Free on Board ("FOB") basis, while shipments to Europe are made on a landed cost basis. Hamersley Iron enters into long-term shipping contracts with independent operators for its shipments to Europe. These shipping contracts are for variable periods into the future.



In 1994, sales of product to Hamersley Iron's customers were as follows:

	<b>Million tonnes</b>
Japan	20.6
China	7.1
Other Asia	10.4
Europe	11.8
	<hr/>
	49.9
	<hr/> <hr/>

Note: This table does not include the CMIEC share of shipments from the Channar Joint Venture of 1.9 million tonnes.

The supply contracts referred to above typically require Hamersley Iron to supply, and the customer to take, a fixed quantity of iron ore per annum over a number of years, although in many cases the customer retains the right to vary the quantity within specified parameters. Currently, the average term of these contracts is between five and six years. The prices for iron ore under the contracts are established annually by negotiation between the parties and are set in US dollars. In December 1994, Hamersley Iron reached agreement with the Japanese steel mills on iron ore prices for deliveries from April 1995 to March 1996. The FOB price for fine ore to Japan increased by 5.8 per cent. and the price for lump ore increased by 7.9 per cent. from 1994 prices. These price increases reflect the strengthening Japanese economy. In 1994, Hamersley Iron shipped 20.6 million tonnes to the Japanese steel mills, representing approximately 44 per cent. of total Hamersley Iron shipments.

In October 1995, Hamersley Iron announced it had reached agreement to renew two long term contracts with the Japanese steel mills. Hamersley Iron has now secured sale contracts in the Japanese market worth an estimated A\$2.8 billion over the next seven years.

In 1994, Hamersley Iron's 2.8 million tonnes share of the Channar Joint Venture tonnage was shipped to The People's Republic of China; the remaining 1.9 million tonnes of Channar shipments is the CISG share of production from the joint venture, which was also sold to The People's Republic of China.

Hamersley Iron's rights to operate its iron ore mines, rail and port facilities are established under agreements with the State Government of Western Australia that provide 21 years lease access to the deposits. The Mount Tom Price lease was extended for 21 years in 1985 and the Paraburdoo lease for 21 years in 1991. Subject to compliance with its obligations under the leases and the State Agreements, Hamersley Iron has rights to successive renewals of 21 years. In addition to customary obligations with respect to the conduct of the mining and the subsequent rehabilitation of the land, these agreements require Hamersley Iron to undertake certain secondary processing obligations as a condition of maintaining the mining leases. The establishment of a major iron-making research facility utilising a new direct iron ore smelting process at Kwinana, Western Australia (through a joint venture with an Australian subsidiary of Midrex Corporation, of the USA) has partially satisfied these processing obligations.

In addition to the royalties payable to the State of Western Australia, royalties are payable to certain persons at the rate of 2.5 per cent. of the FOB (or equivalent) price received for certain iron ore produced and sold or otherwise disposed of.

#### *(ii) Coal and Coke*

The CRA Group's coal mining operations are conducted through Pacific Coal, Coal & Allied, Kaltim Prima, Novacoal and KCC. In 1994, these investments generated 21 per cent. of CRA's consolidated group sales revenues, and as at 31 December 1994, accounted for approximately 20 per cent. of its consolidated group assets. Kaltim Prima's sales revenue is not included in CRA's consolidated group sales revenues because it is an equity accounted associated company. The coal and coke operations contributed operating earnings of A\$133 million in 1994 compared with A\$365 million in 1993 and A\$146 million in 1992.

The following table shows coal production at major CRA Group operations for 1992, 1993 and 1994.

## COAL MINE PRODUCTION

(in thousands of tonnes)

	Coal type (a)	1992			1993			1994		
		Production	CRA equity share of mine production		Production	CRA equity share of mine production		Production	CRA equity share of mine production	
<b>Pacific Coal</b>										
Tarong (Australia)	SC	5,355	100.0%	5,355	5,310	100.0%	5,310	5,228	100.0%	5,228
Blair Athol (Australia)	SC	8,286	57.2%	4,739	9,329	57.2%	5,336	9,725	57.2%	5,562
<b>CRA total</b>				<u>10,094</u>			<u>10,646</u>			<u>10,790</u>
<b>Kaltim Prima (Indonesia) (b)</b>										
	SC	6,887	43.25%	2,798	8,871	43.25%	3,837	9,932	43.25%	4,296
<b>Kembla Coal &amp; Coke (Australia)</b>										
Coal	MC	3,152	100.0%	3,152	3,108	100.0%	3,108	1,998	100.0%	1,998
	SC	259	100.0%	259	111	100.0%	111	110	100.0%	110
<b>CRA total</b>				<u>3,411</u>			<u>3,219</u>			<u>2,108</u>
<b>Novacoal</b>										
Howick (Australia)	SC	2,563	60.0%	1,538	2,512	60.0%	1,507	2,683	60.0%	1,610
	MC	853	60.0%	512	857	60.0%	514	919	60.0%	551
Western Main (Australia) (c)	SC	675	100.0%	675	498	100.0%	498	484	100.0%	484
Vickery (Australia)	SC	307	100.0%	307	700	100.0%	700	674	100.0%	674
<b>CRA total</b>				<u>3,032</u>			<u>3,219</u>			<u>3,319</u>
<b>Coal &amp; Allied (d)(e)</b>										
Hunter Valley (Australia)	SC	1,822	37.5%	683	2,638	58.6%	1,573	2,392	70.7%	1,691
	MC	3,064	37.5%	1,149	3,014	58.6%	1,797	3,052	70.7%	2,158
Mount Thorley (Australia)	SC	1,986	30.0%	596	1,694	46.9%	959	1,879	56.6%	1,063
	MC	2,201	30.0%	660	2,948	46.9%	1,669	2,162	56.6%	1,224
Lake Macquarie (Australia) (f)	SC	2,023	37.5%	759	1,362	58.6%	812	295	70.7%	209
<b>CRA total</b>				<u>3,847</u>			<u>6,810</u>			<u>6,345</u>
<b>CRA grand total</b>				<u>23,182</u>			<u>27,731</u>			<u>26,858</u>
<b>Kembla Coal &amp; Coke (Australia)</b>										
Coke	C	248	100.0%	248	236	100.0%	236	242	100.0%	242

(a) SC — Steaming coal; MC — Metallurgical coal; C — Coke

(b) The Indonesian State coal company P.T. (Persero) Tambang Batubara Bukit Asam is entitled to 13.5 per cent. share of coal under the terms of the mining agreement with Kaltim Prima. CRA's share of mine production reflects this agreement. Commercial operations commenced in September 1991 following a 3 year development programme.

(c) Western Main Mine was closed in late 1994.

(d) CRA acquired 37.2 per cent. of Coal & Allied in May 1991 and increased the ownership to 70.7 per cent. in April 1993.

(e) CRA's average shareholding in Coal & Allied during 1993 was 58.6 per cent.

(f) The Lake Macquarie mines were sold in April 1994.

The following table sets out estimated marketable reserves of coal at major CRA Group operations at 31 December 1994.

ESTIMATED MARKETABLE RESERVES AT OPERATING COAL MINES

(in millions of tonnes)

	Type of reserve (a)	Coal type (b)	Calorific value (c)(e) (BTU/ pound)	Sulphur content	Mine reserves (d)	CRA interest	CRA equity share of marketable reserves
<b>Pacific Coal</b>							
Tarong (Australia)	O/C	SC	9,050	0.30%	252.0	100.0%	250.0
Blair Athol (Australia)	O/C	SC	11,900	0.30%	174.0	57.2%	100.0
<b>CRA total</b>							<b>350.0</b>
<b>Kaltim Prima (Indonesia)</b>							
Pinang grade	O/C	SC	10,936	0.57%	86.8	43.25%	37.5
Underground	U/G	SC	12,750	0.40%	37.3	43.25%	16.1
Prima grade	O/C	SC	12,332	0.64%	182.5	43.25%	78.9
<b>CRA total</b>							<b>132.5</b>
<b>Kembla Coal &amp; Coke (Australia)</b>							
	U/G	MC	n/a	0.35%	74.2	100.0%	74.2
<b>Novacoal</b>							
Howick (Australia)	O/C	SC&MC	12,510	0.65%	96.0	60.0%	57.6
Vickery (Australia)	O/C	SC	12,640	0.40%	4.0	100.0%	4.0
<b>CRA total</b>							<b>61.6</b>
<b>Coal &amp; Allied</b>							
Hunter Valley (Australia)	O/C	SC	12,240	0.50%	98.1	70.7%	69.4
		MC	13,140	0.60%	60.9	70.7%	43.1
Mount Thorley (Australia)	O/C	SC	11,970	0.50%	44.2	56.6%	25.0
		MC	13,140	0.55%	47.7	56.6%	27.0
<b>CRA total</b>							<b>164.5</b>
<b>CRA grand total</b>							<b>782.8</b>

(a) O/C — Open cut; U/G — Underground.

(b) SC — Steaming coal; MC — Metallurgical coal.

(c) Air dried basis.

(d) Mine Reserves are net of mining and beneficiation losses.

(e) Prima grade coal has less than 10 per cent. moisture, Pinang grade has more than 10 per cent. BTU — British Thermal Unit.

a) Pacific Coal (CRA 100 per cent. owned)

Pacific Coal manages the Blair Athol and Tarong coal mines in Queensland, Australia.

Blair Athol

The Blair Athol mine is operated by Pacific Coal under joint venture arrangements in which CRA has a 57.2 per cent. interest. The other joint venturers are Arco Coal Australia (17.5 per cent.), Arco Resources Limited (13.9 per cent.) and Electric Power Development Corporation/Japan Coal Development Company (11.4 per cent.). Production at this mine began in 1984. Blair Athol has extensive reserves of low sulphur steaming coal in central Queensland. At 31 December 1994, total marketable reserves of steaming coal were 174 million tonnes. Production in 1994 was 9.7 million tonnes. Based on current production levels and mining recoveries, the mine has reserves to support full production for 17 years.

About 60 per cent. of Blair Athol's annual coal production is sold under a 16 year contract with Japanese power utilities that expires in 1999, for a total of 79 million tonnes of coal. Pricing under this contract is market related. The remaining tonnage from the Blair Athol mine is sold under long-term and evergreen agreements in Europe and Asia, and by spot sales in Europe, South-East Asia and South America.

Blair Athol's rights to operate the coal mine are established under two mining leases which expire in November 1999 and April 2003 respectively, with a right to extend each lease for a further 21 years.

## Tarong Coal

Tarong Coal, located at Tarong in south east Queensland, Australia, is wholly owned by CRA and operated by Pacific Coal. Production at the mine began in 1984. The mine and associated coal preparation facility produces approximately 5 million tonnes of steaming coal annually. At 31 December 1994, marketable reserves of coal at Tarong were 252 million tonnes. In 1994, the mine produced 5.2 million tonnes of steaming coal.

All the steaming coal produced by the mine is sold to one customer, the Queensland Electricity Commission ("QEC"), which operates a coal fired power station adjacent to the mine site. The sales to QEC are made pursuant to a long-term contract to supply 66 million tonnes of steaming coal to the power station. QEC has an option for a further 44 million tonnes over an additionally scheduled 14 year period. The price is based on an agreed formula set forth in the contract, which changes according to a number of escalators. At 31 December 1994, 17 million tonnes remain to be supplied under the existing 66 million tonne contract.

Pacific Coal's rights to operate the coal mine at Tarong are established under a mining lease which expires in February 2002, with a right to extend for a further 21 years.

### b) Coal & Allied Industries Limited (CRA 70.7 per cent. owned)

CRA acquired a shareholding in Coal & Allied pursuant to an offer made by it in 1991 to acquire all the issued fully paid ordinary share capital of Coal & Allied. CRA increased its shareholding in Coal & Allied during 1993 from 37.5 per cent to 70.7 per cent. Coal & Allied is listed on the Australian Stock Exchange with a market capitalisation of A\$895.2 million at 14 November 1995. Because three underground mines which produced around 1.5 million tonnes of marketable coal were sold in April 1994, Coal & Allied's total production for the year ended 31 December 1994, was 9.8 million tonnes, 1.8 million tonnes down from 11.6 million tonnes in the previous year.

In the Hunter Valley mines of New South Wales, Coal & Allied produces steaming coal, semi-soft coking coal and soft coking coal from two large open cut mines, and two coal preparation plants. These facilities have a total installed capacity of more than 11 million tonnes of saleable product. All coal operations are wholly owned by Coal & Allied except for the Mount Thorley operation which is an unincorporated joint venture in which Coal & Allied has an 80 per cent. interest, with Pohang Iron & Steel holding the balance.

Coal & Allied sells steaming coal to electric power utilities and/or industrial customers in Europe, Japan, Korea, Taiwan, Israel and Chile and sells coking coal to various steel producers in Asia.

### c) Kaltim Prima (CRA 50 per cent. owned)

PT Kaltim Prima Coal ("KPC") is owned jointly by CRA and the British Petroleum Company p.l.c. of the United Kingdom. The main coal deposit, located 20 km from the coast in East Kalimantan, Indonesia contains marketable reserves of some 306 million tonnes of high quality, low sulphur coal. Operations are conducted under the umbrella of an agreement with the Indonesian Government which entitles the Indonesia state coal company P.T. (Persero) Tambang Batubura Bukit Asam, to receive 13.5 per cent. of the annual production from the mines. The agreement provides for a 30 year operating period, which commenced in January 1992. KPC must offer to sell equity to Indonesian interests according to a specific schedule commencing from the fifth year of the operating period until Indonesian interests hold 51 per cent. of the outstanding equity of KPC.

Mining is by truck and shovel operations and coal is transported by belt conveyor from the coal preparation plant to the company operated port and ship loading facility. The port is an open water terminal capable of loading vessels of up to 200,000 DWT. Coal conveyed increased from 6.8 million tonnes in 1992 to 10.0 million tonnes in 1994. Around 80 per cent. of output marketed by KPC is sold under term contracts with the remaining 20 per cent. sold on the spot market. Around three-quarters of sales are in Asia, predominantly Japan, Taiwan and Hong Kong with the rest of the production marketed in Europe and the USA.

KPC has been profitable since its first full year of production in 1992. 1994 saw continued improvement in financial performance.

The main competitive advantages of this business are the quality of the coal which allows it to be marketed in premium international markets for applications in both the power utility and steel industries; its location near the coast which results in low transport costs; and its proximity to the growing markets of Asia.

d) Novacoal (CRA 100 per cent. owned)

Novacoal is responsible for the management of the Australian steaming coal assets purchased from BP Australia Ltd in 1989, and for the development of some of the CRA Group's steaming coal projects in New South Wales.

The Howick open cut mine and associated coal production facilities are located in the Hunter Valley region of New South Wales. CRA operates Howick under a joint venture in which CRA owns 60 per cent. and Mitsubishi Development Pty. Limited owns the balance. Howick has an annual production capacity of 4 million tonnes of coal. Sales in 1994 totalled 3.6 million tonnes.

Western Main Collieries Pty. Limited ("Western Main") (CRA 100 per cent. owned) had open cut and underground mines located near Lithgow, New South Wales with an annual production capacity of 600,000 tonnes of steaming coal. This mine closed on 31 October 1994 and the assets were sold.

An open cut steaming coal mine known as Vickery (CRA 100 per cent. owned), located near Gunnedah, New South Wales, was officially opened in mid 1992 with a production capacity of 1 million tonnes per annum. Trial shipments have been made to Asian customers and long term contracts have been signed with power utilities including the Korea Electric Power Corporation and Hokuriku Electric Power Company. Vickery produced 674,000 tonnes of steaming coal in 1994.

Novacoal sells approximately 40 per cent. of its production in the Australian domestic market and the balance in export markets. Almost all of the domestic sales are under a long term contract, of around 15 years duration, with the State of New South Wales' public power utility for coal supply to power stations adjacent to Howick. The export sales, which are mainly to the Asian markets, are made under contracts with annual price negotiations.

The coal reserves at Novacoal's mines, and in nearby authorisations held by Novacoal, are capable of supporting production at existing rates for over 20 years at current production levels.

All Novacoal mines operate under Mining Lease Titles granted under the New South Wales Coal Mining Act or the New South Wales Mining Act 1992 and extend until 2013, with a right to extend for a further 21 years subject to gaining supporting Development Consent renewals.

e) Kembla Coal & Coke (CRA 100 per cent. owned)

KCC is responsible for the CRA Group's coking coal mines in the Illawarra regions of southern New South Wales, Australia. Its operations consist of two underground longwall mines, West Cliff and Tahmoor and associated coal preparation facilities, which together have an annual total production capacity of approximately 3 million tonnes of washed metallurgical coal. Based on projected production levels, marketable reserves held by the mines are enough to support full production for at least 10 years. KCC converts some of its coal to metallurgical coke at its coke works which has an annual capacity of 230,000 tonnes of coke.

KCC's output is exported to customers in Japan, Europe, China, India, and other countries in the Asia region. About 60 per cent. of sales are made under evergreen contracts which provide for relatively fixed volumes and annual price negotiations. KCC also markets metallurgical coke from facilities in Hokkaido, Japan under an arrangement with Nippon Steel Chemical Company Ltd, servicing mainly the North American market. KCC is also a joint venture partner in a 280,000 tonne per annum capacity metallurgical coke plant in the Indian state of Goa which utilises KCC coals.

Mineral rights for the KCC operations are granted under the New South Wales Coal Mining Act 1973 until 2012, with opportunities to extend in 21 year periods.

During the first half of 1995, the value of KCC's fixed assets was written down to zero, utilising the CRA Group's asset revaluation reserve, and additional restructuring provisions were raised. This business has been restructured with the intention of restoring its viability.

*(iii) Aluminium*

The CRA Group's bauxite, alumina and aluminium operations are conducted by Comalco, which is 67 per cent. owned by CRA. During 1994 these operations generated approximately 41 per cent. of CRA's consolidated group sales revenues and as at 31 December 1994, accounted for 34 per cent. of CRA's consolidated group assets. In 1994, Comalco contributed approximately A\$186 million of CRA's operating earnings, which compares with A\$83 million in 1993 and A\$95 million in 1992.

Comalco is an international integrated aluminium company which is engaged in the mining of bauxite; the production of calcined bauxite and kaolin; refining bauxite into alumina; smelting alumina into aluminium; processing aluminium by rolling or extruding; and producing finished aluminium products. It markets the products at each stage of its operations to third parties as well as supplying them to its other integrated operations. Comalco produces approximately 22 per cent. of Australia's total bauxite output, 8 per cent. of its alumina and 16 per cent. of its primary aluminium, and is one of Australia's largest producers of rolled aluminium products. Comalco Limited is a publicly listed Australian company in which CRA has a 67 per cent. equity interest, with the remaining equity being held by institutional investors and the public. As at 14 November 1995 the total market capitalisation of Comalco Limited was A\$3.9 billion.

Comalco has bauxite and kaolin mining and processing facilities, and calcined bauxite production facilities at Weipa in Queensland, Australia and has an indirect consortium interest in bauxite mining in Guinea, which is located in West Africa. It also has consortium interests in alumina refineries at Gladstone, Queensland, and Sardinia, Italy and in aluminium smelters which it manages at Boyne Island, Queensland and Tiwai Point, New Zealand. In addition, Comalco owns and operates an aluminium smelter at Bell Bay in Tasmania, Australia. Comalco owns and operates an aluminium wheel manufacturing plant located alongside the aluminium smelter at Bell Bay and semi-fabricating facilities in Australia and New Zealand.

Comalco believes that its best opportunities for creating competitive advantage lie in the upstream sectors of the aluminium industry. Accordingly, its strategic direction is to concentrate future investment towards bauxite mining, alumina refining and aluminium smelting.

The following table shows mine production of bauxite and refinery and smelter production at CRA Group operations for 1992, 1993 and 1994.

MINE PRODUCTION (a)

*(in thousands)*

	1992			1993			1994		
	Mine production	CRA equity share of mine production		Mine production	CRA equity share of mine production		Mine production	CRA equity share of mine production	
<b>Bauxite (beneficiated tonnes)</b>									
Weipa (Australia)	8,702	67.0%	5,830	8,469	67.0%	5,674	8,907	67.0%	5,968

(a) Production of beneficiated bauxite is expressed as saleable ore.

REFINERY AND SMELTER PRODUCTION (a)

(in thousands)

	1992		1993		1994	
	Total production	CRA equity share of production	Total production	CRA equity share of production	Total production	CRA equity share of production
<b>Alumina (tonnes)</b>						
Comalco						
(Australia/Italy)(b)	1,171	67.0%	1,168	67.0%	1,389	67.0%
		<u>784.6</u>		<u>782.6</u>		<u>930</u>
<b>Aluminium (tonnes)</b>						
Comalco (Australia/ New Zealand)(c)	383.6	67.0%	421.7	67.0%	432.8	67.0%
		<u>257.0</u>		<u>282.5</u>		<u>289.9</u>

(a) Figures represent refined metal except for aluminium production data which refers to smelter production of primary aluminium.

(b) Includes Comalco's equity share of alumina production from consortia refineries.

(c) Includes Comalco's equity share of primary aluminium production from consortia smelters.

The following table shows estimates of proved ore reserves of bauxite at Weipa as at 31 December 1994. The Weipa mine is located in Australia.

ESTIMATED RESERVES OF BAUXITE (a)

(in millions)

	Type of mine(b)	Proved ore reserves		Approximate mill recovery	CRA interest	CRA equity share of recoverable bauxite(c)
		Ore tonnage	Grade			
<b>Bauxite (beneficiated) (tonnes)</b>						
Weipa (Australia)	O/P	230	(d)	(d)	67.0%	<u>154</u>

(a) Reserves are net of dilution and mining losses.

(b) O/P — Open pit.

(c) CRA's equity share of reserves is expressed as recoverable reserves of saleable ore.

(d) The figures for bauxite ore shown in the ore tonnage column are recoverable reserves of saleable product, i.e. after mining and processing losses. Grades and recoveries are therefore not shown in this table.

Bauxite

Bauxite is the principal ore of alumina (aluminium oxide), the primary raw material from which aluminium is made. Comalco has mining rights to a very large deposit of bauxite located on the coast at Weipa in north Queensland. The bauxite at Weipa occurs as essentially flat lying deposits under a thin soil cover. The deposits range from one to nine metres in thickness. Commercial production commenced at Weipa in 1963. At 31 December 1994, proven and probable ore reserves of saleable bauxite ore were estimated to be 230 million tonnes, net of processing losses. There is additional bauxite resource of the order of 3.6 billion tonnes with an average alumina content of greater than fifty per cent. Weipa is currently configured to produce up to about 11 million tonnes of bauxite per annum. Production capacity can be increased with modest additional capital expenditure.

In order to mine the bauxite, the land is cleared by bulldozers and the overburden is removed with scrapers. After the ore is removed, the land is reclaimed and replanted with indigenous vegetation. The bauxite ore is transported a short distance by truck or rail to the port of Weipa, where it is crushed and screened to produce beneficiated bauxite prior to shipping. Approximately 91 per cent. of Weipa's bauxite output is sold under long-term contracts to participants in the two alumina refineries in which Comalco has consortium interests for processing at those facilities: 80 per cent. is processed at Queensland Alumina Limited ("QAL") and 11 per cent. at Eurallumina S.p.A. ("Eurallumina"). The balance of production is sold mainly to other aluminium companies.

In addition a special grade of bauxite in the Weipa deposit is calcined to produce a bauxite product suitable for the manufacture of abrasives. Production capacity is about 200,000 tonnes per annum. This product is exported, primarily to the United States and Europe.

The Weipa resource also includes kaolin four to five metres below the bauxite. Kaolin is a naturally occurring fine particle size clay mineral which is used in the production of high quality coated paper. A processing plant at Weipa produces paper coating kaolin for markets principally in the Pacific Basin. The capacity of this plant has recently been expanded to 200,000 tonnes per annum.

Comalco's rights to the bauxite and kaolin resources are contained in the Weipa bauxite lease and under an agreement with the State Government of Queensland under which the lease was established. The lease covers approximately 2,513 square kilometres and runs to year 2041 with Comalco having an entitlement to obtain a 21 year extension upon similar terms except that rent and royalties payable under the lease during the extension will be as the Government determines to be equitable. After the expiration of the 21 year extension the lease continues until termination by either party on 2 years' notice. Comalco's obligations under the agreement and the lease extend to the conduct of the mining operation and the subsequent rehabilitation of the land.

In addition to Weipa, through its involvement in Halco (Mining) Inc., Comalco has an entitlement to 8 per cent. of the bauxite output from the Boké bauxite mine in Guinea, West Africa ("Boké"), which produces about 11 million tonnes of bauxite annually. Comalco's bauxite entitlement will reduce to 4 per cent. of the annual output by the end of 1995, when 50 per cent. of Comalco's shareholding in Halco (Mining) Inc. is to be sold to Alumina Espanola S.A.

Comalco is a participant in bauxite joint ventures at Mitchell Plateau and Cape Bougainville in Western Australia. Its interests in these joint ventures are 61.7 per cent. and 67.5 per cent. respectively. The interest in Mitchell Plateau will increase to 65.6 per cent. on 1 January 1996 after the withdrawal of one of the current participants. The Mitchell Plateau tenements, called "temporary reserves", expired on 30 June 1995, and Comalco lodged an application for a ten year extension in May 1995. The Cape Bougainville tenements are mining leases which expire in the year 2006. There are no present plans to develop either of these resources.

#### Alumina

Alumina is extracted from bauxite by means of a chemical refining process and is the principal raw material in the electro-chemical smelting process by which aluminium is produced. Comalco obtains most of its alumina from the QAL and Eurallumina refineries. These refineries were established on a production sharing basis pursuant to contractual joint ventures with other aluminium companies. In each case, the refinery is owned by an incorporated company in which each of the participants has an equity interest. The joint venture companies operate the refineries to toll (convert) the bauxite into alumina for the participants who retain ownership of the bauxite and alumina throughout the process and who pay a tolling charge to the joint venture company. Under the consortium agreements pursuant to which the joint venture companies are established, the participants have "take or pay" obligations to ensure that the costs of tolling are met by the participants. Any additional finance required by the joint venture companies is provided substantially by loans which are either arranged directly by the companies or by the participants. Debt servicing obligations are met through the tolling payment requirements and the obligation of the participants to advance payments against future tolling charges.

The QAL consortium agreement runs to the year 2008 with provision for extension by any participant who wishes until the year 2013. The Eurallumina consortium agreement terminates in 1998 although participants have the right to extend for a further 5 years. The consortium agreements also govern the participants' rights and obligations in connection with certain expansions of the tolling facilities. Expansion beyond the present capacities require the agreement of all participants in the relevant consortium.

QAL's alumina refinery is located at Gladstone in Queensland. The participants are Comalco (30.3 per cent.), Alcan South Pacific Limited ("Alcan") (21.4 per cent.), Pechiney Resources Pty Limited ("Pechiney") (20.0 per cent.), and Kaiser Alumina Australia Corporation ("Kaiser") (28.3 per cent.). The present total production capacity of the QAL refinery is about 3.3 million tonnes per annum. Production capacity has been established in five separate stages. Because the degree of participation in each of these stages varies among the participants, for accounting and financial purposes, these stages are treated notionally as five discrete plants. Notwithstanding the foregoing, as an operational matter, the QAL plant operates as an integrated single plant in tolling the bauxite owned by the participants.



Kaiser, Alcan and Pechiney have long-term agreements with Comalco for the supply of their bauxite for processing at QAL.

Eurallumina's refinery is located at Sardinia, Italy and the current participants are an Italian State entity, Alumix S.p.A. ("Alumix") (52.1 per cent.), Comalco (26.9 per cent.) and Clarendon Limited ("Clarendon") (21.0 per cent.).

Alumix supplies 50 per cent. of its bauxite requirements for Eurallumina from its own resources at Boké. Comalco supplies the balance of the bauxite processed at the refinery from its resources at Weipa and Boké to the refinery participants, in the case of Alumix under long term Weipa bauxite agreements, due to terminate in 1998, for their remaining 50 per cent., and in the case of Clarendon under separate supply agreements.

On 18 July 1992, the parent company of Alumix, EFIM, was placed in receivership by its owner, the Italian Government through a gazetted decree. The assets of Alumix are currently being offered for sale but, so far as Comalco is aware, no offer has yet been received for Alumix's share in Eurallumina. Given the uncertainty relating to Alumix's interest in Eurallumina, it is not certain that it will continue to perform as a participant in that consortium through to 1998 or beyond although it may do so.

### Aluminium

Aluminium is produced by means of an electro-chemical process in which alumina is smelted through the continuous application of direct current electricity. The electro-chemical reduction process is carried out in a series of refractory lined steel cells. Alumina is dissolved in molten cryolite in the cells through which an electrical current is passed via carbon cathodes and anodes, the latter being consumed during the process. Molten aluminium metal formed on cathodes within each cell is withdrawn at regular intervals before being cast into various shapes. Alloying with the addition of elements such as silicon is also practised.

Comalco obtains most of its aluminium from the two aluminium smelters in which it has consortium interests at Boyne Island, Queensland and Tiwai Point, New Zealand, and from the smelter it owns and operates at Bell Bay, Tasmania. The aluminium smelters at Boyne Island and Tiwai Point were established on a production sharing basis pursuant to contractual joint ventures with other aluminium companies in a manner similar to the alumina refining consortium arrangements described above. In each case, the smelter is owned by an incorporated company in which each of the participants has an equity interest, Boyne Smelters Limited ("BSL") in the case of Boyne Island and New Zealand Aluminium Smelters Limited ("NZAS") in the case of Tiwai Point. These joint venture companies own and operate the smelters in which alumina is tolled (converted) into aluminium for the participants. The latter, who retain ownership of the alumina and aluminium throughout the process, pay a tolling charge to the joint venture company to cover costs.

Comalco provides all the alumina tolled through BSL and NZAS pursuant to long term supply contracts that are coextensive with the operating term of the consortium and related power agreements. Comalco's equity share of production of alumina from the QAL and Eurallumina refineries, at present, is approximately in balance with its alumina supply commitments to BSL, NZAS and the Bell Bay smelter (discussed below). System imbalances which occur from time to time are covered by purchases from, or sales to, third parties.

BSL established its smelter at Boyne Island, Queensland at a site adjacent to the QAL alumina refinery site. This allows Comalco to provide alumina to the participants by conveyor from the QAL refinery. This smelter now has an annual rated production capacity of 260,061 tonnes and in 1994 produced 240,751 tonnes of metal. On 1 September 1993, Comalco increased its shareholding in BSL to 50 per cent. from 30 per cent. The other participants in the existing smelter are SLM Australia Pty. Limited (17 per cent.), Kobe Aluminium (Australia) Pty. Limited (9.5 per cent.), Ryowa Development Pty. Limited (9.5 per cent.), YKK Aluminium (Australia) Pty. Limited (9.5 per cent.) and Sumitomo Chemical Co. Limited (4.5 per cent.). The beneficial interests in the third potline expansion differ from the existing interests. Comalco has a 59.25 per cent. interest in the potline expansion. Its overall interest in the expanded smelter will be 54.2 per cent. The third potline is expected to be commissioned in early 1998. Comalco manages the

operations of BSL's smelter under an agreement which provides for the reimbursement of Comalco's expenses and the payment of a fee to Comalco for management and technical services. Comalco has also entered into agreements with BSL for the provision of both Comalco technology and technology which it has obtained from other aluminium companies.

On 30 March 1994, purchase of electricity for the Boyne Island smelter on a take or pay basis from the Queensland Electricity Commission ceased. Comalco and other investors formed an unincorporated joint venture and entered into agreements with the Queensland Government and the Queensland Electricity Commission for the purchase of the Gladstone Power Station ("GPS") for a price of A\$750 million. The ownership of the power station is held through special purpose subsidiaries. The ultimate ownership of the GPS is as follows: Comalco (42.125 per cent.), NRG Energy, Inc. (37.5 per cent.), Mitsubishi Corporation (4.75 per cent.), Mitsubishi Materials Corporation (2.375 per cent.), Sumitomo Corporation (4.0 per cent.), Sumitomo Light Metal Industries Ltd (0.5 per cent.), Marubeni Corporation (4.0 per cent.), and Yoshida Kogyo KK (4.75 per cent.). NRG Energy, Inc., a US-based power company and a subsidiary of Northern States Power, operates the power station on behalf of the equity owners. In the future, institutional investors may be approached to purchase part of the equity held by Comalco and NRG.

Comalco has undertaken to the Queensland Electricity Commission (now the Queensland Transmission and Supply Corporation) to retain at least 20 per cent. of the GPS equity.

In conjunction with the purchase of the GPS, it is proposed that the Boyne Island smelter be expanded by the construction of a third potline of about 217,000 tonnes per annum capacity. Comalco and the other participants in the expansion plan began physical construction of the potline in June 1995.

The Boyne Island smelter has contracted to purchase on a take or pay basis, for at least the next 30 years, electricity from the GPS for the existing smelter as well as the expansion. The GPS will remain interconnected with the Queensland electricity grid.

NZAS's aluminium smelter has an annual production capacity of about 270,000 tonnes. The participants in NZAS are a wholly owned subsidiary of Comalco (79.4 per cent.) and Sumitomo Chemical Co. Limited (20.6 per cent.). Comalco manages the operations of the smelter and provides general and specific technical services and technology. Comalco is reimbursed in accordance with the provisions of the relevant agreements with NZAS for the cost of the services which are provided.

During September 1995, Ord Minnett was appointed as organising broker for the possible listing of Comalco New Zealand Limited on the New Zealand Stock Exchange.

Up until June 1994, the NZAS smelter received most of its electricity under two long take or pay agreements with the Electricity Corporation of New Zealand Limited ("ECNZ"), which is wholly owned by the New Zealand Government.

In August 1993, Comalco concluded new electricity supply agreements with ECNZ. One new agreement replaces the existing short term agreement and provides for up to about 60 megawatts of electricity for the smelter, in addition to the 483.75 megawatts provided under the two long term arrangements increasing the smelter entitlement to 543 megawatts. All three agreements run to 31 December 2012, with provision for Comalco and Sumitomo Corporation to extend them to 31 December 2022, giving the basis for a major programme of technical upgrading at the NZAS smelter.

In June 1994, Comalco and Sumitomo Corporation ratified the new agreement and accepted new electricity supply arrangements, with effect from 1 April 1994, and committed to the technical upgrade of the NZAS smelter. The upgrade includes improved performance from the existing cells, and the installation of about 50 additional cells. Smelter capacity will increase initially to around 313,000 tonnes per annum. A NZ\$480 million upgrade of the NZAS smelter is currently in progress.

The Bell Bay smelter, where Comalco is the operator and holds 100 per cent. of the voting stock, is located on Tasmania's north coast and has an annual rated production capacity of 125,000 tonnes. The smelter was originally established 38 years ago and is the oldest aluminium smelter in Australia. The age of its current technology is such that the smelter will need modernisation within the near future if it is to remain competitive. On 4 February 1994, Comalco announced a reduction in capacity of about 30,000 tonnes, equivalent to one of the smelter's three potlines, in order to rationalise operations and reduce its losses.

The electricity for the Bell Bay smelter is purchased on a take or pay basis from the HydroElectric Commission of Tasmania under an agreement expiring in 2001. Options to extend the agreements were not exercised. An in principle agreement between Comalco, the Tasmanian State Government and the Hydro Electric Commission to secure a long term competitive power supply for the Bell Bay smelter was reached in November 1995. The new power supply arrangements, if formalised, will provide a secure supply of power to the smelter until 31 December 2014. This effectively extends the life of the smelter to 2014, and if the agreement is formalised, it is likely that over the next five years Comalco will spend A\$200 million on the upgrade of its Bell Bay operations.

Electricity is a major cost component of aluminium smelting, and the success of Comalco's existing smelting operations, and the potential for any future expansion, will depend upon Comalco's ability to maintain, and to obtain additional, secure and competitive long term power arrangements.

More than half of Comalco's aluminium production is exported from Australia and New Zealand, mainly to Japan, Korea, Taiwan, Thailand and other southern Asian destinations. The remainder is sold on the domestic markets to independent customers, to Comalco's wholly owned rolling plants in New South Wales, Australia, to Comalco's extrusion plants around Australia (the sale of which plants is discussed below) and in New Zealand, to Comalco's wheel casting plant in Tasmania, Australia and to Comalco's aluminium powder plant in Tasmania.

#### Aluminium Products

On 23 October 1995 Comalco Limited announced that it had entered into an agreement with Capral Aluminium Limited for the sale of its Australian aluminium extruded products business. Comalco Extruded Products has manufacturing operations at Minto and Yennora in New South Wales, Hemmant in Queensland and Belmont and Canning Vale in Western Australia and a national distribution network with twelve service outlets for its extruded and flat sheet products. Total proceeds for the business will exceed book value.

Comalco is continuing discussions with other parties for the sale of its rolled products business.

At plants at Bell Bay, Tasmania, Comalco produces cast aluminium automotive wheels for domestic and export sales, as well as aluminium powder and paste products. In New Zealand, Comalco has a 50 per cent. share of Comalco-CHH Aluminium which has an extrusion operation and national franchising network for mainly aluminium products. Comalco is at an advanced stage in negotiating the sale of its 50 per cent. share of Comalco-CHH Aluminium.

In the United States, from 1985 to March 1995, Comalco owned and operated an aluminium rolling mill in Lewisport, Kentucky. The mill produces aluminium sheet and coil from primary and secondary metal. The mill has a production capacity of 260,000 tonnes per annum with a recycling capacity of 100,000 tonnes per annum. Sales in 1994 were approximately 254,200 tonnes. On 10 March 1995, Comalco sold 87.5 per cent. of Commonwealth Aluminium Corporation ("CAC") through a public offer conducted in the United States. This returned Comalco US\$172.5 million. The remaining 12.5 per cent. of the share capital of CAC was sold by 31 July 1995, and Comalco received approximately US\$22.9 million. Total gross proceeds from the divestment of CAC were about US\$195.4 million.

#### **(c) Other operations and investments**

##### *(i) Gold and copper*

The CRA Group investments in gold and copper operations are held through Kelian (CRA 90 per cent. owned), Peak (CRA 100 per cent. owned) and Southern Copper (CRA 100 per cent. owned). CRA increased its equity in Southern Copper from 60 per cent. to 100 per cent. on 22 December 1994. As noted in paragraph (i)(c) below, Southern Copper ceased operations in January 1995 and is now on a care and maintenance basis. In addition, CRA has a 53.6 per cent. interest in BCL located on Bougainville Island in Papua New Guinea, which conducted copper, gold and silver operations from 1972 until it suspended operations in May 1989 as a result of civil unrest and law and order problems. In 1994, the gold and copper operations accounted for approximately 9 per cent. of CRA's consolidated group sales revenues and 8 per cent. of its consolidated group assets as at 31 December 1994. In 1994, gold and copper operations contributed A\$43 million of CRA's operating earnings, which compares with A\$75 million in 1993 and A\$25 million in 1992.

The following tables show mine production and refinery and smelter production of gold and copper for 1992, 1993 and 1994.

#### MINE PRODUCTION (a)

(in thousands)

	1992		1993		1994	
	Mine production	CRA equity share of mine production	Mine production	CRA equity share of mine production	Mine production	CRA equity share of mine production
<b>Gold (ounces)</b>						
Peak (Australia)(b)	15	100.0%	15	122	100.0%	122
Kelian (Indonesia)(c)(d)	467	90.0%	421	464	90.0%	418
<b>CRA total</b>			<u>436</u>		<u>540</u>	<u>494</u>

(a) Production figures represent metals in concentrates or metals in ore.

(b) Commercial production commenced during the third quarter of 1992 and the mine officially opened on 1 October 1992.

(c) Commissioning of Kelian was completed in April 1992. The mine reached design capacity during the second quarter of 1992.

(d) Figures for the twelve months ended 31 December 1992 include production during the Kelian commissioning phase.

#### REFINERY AND SMELTER PRODUCTION (a)

(in thousands)

	1992		1993		1994	
	Total production	CRA equity share of production	Total production	CRA equity share of production	Total production	CRA equity share of production
<b>Copper (tonnes)</b>						
Southern Copper (Australia)(b)	43.9	60.0%	26.3	52.1	60.0%	31.3
			<u>26.3</u>		<u>31.3</u>	<u>32.2</u>

(a) Figures represent refined metal.

(b) CRA increased its equity in Southern Copper from 60 per cent. to 100 per cent. on 22 December 1994.

The following table shows estimates of proved ore reserves and probable ore reserves of gold as at 31 December 1994.

#### ESTIMATED PROVED AND PROBABLE RESERVES OF GOLD (a)

(in millions)

	Type of mine(c)	Proved and probable reserves		Approximate mill recovery	CRA interest	CRA equity share of recoverable Gold(d)
		Ore tonnage (tonnes)	Grade			(ounces)
<b>Gold</b>						
Kelian (Indonesia)(b)	O/P	27.7	1.49g/t	100%	90.0%	1.2(e)
Peak (Australia)	U/G	3.5	7.10g/t	96.0%	100.0%	0.791
<b>CRA total</b>						<u>1.991</u>

(a) Reserves are net of dilution and mining losses.

(b) Kelian quotes its grade as recoverable gold.

(c) O/P - Open pit; U/G - Underground.

(d) Although principally a gold deposit, Peak also contains recoverable reserves of copper, zinc, lead and silver. The full reserve is 3.5 million tonnes of ore at 7.1 grammes/tonne gold, 5.0 grammes/tonne silver, 0.6 per cent. copper, 0.8 per cent. lead and 0.9 per cent. zinc.

(e) This figure is based on the pre-production ore body model from which the project's original ore reserve statement dated 22 January 1990 was derived. The ore body model is scheduled to be revised in the first quarter of 1996 following an in-fill drilling programme begun in 1994. See (bb) below.

#### a) Peak Gold Mines (CRA 100 per cent. owned)

Peak operates an underground gold mine and treatment plant at Cobar in New South Wales, Australia. The mine commenced production in mid-1992. Recoverable reserves as at 31 December 1994 were

estimated at 3.5 million tonnes, containing 7.1 grammes per tonne gold, 5.0 grammes per tonne silver, 0.6 per cent copper, 0.8 per cent. lead and 0.9 per cent. zinc. Production in 1994 was 499,073 tonnes of ore, containing 7.7 grammes per tonne of gold, 7.6 grammes per tonne of silver, 1.1 per cent. of copper, 1.2 per cent. lead and 0.8 per cent. zinc.

Gold production in 1994 was 120,084 ounces, with 104,172 ounces contained in bullion and the balance in concentrates. In addition, 15,922 tonnes of copper concentrate, 1,216 tonnes of lead concentrate and 1,340 tonnes of zinc concentrate were produced.

Bullion is refined locally and sold through bullion banks. Concentrates are sold to domestic smelters or exported.

b) Kelian (CRA 90 per cent. owned)

PT Kelian Equatorial Mining ("Kelian") is a company incorporated in Indonesia, owned by CRA (90 per cent.) and PT Harita Jayaraya (10 per cent.) of Indonesia. Kelian operates an open pit gold mine located in East Kalimantan, Indonesia. Gold is extracted from the ore by the cyanide leaching process. Construction and commissioning of the mine was completed in the first quarter of 1992 and production began in January 1992.

As at 31 December 1994, CRA's equity share of recoverable gold reserves at Kelian is estimated to be 1.2 million ounces. This figure is based on the pre-production ore body model from which the project's original ore reserve statement, dated 22 January 1990, was derived. The ore body model is scheduled to be revised in the first quarter of 1996 following an in-fill drilling programme. As a consequence of various factors, actual annual gold production to date (1992: 467,271 ounces; 1993: 463,716 ounces; 1994: 432,871 ounces) has been higher than estimated in the 1989/1990 Final Feasibility Study. These factors include: optimisation of the mine plan, changes to production rates, higher average gold head grades (average approximately 3.0 grammes per tonne to 31 December 1994) and higher average recoverable gold grades (average approximately 2.2 grammes per tonne to 31 December 1994) than predicted in the pre-production ore body model.

The mining of the Kelian deposit is constrained to the north east by the Kelian river. Additional gold resource has been indicated by diamond drilling beneath the Kelian river to the north east of the East Prampus ore body. Kelian has applied for Government approvals to divert the river into an excavated channel to the north of the pit and expand the pit to gain access to the additional resource. The approvals were granted in July 1995. The resource is estimated to contain an additional 13.8 million tonnes at a recoverable gold grade of 2.5 grammes per tonne accessible by open pit mining. Including proven and probable reserves and the indicated resource (on the assumption that it is mineable) the mine is currently scheduled to operate until 2004.

Title to the project is held under a contract of work dated 27 February 1985, between Kelian and the Government of the Republic of Indonesia. The contract of work provides for a 30 year operating period which commenced on 1 January 1992. Under the terms of the contract of work, Kelian must offer to sell equity to Indonesian interests according to a specific schedule commencing from the fifth year of the operating period until Indonesian interests hold 51 per cent. of the outstanding equity of Kelian. The 10 per cent. equity already held by Indonesian interests constitutes part satisfaction of these obligations.

c) Southern Copper (CRA 100 per cent. owned)

In November 1994, Southern Copper announced that its copper smelter and refinery at Port Kembla, New South Wales would be placed on care and maintenance progressively from January 1995. Minimum further expenditure of A\$120 million for environmental upgrading and up to A\$130 million for expansion of the plant was not supported by all shareholders.

On 22 December 1994 CRA increased its equity in Southern Copper from 60 per cent. to 100 per cent.

In 1994 the market price for treatment and refining decreased significantly, at the same time the Australian dollar strengthened, contributing to Southern Copper operating at a loss despite efforts to achieve international competitiveness.

The plant ceased operations in January 1995 and most of the workforce were retrenched on 5 February 1995. The plant is now on a care and maintenance regime.

d) Bougainville Copper (CRA 53.6 per cent. owned)

BCL, a Papua New Guinea company listed on the Australian Stock Exchange, had a market capitalisation of A\$248.7 million as at 14 November 1995. CRA and the Independent State of Papua New Guinea own 53.6 per cent. and 19.1 per cent. of BCL's shares, respectively, and the balance is publicly held.

BCL commenced production as a large open pit copper mine and processing facility at Panguna, Bougainville Island in 1972. Operations at the BCL mine were suspended on 15 May 1989, following periods of disruption to mine production resulting from militant action by disaffected residents seeking, among other things, an additional share of revenue generated from the mine. Subsequently, the militants sought the separation of Bougainville Island from Papua New Guinea, and the resulting militant action led to a breakdown of law and order. Progressive restoration of normal government services on Bougainville is taking place. Although there has been no final resolution to the conflict, the national government is making some progress in establishing a process which would assist in achieving peace and normal conditions on the island.

Due to the uncertainty surrounding the BCL operation, the BCL copper and gold reserves have not been included in the "Estimated Reserves at Metal Mines" table above. As at May 1989, based on mill recoveries of 88 per cent. for copper and 71 per cent. for gold, CRA's equity share of recoverable reserves was 1,304,000 tonnes of copper and 3,974,000 ounces of gold.

The directors of BCL have stated that in their view the economic viability of resumed operations would depend upon a number of factors which they cannot accurately predict at present, including the cost of re-commissioning, likely future operating costs, Government and community requirements, funding arrangements and the economic outlook at the time. However, they have also stated their intention is that, subject to economic viability, if and when conditions on Bougainville Island permit, BCL will resume operations. It is not possible at present to determine when this might be achieved or the degree of damage and deterioration to assets which might have occurred during the period of suspension of operations.

The accounts of BCL have not been consolidated with those of the rest of CRA from 1990, because of the inability to examine or monitor the condition and assess the value of the assets of BCL. Although CRA expects that mining operations will eventually resume, it is not currently possible to estimate the value of its investment with any precision. Therefore, in CRA's 1991 accounts a full provision was made against CRA's investment in BCL, which at 31 December 1991, was A\$267 million. This amount remains unchanged.

(ii) Diamonds

CRA has a 59.7 per cent. beneficial interest in Argyle. Ashton Mining Limited has a 40.1 per cent. beneficial interest in Argyle with the balance (0.2 per cent.) being held by the public through its interests in the Western Australian Diamond Trust. In 1994, the diamond operations group sales revenue accounted for approximately 5 per cent. of CRA's consolidated group sales revenues and group assets accounted for 6 per cent. of the consolidated group assets. In 1994 diamonds contributed A\$77 million of CRA's operating earnings, which compares with A\$107 million in 1993 and A\$139 million in 1992.

The following table shows production of diamonds at Argyle for 1992, 1993 and 1994:

DIAMOND PRODUCTION

(in thousands)

	1992		1993		1994				
	Total production	CRA equity share of production	Total production	CRA equity share of production	Total production	CRA equity share of production			
Diamonds (carats)									
Argyle (Australia)	39,002	59.7%	23,271	40,883	59.7%	24,394	42,805	59.7%	25,541

The following table shows proved ore reserves and probable ore reserves of diamonds at Argyle at 31 December 1994.

#### ESTIMATED PROVED AND PROBABLE RESERVES OF DIAMONDS

(in millions)

	Type of reserve (a)	Proved and probable reserves(b)	CRA interest	CRA equity share of reserves (b)
<b>Diamonds (carats)</b>				
Argyle (Australia)(c)	O/P	257.5	59.7%	153.7

(a) O/P — Open pit

(b) Reserves are expressed in terms of the recoverable quantities of saleable product, i.e. after all mining and processing losses.

(c) Reserves include both hard rock and alluvial reserves.

The Argyle mine is located in the Kimberley region of Western Australia and is operated and managed by the CRA Group. Production from Argyle's major resource, the AK1 kimberlite pipe, began in 1985. Output from the AK1 pipe in 1994 was 39.7 million carats recovered from 7.8 million tonnes of ore. Total proved ore reserves and probable ore reserves from the AK1 pipe as at 31 December 1994 were 74.8 million tonnes of ore at an average grade of 3.3 carats per tonne, containing 246.8 million carats of recoverable and saleable diamonds. The AK1 ore grade will decline as Argyle mines deeper into the deposit.

Alluvial production in 1994 was 3.1 million carats. Total alluvial proved ore reserves and probable ore reserves as at 31 December 1994, were 20.9 million tonnes of ore at an average grade of 0.51 carats per tonne, containing 10.7 million carats of recoverable and saleable diamonds.

In 1991, following a comprehensive review of options, the Argyle Diamond Mines Joint Venture parties agreed new marketing arrangements, and a five year contract renewal with the Central Selling Organisation ("CSO") was signed, effective from 1 July 1991. Under this contract Argyle is committed to sell a substantial quantity of its diamonds to the CSO, which markets the majority of the world's natural diamond production. Due to weak market conditions, the CSO declared its intention to reduce purchases by 25 per cent. from 1 September 1992. In 1993 market conditions improved and the reduced purchases rate was set at 15 per cent. from July 1993.

Subject to the withholding of a portion of Argyle's production for further processing in Australia and overseas, the balance of Argyle's rough diamonds is sold on the open market through its office in Antwerp, Belgium.

On 2 October 1995 Argyle announced that a decision had been taken to change aspects of the diamond recovery process within the Argyle AK1 ore treatment plant. Argyle will no longer recover low value diamonds of less than 1.5mm in size.

This change to the diamond recovery process will allow the treatment plant capacity to be increased by about 1 million tonnes per annum. While actual carats recovered will fall by 15 per cent. per annum, the annual value of the AK1 production will increase by 10 per cent. owing to an increase in the average size of diamonds recovered. The value for the total Argyle project will improve as a result. Open pit life is expected to be only marginally reduced by this change.

The joint venture parties hold their major mining tenement under the authority of the Diamond (Argyle Diamond Mines Joint Venture) Agreements Act 1981-83. The mining lease expires in 2004, and the parties have a right to extend for a further 21 years.

#### (iii) Zinc, lead and silver

During 1994 the CRA Group's interest in zinc, lead and silver operations were held through Pasmenco. As at 30 June 1995, CRA retained a 10 per cent. interest in Pasmenco after having placed 38.9 per cent. of Pasmenco with domestic and offshore institutional investors in May last year. On 25 August 1995, CRA sold

its remaining 10 per cent. interest in Pasminco. Proceeds from the sale were A\$135 million and a profit of A\$56 million was achieved. This transaction will be reported in CRA's 1995 full year results.

The following tables show mine production and refinery and smelter production of zinc, lead and silver for 1992, 1993 and 1994.

#### MINE PRODUCTION (a)

(in thousands)

	1992		1993		1994	
	Mine production	CRA equity share of mine production	Mine production	CRA equity share of mine production	Mine production	CRA equity share of mine production
<b>Silver (ounces) (b)</b>						
Peak (Australia)(c)	4	100.0%	4	24	100.0%	24
Kelian (Indonesia)(d)(e)	493	90.0%	444	395	90.0%	355
<b>CRA total</b>		<u>448</u>		<u>379</u>		<u>341</u>

(a) Production figures represent metals in concentrates or metals in dor.

(b) Peak and Kelian are predominantly gold producers.

(c) Commercial production commenced during the third quarter of 1992 and the mine officially opened on 1 October 1992.

(d) Commissioning of Kelian was completed in April 1992. The mine reached design capacity during the second quarter of 1992.

(e) Figures for the twelve months ended 31 December 1992 include production during the Kelian commissioning phase.

#### REFINERY AND SMELTER PRODUCTION (a)

(in thousands)

	1992		1993		1994	
	Mine production	CRA equity share of production	Mine production	CRA equity share of production	Mine production	CRA equity share of production
<b>Silver (ounces)</b>						
Southern Copper (Australia)(b)	807	60.0	484	767	60.0	460

(a) Figures represent refined metal.

(b) In December 1994, CRA increased its equity in Southern Copper from 60 per cent. to 100 per cent.

#### a) Century (CRA 100 per cent. owned)

Century is a zinc, lead and silver deposit discovered in north west Queensland in 1990. During 1991 and 1992, detailed drilling defined the geometry of the two predominantly flat lying mineralised layers of the deposit.

In 1993, metallurgical test work was carried out on a sample of ore mined from a trial shaft sunk in the deposit. The success of that trial initiated further metallurgical test work; this and more detailed commercial studies led to a decision by CRA to proceed to final feasibility.

This resulted in construction of bulk sample plant designed to produce around 5,000 tonnes of zinc concentrate for comprehensive testing in 1994 to 1995; and the development of a Draft Impact Assessment Study as an initial step in achieving government approval for the project. It is anticipated that final internal approval for the project will be sought in late 1995. As stated in the CRA Limited 1994 Statutory Report and Financial Statements, an Indicated Resource of 10.2 per cent. zinc, 1.5 per cent. lead and 35 grammes/tonne silver has been estimated, at a minimum grade of a calculated 3.0 per cent. zinc equivalent.

It is currently proposed that production of concentrates will commence by the end of 1997. Annual output is expected to be up to 450,000 tonnes of zinc metal in concentrate, up to 74,000 tonnes of lead in concentrate, and up to 200 tonnes of silver in lead and zinc concentrates.





#### d) Argentine Potash Deposit

CRA Group entered into an Option Agreement earlier this year to purchase a controlling share of a large undeveloped potash deposit, located in the Province of Mendoza in Argentina. Pre-feasibility studies are in progress to assess this business opportunity.

#### *(vi) Non-Mining Activities*

CRA has an interest in a variety of other operations which include Conzinc Asia Pty. Limited (CRA 100 per cent.) which has trading offices in Asia; an industrial components business (CRA 100 per cent.) which manufactures grinding balls and corrosion and wear resistant components; Minenco Pty. Limited (CRA 100 per cent.) which is a project management and engineering consulting company and research and development centres located in Perth and Melbourne, Australia. All segments of the industrial components business have either been sold or are being offered for sale.

#### **(d) Employees**

As at the end of 1994, the CRA group (including subsidiaries and managed joint-ventures) employed over 17,900 people world-wide. Most of the CRA Group operations take place in Australia, where about 13,900 people are employed.

The CRA Group is a highly decentralised organisation where managing directors of businesses exercise a large degree of delegated authority and discretion, within broad guidelines. Responsibility for employee relations resides with the businesses as part of the Group's strategy to improve business performance.

In Australia, most operations have traditionally had collective employee relations based on the business or individual operating site. These arrangements have, in most cases, been negotiated locally. Increasingly, however, collective arrangements have been superseded by individual contracts of employment on staff conditions for a substantial majority of employees. Staff employment conditions subsume and exceed the minimum standards of wages and conditions set by various industrial tribunals in Australia. Significant productivity gains have followed the shift from collective to staff employment arrangements. Staff employment has, in recent years, been extended to employees traditionally employed under collective arrangements at Hamersley Iron, Comalco Minerals and Alumina at Weipa, Comalco Smelting at Bell Bay, the Peak Gold Mine and Argyle Diamonds. In some cases, notably Bell Bay, the extension of staff employment has given rise to proceedings before the Australian Industrial Relations Commission.

In the CRA Group's Australian coal operations, industry-wide wages and working conditions have been set by the Australian Industrial Relations Commission since July 1995, but within this framework local agreements have also been negotiated which provide for greater flexibility of work and improved productivity.

From time to time industrial disputes occur. These are generally of a short term nature. In June 1992, production at Hamersley was halted for 13 days over a dispute concerning compulsory union membership. The dispute resulted in the cancellation of some shipments. In July 1992, the Supreme Court of Western Australia granted industrial disputation. Hamersley has instituted legal proceedings against the union and some individuals closely involved in the dispute, claiming damages in excess of A\$48 million. There has also been sporadic recent intermittent industrial action at Comalco Smelting's Boyne smelter over the negotiation of an agreement for the site over the past 12 months which has not affected production. At Novacoal's Vickery Mine there has been an extended strike since August 1995 over employment conditions. There is ongoing industrial action at Comalco's Weipa site over employment conditions for non-staff employees. CRA coal operations have recently become affected by the industrial action, as the Australian Council of Trade Unions has encouraged CRA's coal employees to take industrial action in support of the action at Weipa.

In New Zealand employees at NZAS have worked under staff employment conditions since September 1991. This move to individual contracts has been associated with significant productivity gains.

Local law and custom is observed in relation to the determination of wage rates and conditions of work at the CRA Group's other overseas operations.

### **(e) Exploration, research and development**

CRA's subsidiaries spent A\$146 million in 1994 on exploration, evaluation and prospect acquisition. This compares with A\$133 million in 1993 and A\$136 million in 1992. Exploration activities in 1994 were concentrated in Australia, with about 25 per cent. spent overseas. These included further definition and evaluation of the Century zinc/lead/silver deposits in northwest Queensland, the Honeymoon Well nickel deposits in Western Australia and exploration for gold, copper, iron ore, diamonds, uranium and other minerals. In 1994, exploration outside Australia continued principally for gold and copper. In 1995, expenditure in Australia will constitute approximately 70 per cent. of the exploration budget with the remainder mainly being distributed between Indonesia, Papua New Guinea, Laos, other countries in the West Pacific area and Argentina.

CRA believes that exploration is a cost-effective way of adding new mineral resources and, based on publicly available information, believes it consistently conducts one of the largest mineral exploration programmes in the world. CRA's exploration strategy is aimed at maintaining the existing resource base and identifying additional large scale opportunities for growth.

Historically, CRA's exploration companies have played a major role in the discovery and/or development of many of the CRA Group's large scale mines. These include Weipa (Australia, bauxite), Bougainville (Papua New Guinea, copper, gold — operations currently suspended) and Hamersley Iron (Australia, iron ore). Other developments and/or discoveries include Channar and Marandoo (Australia, iron ore), Argyle (Australia, diamonds), Kaltim Prima (Indonesia, coal), Kelian (Indonesia, gold), Peak (Australia, gold), Kintyre (Australia, uranium), Century (Australia, zinc, lead, silver), Dugald River (Australia, zinc, lead, silver), Honeymoon Well (Australia, nickel) and Wimmera Industrial Minerals (Australia, titanium mineral deposits).

### **(f) Environment**

The CRA Environmental Policy ("Policy") is based on support for the principles of sustainable development, compliance with applicable environmental regulations and achieving continuous improvement in environmental standards. The Policy requires that compliance with regulations is the base upon which higher standards of environmental management practices will be developed taking into account the relevant technological, economic and other factors applicable to operations of CRA, its subsidiaries and managed joint ventures or other entities (for purposes of this sub-section, the "CRA Companies"). Overseas CRA Companies are required, within the principles of the Policy, to adopt and implement appropriate policies for those subsidiaries in conformity with the requirements of the countries in which they operate. Management is responsible for implementing the Policy. Where CRA Group executives are on the boards of directors of partially owned subsidiaries or management committees of joint ventures they are expected to work through those boards or committees to encourage the adoption and implementation of the appropriate policies.

The Environmental Audit Committee of the CRA Board was established in 1991 to monitor compliance with the requirements of the Policy. This Committee also provides a forum for coordinating development of improved standards in environmental management and planning in CRA Companies.

Management of operating businesses is required to develop and manage plans for achieving higher environmental standards and preparing plans to deal with emergencies that could have an impact on the environment. In the course of the evaluation of new capital expenditure proposals, CRA Companies are required to take into account not only those environmental regulations currently applicable but those anticipated to be relevant to the business.

In Australia, mining, processing and exploration activities are subject to laws governing the protection of the environment including pre-approval environmental impact assessment, air, noise and water emission controls, waste disposal, use and storage of hazardous substances, and soil erosion and land rehabilitation. There are also environment management conditions in many mining leases.

Most of the environmental laws in Australia are laws of the States of the Commonwealth of Australia. Commonwealth legislation deals with matters covered by international treaty such as ozone depleting

substances, export and import of hazardous substances and pollution of Australian waters. Environmental laws in many States are under review. It is expected they will become more uniform and will all deal expressly with contaminated land, and impose (as New South Wales and Victoria already do) heavy penalties on companies and individual directors and managers for environmental offences. The Commonwealth Environment Protection Authority coordinates a national approach to the environment (including matters such as climate change and biological diversity) and oversees the setting of standards which the State regulatory agencies implement.

The Resource Management Act of 1991 amended environmental laws in New Zealand. The central principle of the legislation is now sustainable management of natural resources with an emphasis on effects rather than controls. While environmental matters need to be taken into account in Papua New Guinea as part of the approval process for developments, other environmental legislation is not as developed as in Australia. Operations in Indonesia are subject to environmental controls supervised by the Environmental Impact Management Agency. Licences are generally required for waste emissions and offenders are subject to heavy penalties including fines, cancellation of business permits and jail terms.

Failure to comply with applicable laws and regulations may result in orders being issued that may cause operations to cease or be curtailed or may require installation of additional equipment at substantial cost. Violators may be required to compensate those suffering loss or damage by reason of violations and may be fined if convicted of an offence under such legislation.

The CRA Companies continue to invest in plant and equipment to enable them to comply with their obligations and will continue to incur costs in future years in complying with environmental laws and regulations. CRA cannot reasonably estimate the cost of future compliance or remedial work or further investment necessitated by environmental laws and regulations or by any causes of contamination, including those occurring prior to the introduction of such laws and regulations or before or after the property in question was owned or occupied by the CRA Companies. The level of such costs will be dependent upon, inter alia, the nature and extent of the current and future environmental laws and regulations, the timing and nature of required remedial work, the extent of any contamination, the technology available to meet the required standards, the determination of the CRA Companies' liabilities in proportion to those of other parties and the extent to which costs are recoverable from insurance and third parties.

Many of the environmental regulations applicable to the CRA Companies require land reclamation programmes to be implemented after a mining project is completed. As of the date of this document, CRA believes the CRA Companies are in compliance with all such requirements to the extent material to the CRA consolidated financial position or results of its continuing operations.

#### **(g) Aboriginal land entitlements**

A decision of the High Court of Australia in June 1992, generally referred to as the Mabo case, overturned the long established legal position that under Australian common law Aborigines had no inherent rights over unalienated Crown land. In effect, the High Court held that Aborigines had rights over land (for convenience called "native title") when Australia was settled. Although the Crown acquired the underlying title to all land at that time, the descendants of those Aborigines still have native title today if there has been a continuous connection with the same area of land which can be shown by acknowledging the traditional Aboriginal laws and customs pertaining to that land (for convenience referred to as "native title land"). However native title can be permanently extinguished by Government legislative or executive action. The High Court found that native title would have been permanently extinguished by valid grants by State and the Territories (being the States and Territories of the Commonwealth of Australia) of freehold titles and by grants of leases, to the extent that the lessee's rights were inconsistent with the continued existence of native title. However, the position was complicated due to the passage of the Federal Racial Discrimination Act in 1975, with the possible result that some titles granted after that date over native title land may be invalid or that compensation may be payable to the native title holders.

Native title became part of Australia's common law as a result of the High Court's decision. Because of the retrospective effect of this decision and the added doubts as to the validity of titles granted after the Racial Discrimination Act 1975, in December 1993, the Commonwealth Parliament passed the Native Title

Act 1993 (the "NT Act"). The NT Act provides for the validation of existing land titles granted by the Commonwealth that are invalid because of the existence of native title. It is structured to enable or authorise the States and Territories which pass complementary legislation to validate existing land titles granted by States or Territories on the same basis as in the NT Act. The NT Act also provides that where such validation of titles extinguishes or impairs native title rights, any compensation payable will be paid by the Commonwealth or relevant State or Territory government which validated the grant. The NT Act provides a mechanism for determining whether native title exists in a particular area and established a special tribunal, the National Native Title Tribunal, to process claims for native title, and determine whether new mining and other interests can be granted over native title land.

The NT Act deals differently with extensions or renewals of some valid mining leases and licences (that is, their validity is not affected by pre-existing native title rights) compared to those which are validated under the NT Act regime. Legally enforceable renewal rights can be exercised in both cases without any negotiation procedures involving Aboriginal claimants or owners. In the absence of legally enforceable renewal rights, if the mining interests on native title land are valid any renewal requires compliance with the negotiation procedures with Aboriginal claimants or owners. However, if the mining interests would otherwise have been invalid but are validated under the NT Act regime, renewal of those validated mining interests would not require negotiation with Aboriginal claimants or owners if the renewal takes effect at the expiry of the existing lease or licence and permits similar activities to the existing title.

Many mining interests, in particular mining leases, are granted over land in relation to which the underlying tenure is pastoral lease land. If any pastoral lease is acquired by Aboriginal people with historical connections with the land, then, under the NT Act regime, they have the right to apply to have the pastoral lease converted to native title land upon proof of native title to the land. Hence, any non-legally enforceable right of renewal of mining interests on that land (that is, after it has been converted to native title land) will involve compliance with the right to negotiate procedures involving the Aboriginal holders of the native title land. Apart from the foregoing, there are other requirements in the NT Act which are weighted in favour of Aboriginal interests where compliance could give rise to delays or additional expense. The likely uncertainties in dealing with these procedural requirements and native title claims could have an adverse effect by delaying future activity and mining projects.

All State and Territory governments have passed complementary legislation in accordance with the NT Act and effectively this validates any land titles granted prior to 1 January 1994 if there was invalidity due to native title existing to those lands. The Western Australian Parliament had previously passed legislation which was not complementary with the NT Act. In March 1995, the High Court held that the Western Australian Act was invalid. Western Australia subsequently passed complementary native title legislation which became operative in June 1995. Although the new Western Australian legislation validates titles granted prior to 1 January 1994, there is some doubt as to the validity of titles granted or renewed by the Western Australian government in the period from 1 January 1994 to June 1995. It is expected that a political resolution between the Western Australian and Commonwealth Governments will be required to remove the uncertainty in relation to these titles.

Except as indicated below no native title claims have been made against any of the mining tenements in the CRA Group in Western Australia.

A number of Aboriginal groups has instituted litigation asserting native title to vast areas of Australia, and the invalidity of granted titles in the claimed areas. However, as a consequence of the NT Act and the native title legislation enacted by the States and Territories, any titles granted prior to 1 January 1994 which were invalid because of the existence of native title have now been validated. Some CRA Group companies hold mining or exploration interests in some of the claimed areas. Where required to protect their interests, the affected CRA Group companies are involved in the litigation. Briefly, the litigation affecting the CRA Group, and the dates on which the various claims were commenced, are as set out below:

*(i) 30 June and 18 October 1993 – Comalco*

Aboriginal groups have commenced three separate, although similar, actions in the Federal Court against the Commonwealth and Queensland Governments, Comalco and others, claiming areas of land on the

western side of Cape York Peninsula, which together include most of Comalco's bauxite leases. The Wik people instituted proceedings on 30 June 1993, claiming the unmined part of the lease south of the Embley River. The Algnith and Tjungundji peoples' actions both commenced on 18 October 1993, claiming the Weipa Peninsula, and areas from Andoom north, respectively. Both of these areas are currently being mined, and have been extensively mined in the past. The writs lodged by the Algnith and Tjungundji Peoples were not served on Comalco within the required time and have now lapsed. It seems likely that these proceedings will be discontinued. In September 1993, the Thayorre People commenced a cross-claim against the Wik Peoples' claim, claiming native title over some of the land claimed by the Wik Peoples. The area claimed by the Thayorre People does not include any of Comalco's assets.

The Wik Peoples claim native title to the claimed area, but also set out a number of different contentions (including that the Queensland Government breached its fiduciary duty to Aborigines when the Government leased the Weipa region to Comalco in 1958) which, if accepted, have as their conclusion that the whole of Comalco's Weipa Leases (and not only the part to which native title is claimed) are invalid.

It has also been claimed that Comalco has been a trespasser to the claimed parts of its leases, and that it is liable to each group of claimants for profits gained and benefits derived from that land. Under the validation regime established by the NT Act in conjunction with Queensland's complementary native title legislation, any compensation payable for any extinguishment or impairment of the native title rights of the Wik Peoples by the grant of the leases to Comalco in 1958 under the agreement between the State of Queensland and Comalco would be payable by the Queensland government, not Comalco. However, because the claims made by the Wik Peoples seek to extend the common law native title principles identified in the Mabo decision, if the claims were to be successful, it is possible that Comalco might be liable to make payments to the claimants. Comalco has been advised that the claims are unlikely to succeed.

In March 1994, the Federal Court in the Wik litigation divided the action into two parts. The Wik applicants have now taken their claims for native title to the claimed areas to the National Native Title Tribunal and this claim is slowly progressing through a lengthy compulsory mediation process. The balance of the claims are proceeding in the Federal Court. The Federal Court has heard submissions from the parties on certain preliminary issues of law relating to the remainder of the action and the Federal Court's decision has been reserved. The outcome of these preliminary issues will affect the future conduct of the native title claim in the National Native Title Tribunal and the claims in the Federal Court.

*(ii) 19 July 1993 – CRA Exploration Pty Ltd*

Common law proceedings initiated on behalf of the Wunambul and Kwini peoples in the Supreme Court of Western Australia against the Commonwealth and Western Australian Governments raise claims asserting native title rights over vast areas in the Western Kimberley area of Western Australia. The CRA Group hold exploration interests, participates in joint ventures and also holds interests in bauxite reserves in this area. However, it is presently not intended that these reserves will be mined in the immediate future. Although CRA Exploration is still named as a defendant to a number of these claims, no action has been taken in respect of them since August 1993.

*(iii) 1 April 1994 – Argyle Assets of CRA Group*

The Miriuwunga – Gajerronga peoples have also lodged applications for native title determinations with the National Native Title Tribunal with respect to areas in the Eastern Kimberley region in and around Kununurra, Wyndham, Cambridge Gulf and Lake Argyle. The CRA Group holds alluvial mining tenements, exploration and other licences in the area of one of the claims (NNTT No. WC 94/2). The claim has now been referred to the Federal Court for a determination.

*(iv) 27 June 1994 – Century Zinc Limited*

The Waanyi people lodged a claim with the National Native Title Tribunal in relation to what is known as the Camping and Water Reserve, which is a small area that is within the proposed mining site

for the Century Zinc mine. On 14 February 1995 the President of the Tribunal determined that under the current law, which incorporates the common law enunciated by the High Court as well as the NT Act, native title, if any, that had existed in the claimed area, had long since been extinguished by the grant of pastoral leases and that there can be no revival of such rights once extinguished. An appeal against this determination was lodged in the Federal Court by the Waanyi People on 13 March 1995. On 1 November 1995 the Full Court of the Federal Court found that native title to the Camping and Water Reserve had been extinguished. An appeal to the High Court of Australia has been filed.

*(v) 27 July 1994 and 22 December 1994 – Hamersley Iron*

Two claims by the Ngaluma and Injibandi peoples for determinations of native title have been lodged over a large area of land in the Pilbara region of Western Australia. The Western Australian Government and many companies with a variety of mining and exploration are affected.

The first claim (NNTT No. WC 94/5) was lodged on 27 July 1994 and accepted by the National Native Title Tribunal on 20 December 1994. This claim affects various exploration and mining tenements held by Hamersley Iron (but does not affect the company's iron ore mines). Mediation is proceeding under the NT Act.

The other claim (NNTT No. 95/3) was lodged on 22 December 1994. This claim is over other areas and includes special leases held by Hamersley Iron, including its facilities at the Port of Dampier and other infrastructure (including the Dampier to Tom Price railway) held by the Hamersley group. The claim also includes special leases held by Dampier Salt. This claim has not been accepted by the Registrar of the National Native Title Tribunal and was referred to a presidential member of the Tribunal on 22 March 1995 for a determination as to whether it should be accepted for registration.

Hamersley Iron has received advice on its land titles and there is presently no liability anticipated from either of the claims for the Hamersley Iron group.

*(vi) 12 September 1994 – CRA Exploration Pty Ltd*

On 12 September 1994 the Wandarang, Mara, Alawa and Ngalakan peoples lodged a claim with the National Native Title Tribunal for a determination of native title on land at and near St Vidgen's Station in the Northern Territory, over which CRA Exploration has an exploration licence. The National Native Title Tribunal accepted the claim for registration on 21 December 1994. CRA Exploration has carried out negotiations with the local peoples and the Northern Land Council. As a result CRA Exploration can continue its exploration activities and will not contest the claim to native title.

*(vii) 31 August 1995 – Coal & Allied Limited*

On 31 August 1995 the Wonnarua peoples lodged a claim for a determination of native title on 83 hectares of land at Mt Pleasant near Muswelbrook in New South Wales, which is covered by Authorisation No. 459 held by Coal & Allied, and over which Coal & Allied proposes to apply for a mining lease. The claim has been accepted for registration by the National Native Title Tribunal.

There have been a number of other legal proceedings based on the Mabo decision claiming extensive areas of States' lands. The CRA Group is not directly or significantly involved in any of these.

In addition to the Mabo common law decision, and the legislation referred to above, legislation in the different States or Territories has to varying degrees conferred rights on, or for the benefit of, indigenous people in their community groups which can operate to restrict or prohibit exploration or mining activities in some parts of Australia. With the exception of 1991 legislation in the State of Queensland, such legislation has been in force in Australia for many years and the CRA Group and other mining companies take account of the relevant legislation in the conduct of their operations. In 1991 Queensland legislation specifically preserved and protected existing mining interests. Based on legal advice and internal reviews which take place regularly, CRA does not consider that such legislation will have any material adverse effect on the continuing operations of the CRA Group.

## **(h) Legal proceedings**

### *Kelian*

Five former shareholders of Kalimantan Gold NL ("KMG") (now wholly owned by CRA) have instituted legal proceedings against CRA and its wholly owned subsidiary Fundsprops Pty Limited in the Supreme Court of Victoria claiming damages and other relief. The claims are based on alleged misrepresentations in CRA's Part A Statement, which was produced in the course of CRA's (ultimately successful) takeover bid for KMG in 1990-91. The relevant statements made in the Part A Statement related to estimations with respect to the resource, reserves and grade of the Kelian gold project in Indonesia and were based on the final feasibility study undertaken for that project. KMG holds a 22.05 per cent. interest in the Indonesian company PT Kelian Equatorial Mining, the holder of the Kelian project Contract of Work with the Indonesian Government.

The reliefs claimed by the plaintiffs are for unspecified damages and for restitution of their shareholding in KMG. The litigation is still in the pre-trial processes and the trial is set to commence on 15 July 1996. CRA is contesting the claims and, based on the extensive legal reviews and advice that have been received to date, it is confident that the claims can be successfully defended.



## 2. Financial information to 31 December 1994

### (a) Nature of financial information

The financial information contained in this paragraph 2 of Part III has been extracted without material adjustment from the audited consolidated financial statements of CRA for the three years ended 31 December 1994 which were prepared in accordance with Australian Accounting Standards. The notes to the financial information set out in paragraph (f) below are abridged notes extracted from the notes to the audited consolidated financial statements of CRA for the three years ended 31 December 1994.

The financial information does not constitute statutory accounts within the meaning of the Australian Corporations Law.

The auditors, Coopers & Lybrand, Chartered Accountants, of 333 Collins Street, Melbourne, Victoria, Australia have, in accordance with Australian Corporations Law and Australian Auditing Standards, issued an unqualified audit opinion on the financial statements for each of three years ended 31 December 1994.

### (b) Consolidated profit and loss accounts

	Note	Years ended 31 December					
		Statutory consolidation			Equity consolidation		
		1994 A\$m	1993 A\$m	1992 A\$m	1994 A\$m	1993 A\$m	1992 A\$m
<b>Operating revenue</b>							
Sales revenue		5,811	5,928	5,237	5,811	5,928	5,237
Other income	(iii)	725	440	222	725	440	222
		<u>6,536</u>	<u>6,368</u>	<u>5,459</u>	<u>6,536</u>	<u>6,368</u>	<u>5,459</u>
<b>Operating profit before abnormal items and income tax</b>	(ii)(iii)(iv)	682	1,001	699	723	1,055	738
Abnormal items before income tax	(v)	(53)	57	32	(36)	40	28
<b>Operating profit before income tax</b>	(ii)	629	1,058	731	687	1,095	766
Income tax attributable to operating profit	(vi)	(91)	(242)	(320)	(104)	(241)	(339)
<b>Operating profit after income tax</b>	(i)	538	816	411	583	854	427
Outside equity interests in operating profit after income tax		(4)	(47)	(16)	(4)	(47)	(16)
<b>Operating profit after income tax, attributable to members of the parent entity</b>		534	769	395	579	807	411
Retained profits at the beginning of the financial year		1,835	1,436	1,308	1,954	1,549	1,396
Amounts transferred to/from reserves – associated entities		—	46	—	28	14	9
<b>Total available for appropriation</b>		<u>2,369</u>	<u>2,251</u>	<u>1,703</u>	<u>2,561</u>	<u>2,370</u>	<u>1,816</u>
Dividends provided for or paid		(358)	(416)	(267)	(358)	(416)	(267)
<b>Retained profits at the end of the financial year</b>		<u>2,011</u>	<u>1,835</u>	<u>1,436</u>	<u>2,203</u>	<u>1,954</u>	<u>1,549</u>
Earnings per ordinary share	(vii)	89.7c	129.5c	66.7c	97.3c	135.9c	69.5c

## (c) Consolidated balance sheets

	Note	As at 31 December					
		Statutory consolidation			Equity consolidation		
		1994 A\$m	1993 A\$m	1992 A\$m	1994 A\$m	1993 A\$m	1992 A\$m
<b>Current assets</b>							
Cash and short term investments	(ix)	329	319	217	329	319	217
Receivables	(x)	857	910	835	857	910	835
Inventories	(xi)	803	817	782	803	817	782
<b>Total current assets</b>		<b>1,989</b>	<b>2,046</b>	<b>1,834</b>	<b>1,989</b>	<b>2,046</b>	<b>1,834</b>
<b>Non-current assets</b>							
Receivables	(x)	497	464	499	497	464	499
Investments	(xii)	540	667	681	754	842	880
Inventories	(xi)	67	48	8	67	48	8
Property, plant and equipment	(xiii)	5,439	5,110	4,602	5,439	5,110	4,602
Intangibles	(xiv)	48	53	57	48	53	57
Other	(xv)	424	404	428	424	404	428
<b>Total non-current assets</b>		<b>7,015</b>	<b>6,746</b>	<b>6,275</b>	<b>7,229</b>	<b>6,921</b>	<b>6,474</b>
<b>Total assets</b>		<b>9,004</b>	<b>8,792</b>	<b>8,109</b>	<b>9,218</b>	<b>8,967</b>	<b>8,308</b>
<b>Current liabilities</b>							
Creditors and borrowings	(xvi)	837	699	726	837	699	726
Provisions	(xvii)	459	609	488	459	609	488
Other	(xviii)	251	269	343	251	269	343
<b>Total current liabilities</b>		<b>1,547</b>	<b>1,577</b>	<b>1,557</b>	<b>1,547</b>	<b>1,577</b>	<b>1,557</b>
<b>Non-current liabilities</b>							
Creditors and borrowings	(xvi)	1,227	1,307	1,181	1,227	1,307	1,181
Provisions	(xvii)	1,138	1,029	1,000	1,138	1,029	1,000
<b>Total non-current liabilities</b>		<b>2,365</b>	<b>2,336</b>	<b>2,181</b>	<b>2,365</b>	<b>2,336</b>	<b>2,181</b>
<b>Total liabilities</b>		<b>3,912</b>	<b>3,913</b>	<b>3,738</b>	<b>3,912</b>	<b>3,913</b>	<b>3,738</b>
<b>Net assets</b>		<b>5,092</b>	<b>4,879</b>	<b>4,371</b>	<b>5,306</b>	<b>5,054</b>	<b>4,570</b>
<b>Shareholders' equity attributable to members of CRA Limited</b>							
Share capital	(xix)	1,192	1,189	1,186	1,192	1,189	1,186
Reserves	(xx)	1,267	1,302	1,333	1,289	1,358	1,419
Retained profits	(xxi)	2,011	1,835	1,436	2,203	1,954	1,549
<b>Total shareholders' equity attributable to members of CRA Limited</b>		<b>4,470</b>	<b>4,326</b>	<b>3,955</b>	<b>4,684</b>	<b>4,501</b>	<b>4,154</b>
<b>Outside equity interests in controlled entities</b>							
Share capital		226	285	255	226	285	255
Reserves		132	151	92	132	151	92
Retained profits		264	117	69	264	117	69
<b>Total outside equity interests in controlled entities</b>		<b>622</b>	<b>553</b>	<b>416</b>	<b>622</b>	<b>553</b>	<b>416</b>
<b>Total shareholders' equity</b>		<b>5,092</b>	<b>4,879</b>	<b>4,371</b>	<b>5,306</b>	<b>5,054</b>	<b>4,570</b>

**(d) Consolidated cash flow statements**

	Note	As at 31 December		
		1994 A\$m	1993 A\$m	1992 A\$m
<b>Cash flows from operating activities</b>				
Sales receipts		5,759	5,994	5,166
Payment to suppliers and employees		(4,284)	(4,016)	(3,481)
Royalties paid		(178)	(194)	(171)
Expenditure on exploration and research & development		(205)	(204)	(193)
Abnormal item		—	—	84
Operating cash flows before income tax		1,092	1,580	1,405
Income tax paid		(263)	(257)	(286)
Net operating cash flows	(xxiii)	829	1,323	1,119
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment and preproduction expenditure		(937)	(529)	(485)
Expenditure on capitalised exploration and research & development		(65)	(1)	(18)
Purchase of interests in associates and investments		(239)	(461)	(17)
Proceeds from sales of property, plant and equipment		55	52	36
Proceeds from sale of associates and investments		625	75	3
Net (advances)/advance repayments with associates		50	102	(30)
Dividends received		15	20	20
Net investing cash flows		(496)	(742)	(491)
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares (including outside equity interests)		33	27	30
Proceeds from borrowings		231	432	324
Repayment of borrowings		(107)	(458)	(706)
Dividends paid (including outside equity interests)		(449)	(386)	(243)
Interest paid		(70)	(58)	(75)
Interest received		30	19	17
Net financing cash flows		(332)	(424)	(653)
Net increase/(decrease) in cash held		1	157	(25)
Cash at the beginning of the financial year		213	2	29
Effect of exchange rate changes on cash held		(11)	(13)	(2)
Net cash of controlled entities newly/no longer consolidated		—	67	—
Cash at the end of the financial year	(ix)	203	213	2

## **(e) Significant accounting policies**

The significant accounting policies of CRA are detailed below.

The significant accounting policies adopted by CRA Limited and its controlled entities (the economic entity) are stated to assist in a general understanding of the financial statements contained in the Report. These policies conform with the requirements of the Corporations Law, Accounting Standards and in all material respects with applicable International Accounting Standards and generally accepted accounting practices in Australia. They are consistent with accounting policies adopted in the previous year except as otherwise stated.

### *(i) Basic principles of accounting*

The financial statements have been prepared under the historical cost convention and have not been adjusted to take account of changes in the purchasing power of the dollar, the current cost of specific assets, or of their likely impact on the operating results except to the extent to which this is reflected in the valuation of certain fixed assets and investments noted in (e)(viii) below.

### *(ii) Principles of consolidation*

CRA has followed the consolidation principles defined in Accounting Standard AASB 1024 – Consolidated Accounts.

#### a) Controlled entities

The accompanying consolidated financial statements are prepared on a conventional consolidation basis and include controlled entities as defined by Accounting Standard AASB 1024 – Consolidated Accounts with the exception of Bougainville Copper Limited which has not been consolidated as part of the CRA economic entity since 31 December 1990 (refer note (e)(xxiii)). Interests in controlled entities acquired and their net assets are recorded in the financial statements at fair values. Any excess, on consolidation, of the cost of the economic entity's interest in a controlled entity over the fair value of the net assets acquired, is brought to account as "goodwill" (refer note (e)(xvii)).

#### b) Associated entities

The accompanying financial statements include as supplementary information, financial statements prepared on an equity consolidation basis, where the principles of equity accounting are applied in respect of the economic entity's interest in the earnings and reserves of associated entities, being those entities in which the economic entity has the ability to exercise significant influence on financial and operating policies, but does not have the capacity to control as defined in AASB 1024.

Accounting policies adopted by associated entities are generally consistent with those of the CRA economic entity.

#### c) Unincorporated joint ventures

Certain of the economic entity's operations are conducted through joint ventures with other parties. The economic entity's interest in the assets and liabilities of joint ventures is included under the relevant balance sheet headings using the proportional consolidation methodology specified in Accounting Standard AASB 1006 – Accounting for interests in Joint Ventures.

### *(iii) Foreign exchange*

Transactions in foreign currencies, including profit and loss account items of overseas branches and controlled entities, have been brought to account at the exchange rates ruling at the time of each transaction. Amounts payable/receivable by the economic entity in foreign currencies and the assets and liabilities of overseas branches and controlled entities have been translated into Australian currency at the exchange rate ruling at balance date. All realised or unrealised exchange gains or losses are credited or

charged to the profit and loss account in the year in which they arise. All exchange gains and losses arising on the translation of foreign currency financial statements have been transferred to a 'translation fluctuation reserve' as part of shareholders' equity. Exchange gains and losses arising on foreign currency borrowings designated as hedges of investments in overseas controlled entities are matched against the exchange gains and losses arising on the translation of the net assets of those foreign controlled entities, being a net debit or credit to the translation fluctuation reserve, as these represent an effective hedge.

*(iv) Accounting for sales*

Sales are recognised when the product passes out of the physical control of entities and selling prices are known or can be reasonably estimated. Where products are processed within the economic entity, sales are only recognised by the economic entity on delivery to external customers. Variations in revenue arising from final pricing and out-turn adjustments are recognised in the period(s) following the initial recording of the sale when the adjustments are known. Where an entity sells forward a portion of its production in order to protect itself from adverse price movements, the transactions are recognised in the balance sheet and taken to earnings proportionately as each delivery is made, together with the relevant cost thereof.

*(v) Exploration and evaluation expenditure*

Each group of permits, licenses, tenements or leases in a designated exploration or development area is accounted for as a separate project (area of interest). All expenditure associated with these projects is capitalised and at the same time a provision of equal amount is created against each project by means of a charge to the profit and loss account. All major projects are subject to a review on a half yearly basis and where it is determined a project has a net capitalised value either through future exploitation or sale, the provision made in the period is proportionately lower than the full expenditure for the project. Costs relating to the acquisition of an interest in a project are capitalised and subject to the same accounting practice and review procedure.

For projects which no longer have any commercial value, and are to be abandoned, capitalised amounts are written off, firstly against the related provision and secondly to the profit and loss account.

*(vi) Research and development expenditure*

Expenditure on research and development is written off against earnings as incurred, except that, when a project reaches the stage where such expenditure is considered capable of being recouped through development or sale, all subsequent expenditure is capitalised. All projects are subject to detailed review on a half yearly basis. Projects carried forward, which as a result of this review, are considered to have suffered a permanent diminution in value, are written down to estimated realisable value.

*(vii) Amortisation of mine property and development*

Development expenditure for the initial establishment of access to mineral reserves, together with capitalised exploration and evaluation expenditure and any financing charges in respect of each project, are carried forward as part of mine property costs. Subsequent development expenditure is charged against earnings as incurred, except when such expenditure results in significant future benefits. The annual amortisation charge (on a straight line basis) is determined by dividing the written down value of expenditure carried forward for each mine property by its remaining useful life.

*(viii) Valuation of fixed assets and investments*

In accordance with the Corporations Law and Accounting Standard AASB 1010 – Accounting for the Revaluation of Non-current Assets, it is the economic entity's policy to assess annually the recoverable value of non-current assets using techniques such as forecast cash flows and discounted cash flow analysis to assist in this process. This valuation basis is consistent with the value in use of the asset to the business as a going concern.

Revaluations of fixed assets and investments were undertaken in prior years in order to approximate more realistic values for the assets so affected at the time. Annual reviews are completed as to the

adequacy of depreciation rates, asset lives and amounts expected to be recovered on disposal, with reassessments being undertaken in the light of technical and commercial considerations. When applied, all revaluations are undertaken for all assets of a particular class. Revaluation increments are taken to asset revaluation reserve. Decrements are either offset against previous increments relating to the same class of assets, where possible, or charged against earnings. Assets acquired since the last revaluation have been brought to account at cost. Profits or losses on disposal of fixed assets and investments are included in operating earnings. Adequate provisions are maintained against investments where it is considered there has been a permanent diminution in value. Income from investments is brought to account as it becomes receivable, except for dividends which are accounted for on a cash basis. The potential capital gains tax payable on sale of revalued assets is not recognised, unless there is a present intention to sell the particular asset.

All assets in the CRA Group are reviewed as to their recoverable value each year. A large proportion of the Group's assets have estimated recoverable values considerably higher than the amounts stated in the financial statements. The directors do not propose to revalue any of the Group's assets to these higher values.

*(ix) Depreciation of property, plant and equipment*

All items of property, plant and equipment, with the exception of freehold land, are depreciated over their remaining useful lives. Depreciation rates are reviewed annually and reassessed in the light of commercial and technological developments.

*(x) Rehabilitation and restoration expenditure*

Liabilities are brought to account over the life of an operation to cover all known and expected costs which are likely to be incurred as a consequence of current or past activities. No provisions are made for costs expected to arise from future activities.

Provisions are raised in respect of areas from which natural resources have been extracted and at operating sites conducting activities which require specific rehabilitation.

*(xi) Deferred mining costs*

Costs incurred in the removal of overburden ahead of ore recovery are deferred, where appropriate, to be matched against future revenue.

*(xii) Taxation*

Provisions for current and future tax are calculated on earnings using the "liability" method. Certain items of expenditure, mainly depreciation and other provisions, may be deductible for income tax purposes in years different from those in which they are charged against earnings. The amount of the taxation difference due to such timing differences is classified as either a future tax liability or a future tax asset. Future tax assets are included in the financial statements in relation to operating tax losses of certain controlled entities of the economic entity. It is CRA policy not to carry forward any part of future tax assets, including those arising as capital losses, unless their eventual recovery is assured beyond reasonable doubt through the economic entity's ability to derive future assessable income sufficient to enable the assets to be realised and for the economic entity to continue to comply with deductibility conditions imposed by law.

The carry forward of future tax assets in entities which have operating losses is not permitted unless their recovery is virtually certain. These policies are applied in the expectation that legislation will not change in a manner which might affect adversely the ability of the economic entity to realise these assets. Dividend withholding tax is provided on the economic entity's portion of retained earnings of certain foreign controlled entities where there is reasonable expectation that those retained earnings will be repatriated to Australia as dividends.

*(xiii) Capitalisation of interest and other charges*

Interest, foreign exchange variations and administration charges on funds borrowed for major projects are capitalised as part of their cost up to the date of commencement of commercial operations. Capitalised

interest, exchange variations and other charges are amortised from this point over a period not exceeding the economic life of the operation. All other interest is expensed as incurred.

*(xiv) Cash*

For balance sheet purposes, cash includes: cash on hand, cash at bank and short term deposits with financial institutions. For purposes of the statement of cash flows, cash includes cash on hand, cash at bank and investments in money market instruments net of bank overdrafts and money market borrowings.

*(xv) Inventories*

Stocks of ores, metals, concentrates and work in progress are valued at the lower of cost and net realisable value. 'Cost' includes direct material, labour and related transportation expenditure incurred in placing such inventories in their existing location and condition, plus an appropriate portion of overheads including depreciation. Costs are allocated on average production levels with due weighting for variances and efficiency where appropriate. Stores are valued at cost with due allowance for obsolescence.

*(xvi) Employee entitlements*

Provision has been made in the financial statements for expected benefits accruing to employees in relation to such items as annual leave, long service leave, and sick leave. These provisions are accrued on the basis of statutory or contractual obligations. CRA has a liability for retiree health benefits in its US operations, which represents an actuarial assessment of the plan benefits to retirees.

In 1994, the Group's method of accounting for superannuation was changed. In the absence of either an Australian standard or current Australian exposure draft, CRA has adopted the principles of the US Standard SFAS 87 as its basis of accounting for superannuation. Had the previous method of accounting been continued in 1994, a charge of \$71.2 million would have been reported. Under the principles of SFAS 87, the Group results now include a credit of \$17.0 million for superannuation. Overall, the net effect of the change in policy was to increase profit in 1994 by \$88.2 million. As a result of the change in policy, movements in the annual superannuation credit or charge will be more stable than under the previous method.

*(xvii) Goodwill*

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired. Goodwill arising on acquisition of controlled entities and associated entities is amortised over the shorter of the expected period of benefit, or twenty years.

*(xviii) Segment information*

The segment information contained in note (f)(i) is prepared on the basis that CRA operates in six discernible industry segments, with the smaller operations (not in themselves capable of being viewed as a separate segment) aggregated under 'other'. The economic entity's activities which do not fall into a segment or 'other' are grouped under the classifications: corporate items including financing costs, superannuation funds' surpluses, abnormal items and taxation.

Geographical segments have been determined by reference to the predominant areas of the world in which CRA has its assets and from where it conducts its operations. Segment revenue has been arrived at after eliminating intra-segment sales. There are no material inter-segment sales. Segment earnings and total assets have been determined after making consolidation and inter-segment adjustments as appropriate.

*(xix) Borrowing costs*

Borrowing costs relating to the establishment of major facilities are capitalised and amortised against earnings over the life of the related borrowings except as noted in (e)(xiii).

*(xx) Contingent liabilities*

Contingent liabilities disclosed in the financial statements represent potential liabilities of the economic entity which have been identified and are, or may be, material. Such liabilities usually arise from a contractual obligation which is enforceable only in specified circumstances. Where the liability is not quantifiable the general nature of that potential liability is disclosed. Where appropriate, contingent assets may be offset against related contingent liabilities.

*(xxi) Comparative figures*

Where necessary, comparative figures have been adjusted to conform with changes in presentation, changes in accounting policy and changes in legislation or other official requirements. Material adjustments are indicated in the body of the applicable note or cross reference to other notes where they are affected.

*(xxii) Earnings per share (for the financial year)*

Earnings per share is determined by dividing the operating profit after income tax and outside equity interests by the weighted average fully paid equivalent number of ordinary shares on issue during the financial year. Unless otherwise stated, the earnings per share figure is before extraordinary items.

*(xxiii) Bougainville Copper Limited ("BCL")*

The Panguna mine remains shut down. Access to the mine site has not been possible and an accurate assessment of the condition of the assets cannot be determined. Considerable funding would be required to recommence operations to the level which applied at the time of the mine's closure. These funding requirements cannot be forecast accurately, but could be between Kina 300 million and Kina 450 million.

a) Results Reported by BCL

BCL reported a net profit of Kina 7.8 million for the financial year (1993: net loss of Kina 2.6 million, 1992: net loss of Kina 1.4 million). This is based upon actual transactions for the financial year.

b) CRA's Accounting Treatment of BCL

The directors of CRA have determined to exclude from the financial statements of the CRA economic entity the results and the assets and liabilities of BCL, continuing the practice adopted from 1990. This treatment, which is supported by CRA's auditors, Coopers & Lybrand, has been effected in accordance with the requirements of Accounting Standard AASB 1024 – Consolidated Accounts and section 312 of the Corporations Law.

The directors believe that they do not have access to sufficient reliable, verifiable and objective evidence which would support information from BCL or sufficient assurance from the auditors of CRA and BCL that reliance can be placed upon the BCL information. In the absence of information that can be relied upon, without that information being potentially false or misleading in a material particular, the directors have also complied with section 312 of the Corporations Law and excluded BCL information from the CRA consolidated financial statements.

c) CRA's Investment in BCL

CRA Limited and controlled entities own 214,887,966 shares in BCL, representing 53.6 per cent. of the issued share capital. These shares are recorded in those entities' financial statements at an aggregate (revalued) cost of A\$267 million which was fully provided against in 1991 as an extraordinary item.

At 31 December 1994, the market value of CRA's shareholding in BCL was A\$159 million; at the date of signing CRA Limited's statutory financial statements, on 1 March 1995, the market value was A\$140 million.



d) Abridged BCL Financial Information

The following table is an abridged summary of financial information on BCL:

	1994		As at 31 December 1993		1992	
	Kina m	A\$m	Kina m	A\$m	Kina m	A\$m
Fixed assets	201	219	201	303	202	297
Current assets	66	71	56	85	56	83
<b>Total assets</b>	<b>267</b>	<b>290</b>	<b>257</b>	<b>388</b>	<b>258</b>	<b>380</b>
Current liabilities	25	27	23	35	21	31
<b>Total liabilities</b>	<b>25</b>	<b>27</b>	<b>23</b>	<b>35</b>	<b>21</b>	<b>31</b>
<b>Net tangible assets</b>	<b>242</b>	<b>263</b>	<b>234</b>	<b>353</b>	<b>237</b>	<b>349</b>
Shareholders' funds attributable to						
CRA	130	141	125	189	127	187
Outside equity interests	112	122	109	164	110	162
<b>Total shareholders' funds</b>	<b>242</b>	<b>263</b>	<b>234</b>	<b>353</b>	<b>237</b>	<b>349</b>
Net profit/(loss) for the year ended 31 December	8	11	(3)	(4)	(1)	(2)
CRA's share of profit/(loss)	4	6	(1)	(2)	(1)	(1)

(f) Notes to the financial information

The following information has been extracted from the published audited consolidated financial statements of CRA for the three years ended 31 December 1994.

(i) Segment analysis

	Total assets			Consolidated profit/(loss)*		
	As at 31 December			Years ended 31 December		
	1994	1993	1992	1994	1993	1992
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
<b>Industry segments</b>						
Aluminium	2,667	2,261	2,224	186	83	95
Iron ore	2,129	2,051	1,958	420	553	550
Gold and copper	631	644	783	43	75	25
Zinc, lead and silver	75	197	234	(8)	(53)	(33)
Coal and coke	1,577	1,753	1,427	133	365	146
Diamonds	445	433	393	77	107	139
Other	341	358	445	(47)	(107)	(45)
Segment total	7,865	7,697	7,464	804	1,023	877
<b>Geographic segments</b>						
Australia	6,220	6,075	5,354	584	973	933
New Zealand	414	418	805	81	16	20
Papua New Guinea	20	21	23	8	(11)	(16)
North America	521	480	581	32	(39)	(136)
Europe	28	20	20	1	1	(2)
Asia	627	560	541	102	92	78
Other	35	123	140	(4)	(9)	—
Segment total	7,865	7,697	7,464	804	1,023	877
<b>Reconciliation of segment total and corporate items</b>						
Corporate items including						
financing costs	798	806	414	(126)	(81)	(111)
Superannuation funds' surplus	426	394	272	32	114	(47)
Abnormal items				(36)	40	28
Taxation	129	70	158	(91)	(242)	(320)
	9,218	8,967	8,308	583	854	427
Less equity in associated entities	214	175	199	45	38	16
Consolidated entities total	9,004	8,792	8,109	538	816	411

\* Results for segments are gross profit/(loss), (including equity in earnings of associates) before deduction of outside equity interests, financing costs, income tax and extraordinary items.

(ii) *Operating profit*

	1994 A\$m	1993 A\$m	1992 A\$m
Sales revenue	5,811	5,928	5,237
Cost of sales (note (iv)(a))	(4,915)	(4,837)	(4,267)
	896	1,091	970
Other costs (note (iv)(b))	(345)	(188)	(274)
Profit from trading	551	903	696
Income from investments (note (iii)(a))	78	155	35
	629	1,058	731

(iii) *Other income*

	1994 A\$m	1993 A\$m	1992 A\$m
a) Income from investments			
Dividends:			
Associates: listed	—	6	13
Other entities: listed	6	5	2
non listed	9	9	5
	15	20	20
Interest received and receivable:			
Associates	—	1	—
Short term deposits and other loans	31	20	15
	31	21	15
Increase in superannuation funds' surpluses	32	114	—
Income from investments	78	155	35
b) Proceeds from sale of non-current assets	586	206	153
c) Other income	61	79	34
	725	440	222

(iv) Costs

	1994 A\$m	1993 A\$m	1992 A\$m
a) Cost of sales			
Production costs	4,144	4,076	3,625
Depreciation of property, plant and equipment	445	444	386
Amortisation:			
Mining property	49	47	36
Deferred revenue expenditure	27	27	25
Patents	—	—	2
Provision for site rehabilitation, welfare and other deferred items	89	61	42
Government royalties	151	162	133
Other royalties	27	32	31
Loss on disposal of property, plant and equipment	14	19	8
Lease and hire charges — operating leases	32	28	25
(Increase)/decrease in inventories	(39)	(39)	(39)
	4,939	4,857	4,274
Less: profit on sale of property, plant and equipment	(24)	(20)	(7)
	4,915	4,837	4,267
b) Other costs			
Interest expense:			
Debentures and other long term loans	70	46	65
Bank overdrafts and notes payable to banks	8	8	10
Associates	3	4	3
Finance leases	6	6	—
Less capitalised interest	—	—	(16)
	87	64	62
Provision against investments and advances	1	10	3
Amortisation of goodwill	4	—	14
Research and development	127	103	84
Exploration and evaluation	119	139	123
Bad and doubtful debts	—	1	17
Directors' fees	2	1	1
Auditors' remuneration	7	8	9
Net exchange losses on long term monetary items	15	3	(9)
Reduction in superannuation funds' surpluses	—	—	47
Other costs	2	1	1
	364	330	352
Less: (profit)/loss on sale of controlled entities	—	—	(11)
Profit on sale of other investments	(11)	(6)	—
Other income	(61)	(79)	(35)
Abnormal items (note (v))	53	(57)	(32)
	(19)	(142)	(78)
	345	188	274

(v) *Abnormal items*

	<b>Gross A\$m</b>	<b>Tax A\$m</b>	<b>Outside equity interests A\$m</b>	<b>Net A\$m</b>
<b>a) 1994</b>				
Profit on disposal of shares in Pasminco Limited	160	(30)	—	130
Tax benefits of capital losses recognised	—	30	—	30
Writedown of West Cliff mine fixed assets	(24)	8	—	(16)
Southern Copper – Closure provisions and asset write downs	(189)	28	47	(114)
Future income tax benefits now recognised	—	24	—	24
	<u>(53)</u>	<u>60</u>	<u>47</u>	<u>54</u>
<b>b) 1993</b>				
Profit on sale of investment in An Mau Steel Co Limited	51	—	—	51
Profit on sale of investment in Kloeckner Werke	6	—	—	6
Reduction in net deferred tax liability due to a change in corporate tax rate	—	91	(4)	87
	<u>57</u>	<u>91</u>	<u>(4)</u>	<u>144</u>
<b>c) 1992</b>				
Reduction in the carrying value of aluminium downstream net assets				
— writedown of plant and equipment and tax losses	(130)	4	41	(85)
— accrual for retiree health benefits	(93)	—	31	(62)
— capital restructure	21	—	(7)	14
— reversal of 1991 provision for carrying value of net assets	200	—	(66)	134
Profit on sale of 9.3 per cent. of Pasminco Limited	33	(3)	—	30
Profit on sale of investment in Biotechnological Holdings Pty. Ltd	27	(9)	—	18
Provision against the equity investment in Kloeckner Werke	(26)	—	—	(26)
	<u>32</u>	<u>(8)</u>	<u>(1)</u>	<u>23</u>

(vi) *Taxation*

	Years ended 31 December		
	1994	1993	1992
	A\$m	A\$m	A\$m
Taxation on earnings for the year comprises:			
Income tax:			
Current liability	105	218	268
Future liability (note (xvii)a))	39	48	30
Future asset (note (xv)a)(1))	(54)	65	22
	90	331	320
Withholding tax:			
Current liability	1	2	—
	91	333	320
Abnormal tax item – change of tax rates	—	(91)	—
	91	242	320

(vii) *Earnings per share*

	Years ended 31 December		
	1994	1993	1992
	cents	cents	cents
Basic earnings per share calculated on statutory consolidated profits after income tax and outside equity interests	89.7	129.5	66.7
Basic earnings per share calculated on equity consolidated profits after income tax and outside equity interests	97.3	135.9	69.5
	millions of units		
Weighted average number of ordinary shares outstanding during the financial year	595.2	593.6	591.9

Diluted earnings per share are not materially different from basic earnings per share.

(viii) *Franked dividends*

	Years ended 31 December		
	1994	1993	1992
	A\$m	A\$m	A\$m
The amount of franked dividends paid during the year	417	356	231
Dividends provided for in the year which will, when paid, be fully franked, being paid out of existing franking credits or from those which will arise from income tax payments in the following year	179	238	178
Dividends declared (fully franked)	60 cents	70 cents	45 cents

(ix) *Cash and short term investments*

	As at 31 December		
	1994 A\$m	1993 A\$m	1992 A\$m
Cash	306	296	205
Short term deposits and loans	23	23	12
	<u>329</u>	<u>319</u>	<u>217</u>
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:			
Balances as above	329	319	217
Less bank overdrafts and money market borrowings	(126)	(106)	(215)
Cash at end of financial year	<u>203</u>	<u>213</u>	<u>2</u>

(x) *Receivables*

	As at 31 December		
	1994 A\$m	1993 A\$m	1992 A\$m
<b>Current</b>			
Trade debtors	547	511	573
Less provision for doubtful debts	(4)	(5)	(4)
Bills receivable	28	34	31
Associated entities	60	112	48
Other debtors	188	238	167
Less provision for doubtful debts	(5)	(5)	(12)
Prepaid charges	43	25	32
	<u>857</u>	<u>910</u>	<u>835</u>
<b>Non current</b>			
Associated entities	47	42	196
Housing loans to directors of controlled entities	1	2	1
Superannuation funds' surpluses	426	394	272
Other	31	38	54
	<u>505</u>	<u>476</u>	<u>523</u>
Less provisions against possible loss	(8)	(12)	(24)
	<u>497</u>	<u>464</u>	<u>499</u>

(xi) Inventories

As at 31 December

	1994	1993	1992
	A\$m	A\$m	A\$m
Raw materials and stores	284	305	290
Work in progress	223	160	154
Finished goods	363	400	346
	<hr/>	<hr/>	<hr/>
	870	865	790
Less raw materials and stores not expected to be sold within 12 months	(25)	(22)	(8)
Less finished goods not expected to be sold within 12 months	(42)	(26)	—
	<hr/>	<hr/>	<hr/>
	(67)	(48)	(8)
	<hr/>	<hr/>	<hr/>
	803	817	782
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



(xii) Investments

a) Statutory basis

	As at 31 December		
	1994 A\$m	1993 A\$m	1992 A\$m
Shares in listed controlled entities	267	267	267
Provision for diminution in value	(267)	(267)	(267)
	—	—	—
<b>Investments in other entities</b>			
Shares listed on a stock exchange	222	146	190
Provision for diminution in value	(35)	(39)	(64)
	187	107	126
Unlisted shares	62	64	43
Provision for diminution in value	(6)	(7)	(10)
	56	57	33
Rights and interests in business undertakings	29	27	22
Provision for diminution in value	(2)	(1)	—
	270	190	181
<b>Associated entities</b>			
Shares listed on a stock exchange	—	239	400
Unamortised surplus	—	(38)	(43)
	—	201	357
Shares not listed on a stock exchange	270	276	143
Investments in associated entities	270	477	500
<b>Total investments</b>	<b>540</b>	<b>667</b>	<b>681</b>

b) Equity basis

				Quoted value			Contribution to consolidated net earnings (before extraordinary items)		
	1994	1993	1992	1994	1993	1992	1994	1993	1992
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Controlled entity – BCL	267	267	267						
Provision for diminution in value	(267)	(267)	(267)						
	-	-	-	159	159	95			
<b>Associated entities (including effect of equity accounting)</b>									
Listed:									
Pasminco Limited	-	221	231	-	376	237	18	(31)	(14)
Coal & Allied Industries Limited			207			195		31	4
Non-listed:									
An Mau Steel Co. Limited			67					(11)	4
Boyne Smelters Limited	292	298	110				(7)	2	(2)
Eurallumina SpA	11	17	24				(6)	(2)	(3)
PT Kaltim Prima Coal	117	90	45				44	44	22
Queensland Alumina Limited	121	118	116				(4)	5	6
Far Southeast Gold Resources, Inc.	36	41	37						
	577	785	837				45	38	17
Less amounts written off/provided against									
Eurallumina SpA	(4)	(2)	-						
Queensland Alumina Limited	(64)	(64)	(64)						
Far Southeast Gold Resources, Inc.	(25)	(29)	(27)						
Less unamortised surplus									
Pasminco Limited		(38)	(43)						
Coal & Allied Industries Limited			(4)						
	484	652	699						
<b>Investments in other entities**</b>									
Shares listed on a stock exchange	222	146	190						
Provision for diminution in value	(35)	(39)	(64)						
	187	107	126	313	146	163			
Unlisted shares	62	64	43						
Provision for diminution in value	(6)	(7)	(10)						
	56	57	33						
Rights and interests in business undertakings	29	27	22						
Provision for diminution in value	(2)	(1)	-						
Total other investments	270	190	181						
Total investments	754	842	880						
Dividend Income – Associates									
Coal & Allied Industries Limited							-	6	13

\*\* Investments in non-controlled entities are held in the books at the lower of cost or recoverable value.

(xiii) *Property, plant and equipment*

	Land & buildings A\$m	Plant, machinery & equipment A\$m	Mining property A\$m	Capital works in progress A\$m	Undeveloped properties A\$m	Total A\$m
Net book value as at:						
31 December 1994	860	3,442	664	255	218	5,439
31 December 1993	841	3,128	697	294	150	5,110
31 December 1992	808	2,893	536	217	148	4,602

Freehold and leasehold land and buildings

In accordance with Clause 32 of Schedule 5 to the Corporations Law the Directors have made a valuation of all the economic entity's assets which are included under the balance sheet classification Freehold and Leasehold Land and Buildings. The valuation was effective as at 31 December 1992.

In relation to the economic entity, the total net current value of these assets, adjusted for any disposals and acquisitions during the period was A\$1,609.2 million, (1993: A\$1,565.3 million, 1992: A\$1,440.5 million), as compared with the net written down value of A\$860.0 million, (1993: A\$841.0 million, 1992: A\$807.4 million) shown in the balance sheet.

This valuation measured the value of the individual assets or groups of assets on a current cost basis, by reference to the lowest costs at which the service potential of those assets could currently be obtained in the normal course of business. This cost was determined by using the lower of the reproduction or replacement cost of the asset, taking into account, where appropriate, the expired life as a proportion of the estimated total life. In any case where the recoverable amount, i.e. the recoverable future depreciation and disposal value, was lower than the net value so determined, that recoverable amount was used as the asset value.

This valuation basis is consistent with the value in use of the asset to the business as an ongoing concern. It does not show the realisable value of the asset if it were sold on a stand-alone basis, but rather what CRA and the economic entity would be prepared to pay if it had to acquire the asset at this particular point of time as part of its ongoing business.

(xiv) *Intangibles*

	As at 31 December		
	1994 A\$m	1993 A\$m	1992 A\$m
Goodwill	197	129	129
less accumulated amortisation	(149)	(76)	(72)
	48	53	57
Patent rights	16	16	16
less accumulated amortisation	(16)	(16)	(16)
	48	53	57

(xv) Other non current assets

	As at 31 December		
	1994 A\$m	1993 A\$m	1992 A\$m
Deferred expenditure	295	334	284
Future tax asset	129	70	144
	<u>424</u>	<u>404</u>	<u>428</u>

a) Future tax asset

- (1) The following future income tax benefits, arising from tax losses and timing differences, have been recognised in the financial statements.

	As at 31 December		
	1994 A\$m	1993 A\$m	1992 A\$m
Balance at beginning of financial year	70	144	149
Credit/(debit) to earnings for year (note (vi))	54	(65)	(22)
Abnormal tax item	—	(16)	—
Translation and other adjustments	5	7	17
Balance at end of financial year	<u>129</u>	<u>70</u>	<u>144</u>
The closing balance comprises:			
Gross tax losses	30	31	56
Less tax losses offset against deferred tax liability	—	—	(14)
Tax losses	30	31	42
Other timing differences	99	39	102
	<u>129</u>	<u>70</u>	<u>144</u>

- (2) The following future income tax benefits, arising from tax losses, capital losses and timing differences, have not been recognised in the financial statements because there can be doubt as to their eventual recovery.

	As at 31 December		
	1994 A\$m	1993 A\$m	1992 A\$m
Accumulated benefit at beginning of financial year	271	217	63
Adjustments to previous estimates	109	33	55
Tax effect of timing differences and tax losses not/(now) recognised	(41)	21	99
Accumulated benefit at end of financial year	<u>339</u>	<u>271</u>	<u>217</u>
The closing balance comprises:			
Tax losses	248	260	207
Capital losses	51	—	—
Timing differences	40	11	10
	<u>339</u>	<u>271</u>	<u>217</u>



a) Future tax liability

	1994 A\$m	1993 A\$m	1992 A\$m
Movement in future tax liability for the year was as follows:			
Balance at beginning of financial year	753	745	670
Debit/(credit) to earnings for year (note (vi))	39	48	30
Tax abnormal items	—	(108)	—
Translation and other adjustments	13	68	45
Balance at end of financial year	<u>805</u>	<u>753</u>	<u>745</u>

(xviii) Other current liabilities

	As at 31 December		
	1994 A\$m	1993 A\$m	1992 A\$m
Accrued payroll	53	39	119
Accrued interest	9	7	2
Royalties and mining taxes	42	42	39
Other non-trade creditors	147	181	183
	<u>251</u>	<u>269</u>	<u>343</u>

(xix) Share Capital

	Number of shares					
	1994	1993	1992	1994	1993	1992
	(thousands of units)			A\$m	A\$m	A\$m
<b>Issued and paid-up share capital</b>						
Ordinary shares of A\$2 each	596,117	594,266	592,937	1,192	1,189	1,186
Total issued and fully paid share capital at the end of year	<u>596,117</u>	<u>594,266</u>	<u>592,937</u>	<u>1,192</u>	<u>1,189</u>	<u>1,186</u>
<b>Authorised share capital:</b>						
Ordinary shares of A\$2 each	596,117	594,266	592,937	1,192	1,189	1,186
Unclassified share of A\$2 each	903,883	905,734	907,063	1,808	1,811	1,814
Total authorised share capital	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>

(xx) Reserves

	As at 31 December		
	1994	1993	1992
	A\$m	A\$m	A\$m
Share premium	900	882	869
Other capital	336	337	395
Translation fluctuation	31	83	69
	<u>1,267</u>	<u>1,302</u>	<u>1,333</u>

(xxi) Retained earnings

	As at 31 December		
	1994	1993	1992
	A\$m	A\$m	A\$m
Balance 1 January	1,835	1,436	1,308
Current year retained profit	534	769	395
Company newly consolidated – Coal and Allied	—	46	—
Dividends payable	(358)	(416)	(267)
	<u>2,011</u>	<u>1,835</u>	<u>1,436</u>

(xxii) Joint venture interests

	Percentage interest			Contribution to consolidated net earnings		
	1994	1993	1992	1994	1993	1992
	%	%	%	A\$m	A\$m	A\$m
Argyle Diamond Mines, Western Australia						
– Mining and processing of diamonds	59.7	59.7	59.7	59	85	15
Blair Athol Coal, Queensland						
– Coal mining	57.2	57.2	57.2	50	76	39
Gladstone Power Station, Queensland						
– Power generation	42.1			11		
Howick, New South Wales						
– Coal mining	60.0	60.0	60.0	10	10	7
TL/2, Western Australia*						
– Petroleum development and exploration		19.8	19.8	5	5	8
Hismelt, Western Australia						
– Research and development	50.0	50.0	50.0	(12)	(20)	(15)
Mt Thorley, New South Wales						
– Coal mining	80.0	80.0		4	54	

\*CRA's interest in the TL/2 joint venture was sold during 1994.

	As at 31 December		
	1994 A\$m	1993 A\$m	1992 A\$m
CRA's proportion of:			
Fixed and deferred assets:			
Property, plant and equipment	850	602	469
Preproduction expenditure	176	145	149
Exploration and development expenditure	2	2	2
Long term inventory	2	2	—
Long term receivables	2	0	1
	<u>1,032</u>	<u>751</u>	<u>621</u>
Current assets:			
Inventories	35	37	36
Receivables	20	62	4
Cash	3	2	—
	<u>58</u>	<u>101</u>	<u>40</u>
Total assets	<u>1,090</u>	<u>852</u>	<u>661</u>
Capital expenditure commitments	<u>85</u>	<u>29</u>	<u>74</u>



(xxiii) *Note to statement of cash flows*

	As at 31 December		
	1994	1993	1992
	A\$m	A\$m	A\$m
<b>Reconciliation of operating cash flows after tax paid to operating profit after tax</b>			
Operating profit after tax	538	816	411
Add/(subtract):			
Depreciation of property, plant and equipment	494	491	423
Amortisation of intangible assets	4	1	—
Exchange (gains)/losses on long term monetary items	4	3	(9)
Adjustment for tax expense compared to tax paid	(171)	(15)	34
Deferred revenue expenditure amortisation	27	27	(18)
Loss/(surplus) on disposal of property, plant and equipment	(10)	—	1
Loss/(surplus) on disposal of investments	(11)	(6)	(12)
Provisions raised	9	4	21
Bad and doubtful debts	—	1	17
Superannuation funds' surpluses (increase)/decrease	(32)	(114)	47
Interest expense	86	64	62
Interest income	(32)	(21)	(15)
Dividends received	(14)	(20)	(20)
Abnormal items not involving flows of cash	51	(51)	50
(Increase)/decrease in working capital:			
Inventory	(58)	(29)	39
Receivables	381	97	(51)
Creditors	(419)	(16)	120
Other	(18)	91	19
Operating cash flows after tax paid	<u>829</u>	<u>1,323</u>	<u>1,119</u>

(xxiv) *Contingent liabilities and commitments*

a) Contingent liabilities on which no material loss is expected are as follows:

(1) CRA Group:

(A) CRA and related entities have provided indemnities in respect of bank and other performance guarantees of A\$97.0 million (1993: A\$66.3 million, 1992: A\$71.1 million).

(B) As part of a program to audit major Australian entities, the Australian Taxation Office has, for some time, been reviewing the affairs of the CRA economic entity. Most of the issues raised have been resolved. Some of the principles in relation to the remaining issues may eventually need to be tested in the Courts. It is considered that the probable outcome will not have a material effect on the financial position of the CRA economic entity.

(2) CRA:

(A) The company has guaranteed the repayment and servicing of loans of related entities, totalling A\$589.4 million (1993: A\$593.6 million, 1992: A\$731.6 million). In the consolidated group accounts these amounts are already fully included and provided for.

	1994 A\$m	1993 A\$m	1992 A\$m
<b>Commitments:</b>			
Approximate commitments for purchase of property, plant and equipment not reflected in the financial statements	243	376	59
Uncalled liability on investments	10	10	10
	<u>253</u>	<u>386</u>	<u>69</u>
<b>Payable</b>			
(a) not later than one year	234	270	58
(b) later than one year but not later than two years	8	75	11
(c) later than two years but not later than five years	1	31	—
(d) later than five years	10	10	—
	<u>253</u>	<u>386</u>	<u>69</u>

b) CRA has extended offers of subordinated loan facilities to a number of controlled entities. Drawings under these facilities are classified as non-current receivables in the financial statements. Undrawn amounts under these facilities as at 31 December totalled A\$114.1 million (1993: A\$23.5 million, 1992: A\$18.7 million).

c) Litigation matters:

(1) Litigation matter – Native title claims

Comalco – The land and related claims by the Wik peoples, which include their claim to the southern part of Comalco's Weipa bauxite leases, continued in the Federal Court in 1994, with the focus on the resolution of certain key points of law. With the consent of the parties, the Federal Court agreed to the Wik peoples proceeding in the National Native Title Tribunal (the Tribunal) on the issue of whether the Wik peoples could establish valid native title over any of the claimed areas. Based on consistent strong legal advice provided to Comalco, including by Counsel acting in the litigation and the validating provisions of the Native Title (Queensland) Act 1993, Comalco continues to be satisfied as to the security of its titles to the Weipa bauxite leases and its continued operations.

Similar claims against the Government and Comalco, among others, have been filed in the High Court by other Aboriginal peoples in respect of the northern part of the Weipa leases. No proceedings have been issued at this stage.

Six actions are pending in the Supreme Court of Western Australia by different Aboriginal clans headed by Mr Utemorrah, against the Commonwealth and State Governments and a number of other parties claiming native title rights over vast areas in the Kimberleys. The bauxite deposits held by the Mitchell Plateau and Cape Bougainville Joint Ventures, in which Comalco has interest, are in the claimed areas. Procedural issues are still in the preliminary stages and Joint Ventures, although not parties to the action which is proceeding first, are closely monitoring developments.

(2) The Aboriginal Legal Service of Western Australia, acting for the Aboriginal tribe known as Martu, claimed native title rights to the Gibson Desert where CRA holds exploration permits at Kintyre. No further action has been taken since a writ was filed in the courts.

(3) Two claims by the Ngaluma and Injiabandi peoples for determinations of native title have been lodged over a large area of land in the Pilbara. The Western Australian Government and many companies with a variety of mining and exploration interests are affected. One claim includes the port of Dampier, some mining and exploration tenements and other infrastructure held by the

Hamersley Group. This claim is in the preliminary stages and is the subject of an application (under the Administrative Decisions (Judicial Review) Act) in the Federal Court to have the Native Title Registrar's decision to accept it for registration quashed.

The other claim, which is over other areas and includes special leases held by the Hamersley Group, has been lodged but not yet accepted for registration by the Native Title Registrar.

Hamersley has received advice on its land titles and there is presently no liability anticipated from either of the claims for the Hamersley Group.

- (4) Century Zinc – Claims have been lodged on behalf of the Waanyi peoples in respect of a Camping and Water Reserve (established a long time ago for the use of miners) in an area which is within the proposed Century mine site. On 14 February 1995, the President of the National Native Title Tribunal determined that the claim could not be registered as under common law as stated by the High Court in its Mabo decision pastoral leases granted at the turn of the century over areas in which the Camping and Water Reserve was located had extinguished any native title that may have existed to the claimed area. On behalf of the Waanyi peoples on 13 March 1995 an appeal against its determination has been lodged in the Federal Court.

d) Other litigation matters

- (1) Since the end of the year, on 3 February 1995, the outcome of the Diversified Mineral Resources (DMR) against CRA Exploration (CRAE) case was announced. The claims by DMR were dismissed and costs awarded to CRAE. An appeal has been lodged by DMR.
- (2) Kelian – Five former shareholders of Kalimantan Gold NL (KMG) (now wholly owned by CRA) have instituted legal proceedings against CRA and its wholly owned subsidiary Fundprops Pty Limited in the Supreme Court of Victoria claiming damages and other relief. The claims are based on alleged misrepresentations in CRA's Part A Statement, which was produced in the course of CRA's (ultimately successful) takeover bid for KMG in 1990-1. The relevant statements made in the Part A Statement related to estimations with respect to the resource, reserves and grade of the Kelian gold project in Indonesia and were based on the final feasibility study undertaken for that project. KMG holds a 22.05 per cent. interest in the Indonesian company PT Kelian Equatorial Mining, the holder of the Kelian project Contract of Work with the Indonesian Government.

The reliefs claimed by the plaintiffs are for unspecified damages and for restitution of their shareholding in KMG. The litigation is still in the pre-trial processes and the trial is not expected to commence until later in the year. CRA is contesting the claims and based on the extensive legal reviews and advice that have been received to date it is confident that the claims can be successfully defended. As the case proceeds the position will be continually reviewed by the company and its legal advisers.

(xxv) *Lease and hire commitments*

	As at 31 December		
	1994	1993	1992
	A\$m	A\$m	A\$m
Aggregate amounts contracted but not provided for in the financial statements:			
Operating leases:			
Land and buildings	138	144	132
Plant and equipment	13	43	23
Other	24	14	7
	<u>175</u>	<u>201</u>	<u>162</u>
Payable:			
later than one year	34	33	28
later than one year but not later than two years	35	33	26
later than two years but not later than five years; and	68	73	66
later than five years	38	62	42
	<u>175</u>	<u>201</u>	<u>162</u>

### 3. Restatement of CRA reported net earnings and shareholders' funds to RTZ accounting policies and UK GAAP

The following reconciliations have been prepared to show the effect of the application of UK GAAP and the accounting policies of RTZ on CRA net earnings and shareholders' funds.

#### (a) CRA net earnings

		Years ended 31 December		
		1994	1993	1992
Net earnings as reported under Australian GAAP (equity basis)	A\$m	579	807	411
	£m*	276	365	170
Elimination of goodwill amortisation		11	9	10
Elimination of revaluation depreciation		11	9	12
Asset writedowns debited to reserves under Australian GAAP		—	(33)	(29)
Reversal of abnormal charges relating to write off of higher carrying value of assets under Australian GAAP		17	—	4
Pension accounting		6	(20)	16
Other		(2)	(4)	8
Net earnings under UK GAAP	£m	319	326	191

\*Conversion to sterling has been made using the average exchange rates for 1994, 1993 and 1992 which were £1 = A\$2.095, £1 = A\$2.210 and £1 = A\$2.410 respectively.

#### (b) CRA shareholders' funds

		As at 31 December		
		1994	1993	1992
Shareholders' funds as reported under Australian GAAP (equity basis)	A\$m	4,684	4,501	4,154
	£m*	2,323	2,065	1,885
Elimination of goodwill		(130)	(131)	(61)
Elimination of unrealised asset revaluation reserves		(162)	(191)	(187)
Pension accounting		(29)	(40)	(20)
Other		(2)	39	3
Shareholders' funds under UK GAAP	£m	2,000	1,742	1,620

\*Conversion to sterling has been made using the closing exchange rates at 31 December 1994, 1993 and 1992 which were £1 = A\$2.017, £1 = A\$2.180 and £1 = A\$2.203 respectively.

#### 4. Interim results to 30 June 1995

Set out below is the text of CRA's unaudited interim statement for the six months to 30 June 1995, released on 30 August 1995:

### **"CRA LIMITED 1995 HALF YEAR RESULTS**

#### **KEY POINTS – FINANCIAL**

- Net profit on a statutory consolidation basis was A\$128.0 million.
- Net profit on an equity accounted basis was A\$145.0 million a decrease of A\$182.9 million on the 1994 half year results.
- Operating profit from business activities of A\$281.1 million was up from A\$200.2 million compared with the same period last year.
- Half year fully franked dividend of 30 cents per share was declared and is payable on 10 October 1995.

CRA has announced a 1995 first half operating result of A\$281.1 million, 40 per cent. higher than for the same period last year. Dividend declared was 30 cents per share.

Mr Leon Davis, Chief Executive said that the good result for iron ore and aluminium was offset by poor performance in some of CRA's coal operations. "There is still considerable potential for our coal operations to achieve better profits through productivity and cost improvements," he said.

Mr Davis said that the difficult decision has been taken to write down Kembla Coal & Coke to zero. "We have made it clear that KCC must look to itself to demonstrate that it can be a viable business," he said.

"We have made further decisions to allow CRA to concentrate on growth for the future. We have sold the USA-based Commonwealth Aluminum and offered for sale Comalco's rolling, extruding and distribution operations in Australia and New Zealand. These moves will allow us to focus on our mining developments and mineral processing and to capitalise on the creative ideas and opportunities which we have identified."

Mr Davis acknowledged some progress in negotiations with Aboriginal communities over the proposed mining development at the Century Zinc resource and said that CRA remained committed to the project. "We are formulating regional development programs in collaboration with Aboriginal communities in the Gulf. The key features include employment, training, land access requirements and infrastructure development," he said.

Mr Davis said that cash expenditure on exploration and evaluation for the period was A\$99.6 million. "Exploration is a fundamental plank in our growth strategy," he said. "We have extensive drilling programs in place to enhance the future of our iron ore and diamond mines in Western Australia and our coal mines in Australia and Indonesia".

He said preliminary development analysis of the Yandicoogina iron ore deposit was now almost complete and that 200-300 million tonnes of ore had been identified for a mining project. He added that new resources of detrital material identified in the Hamersley Ranges and further orebody definition at the Tom Price mine would significantly augment Hamersley's future operations.

Other programs include further evaluation of the Century Zinc resource and exploration for gold in Argentina, Laos and Papua New Guinea. CRA is evaluating and reviewing the world class potash resource over which it took an option in May, and a kaolin prospect in Western Australia.

Mr Davis said that CRA was reaping continued benefits from staff employment where it had been introduced and added that while CRA remained committed to staff employment, it was also committed to working within the industrial relations system.

"We expect that the strong demand for metals experienced in the first six months of the year will continue and will underpin prices for iron ore, coal and aluminium next year. Prices for our products still have some way to go before they fully recover from their recent low levels," Mr Davis said.

#### DISCUSSION OF FINANCIAL RESULTS

The consolidated results of the CRA Group on an equity accounted basis for the half year to 30 June 1995 are shown below, along with the comparative results for 1994. The 1995 half year results have been subject to audit review.

	Half year 1995 A\$m	Half year 1994 A\$m	Change	Year 1994 A\$m
Net sales revenue	2,752.9	2,830.2	(3%)	5,810.8
Operating profit after tax from business activities	281.1	200.2	40%	491.3
Superannuation adjustment (net of outside equity interest and tax)	(0.7)	(19.4)	—	17.0
Profit before abnormal items	280.4	180.8	55%	508.3
Abnormal items (net of outside equity interest and tax)	(135.4)	147.1	—	70.9
Net profit	145.0	327.9	(56%)	579.2

#### Profit

Operating profit after tax increased by A\$80.9 million to A\$281.1 million. Profit before abnormal items for the half year was A\$280.4 million, up by A\$99.6 million from the previous half year.

Operating profit benefited from price increases for aluminium, iron ore and coal but was offset partly by the poor performance of some of the coal business units and the stronger Australian dollar.

#### Taxation

Taxation on operating profit from business activities of 29.5 per cent. for the 1995 half year was less than the rate of 34.1 per cent. for the same period last year. The main factors contributing to the decrease were additional investment and development allowances.

#### Impact of CRA Group superannuation funds

During 1994, CRA adopted the principles of the US accounting standard SFAS 87 as its basis of accounting for superannuation. Under these principles, the movement in the annual superannuation credit or charge is more stable than under the previous method. The superannuation adjustment is shown separately in the table above for comparative purposes.

#### Abnormal items

Abnormal losses of A\$135.4 million after tax comprised the following items:

	Half year 1995 A\$m
Loss on disposal of Commonwealth Aluminum shares	(31.7)
Write down and restructuring costs of Kembla Coal & Coke	(55.9)
Additional tax provided due to the change in tax rate	(47.8)
	(135.4)

An abnormal gain after tax of A\$147.1 million for the first six months of 1994 resulted from the sale of most of CRA's investment in Pasminco Limited.

### Charges affecting profit

The results were determined after charging the following items:

	Half year 1995 A\$m	Half year 1994 A\$m
Depreciation and amortisation	252.8	253.9
Taxation on profit from business activities	143.4	111.4
Government royalties and duties	153.0	149.8
Financing charges	51.3	38.8

### Dividend

Directors declared a half year fully franked dividend of 30 cents per share (1994 half year fully franked dividend of 30 cents per share).

The half year dividend will be paid on 10 October 1995, after registering negotiable transfers and transmissions received up to 5 p.m. (or 10 p.m. in respect of holdings on the CHESS Subregister) on 27 September 1995.

### FUNDING

#### Cash flow

Net operating cash flow amounted to A\$576.8 million (1994 first half A\$432.6 million). Cash flow was higher in 1995 following the closure of Southern Copper and the subsequent decrease in disbursements, and a reduction in the amount of tax paid.

#### Capital expenditure

Total capital expenditure was A\$414.2 million (1994 first half A\$873.7 million). Expenditure for the first half of 1995 included the aluminium smelter expansion and upgrades at Boyne Island and Tiwai Point, the expansion of kaolin operations at Weipa, and a fines ore processing plant and replacement locomotive fleet at Hamersley. Expenditure in the comparable period last year included the acquisition of a 42.125 per cent. interest in the Gladstone power station and expenditure on development of the Marandoo iron ore mine.

About 56 per cent. of total capital expenditure was spent on maintaining and improving existing operations. Capitalised evaluation expenditure of A\$28.9 million related mainly to development of the Century zinc deposit.

#### Finance and debt

Gross debt decreased to A\$1,291.9 million at 30 June 1995 from A\$1,380.8 million at 31 December 1994.

Net cash balances increased to A\$241.0 million from A\$203.3 million at the end of 1994. Net debt (including short term funding) as a percentage of total capital (net debt plus shareholders' equity) was reduced to 16.8 per cent. at the end of June 1995 from 18.2 per cent. at the end of 1994.

### EMPLOYEES

The implementation of groupwide management systems to eliminate accidents in the workplace continued. CRA's Safe Work program is being used to promote and encourage the highest standards of safety. The program encourages leadership which promotes a safe and healthy mindset.



Moving to single status employment continues to be a key objective for CRA's business units. The company is committed to working towards this goal within the framework of the industrial relations system. In doing so, CRA supports up-to-date safety net awards and grievance procedures as part of the process of extending staff employment to award-covered employees.

In a series of cases before the Australian Industrial Relations Commission, various approaches have been explored to achieving the flexibility to offer staff employment. Staff coverage grew further in 1995, with a site-wide offer being made at Argyle Diamonds. By the end of June, about two-thirds of Argyle's award employees had accepted the offer.

Training continued to be a major priority. Emphasis was placed on programs to increase understanding and improve communication within CRA and with its major external stakeholders.

## ECONOMIC ENVIRONMENT

World economic growth was slower than last year due in part to more modest growth in the USA and the weaker than expected performance of Japan, CRA's largest market.

There was sustained strong growth in CRA's major markets in Asia, excluding Japan. Many of the countries in this region are becoming significant consumers of metals and energy.

The first half of 1995 was a positive period for mineral producers as metal and energy demand continued to grow. Higher volumes were sold and inventories of many metals reduced at a rapid rate. Consequently, prices of base metals have improved and negotiated contract prices for iron ore and coal have risen from very low bases.

## THE FUTURE

The immediate outlook is for further gains in demand for metals. This comes at a time when productive facilities are operating at near capacity levels and only limited new capacity is scheduled to come on stream. The main feature is likely to be the removal of the overhang of unsold inventories which has been a characteristic of the last two years.

## BRIEF REVIEW OF OPERATIONS

	1995 Half year A\$m	1994 Half year A\$m	Change A\$m	Change %	1994 Year A\$m
<b>Contribution to profit</b>					
Iron ore	157.6	146.2	11.4	8	311.8
Aluminium	118.1	29.6	88.5	299	106.6
Coal	58.9	55.4	3.5	6	102.5
Diamonds	30.1	27.7	2.4	9	61.9
Gold and copper	14.2	23.2	(9.0)	(39)	46.1
Salt	5.6	5.5	0.1	2	12.5
Zinc, lead and silver	-	2.9	(2.9)	-	2.9
Other operations	12.3	5.1	7.2	141	17.7
	<b>396.8</b>	<b>295.6</b>	<b>101.2</b>	<b>34</b>	<b>662.0</b>
Exploration, evaluation and research and development	(65.9)	(63.8)	(2.1)	(3)	(138.6)
Corporate	(37.5)	(27.8)	(9.7)	-	(25.0)
Financing	(12.3)	(3.8)	(8.5)	-	(71.1)
<b>Operating profit after tax</b>	<b>281.1</b>	<b>200.2</b>	<b>80.9</b>	<b>40</b>	<b>491.3</b>
Superannuation	(0.7)	(19.4)	18.7	-	17.0
Abnormal items	(135.4)	147.1	(282.5)	-	70.9
<b>Net profit</b>	<b>145.0</b>	<b>327.9</b>	<b>(182.9)</b>	<b>(56)</b>	<b>579.2</b>

## **Corporate**

Corporate and other costs included the costs of operating CRA headquarters, net of sundry income amounts. The higher costs for this period reflected non-deductible legal expenses and task force expenses. Costs in the first half of last year included legal expenses, the implementation of CRA's safety program and other corporate projects.

## **Financing**

The two major components of financing were interest costs, net of charges to business units for financing of net working capital, and exchange fluctuations arising from intra-group hedging transactions, based on US dollar revenues, assets and debt. Effects of exchange on business unit revenues are reflected in the appropriate contribution to profit while the offsetting effect relating to debt is disclosed in financing costs:

Higher financing costs were attributable largely to the increase in working capital charges and an increase in the amount of interest incurred.

The Australian dollar, widely perceived to be a commodity currency, revalued against the US dollar during the period. The average rate for the 1995 half year was US 73.9 cents (1994 half year US 71.5 cents) and at June end it was US 71.5 cents. The company believes that, in its case, external hedging programs add little value to long term shareholder wealth and therefore are inappropriate for CRA.

## **IRON ORE**

*Contribution to profit A\$157.6 million (1994 first half A\$146.2 million)*

### **Markets**

World steel production remained steady during the first half of 1995. World ore deliveries increased to key markets in both Pacific and Atlantic regions. Demand for lump and pellets was strong. The outlook for crude steel production is firm in most markets.

### **Hamersley Iron**

Profit was higher than for the first half of 1994 as a result of increased sales tonnages and marginally higher prices for iron ore.

The increased iron ore prices negotiated in December 1994 did not become effective in some markets until into the second quarter of 1995. The increased US dollar price of iron ore should provide greater sales revenues in the second half of 1995.

First half shipments were at a record level of 26.4 million tonnes, a 9.5 per cent. increase over the previous record of 24.1 million tonnes set in the first half of 1993. Increased sales reflected record half yearly shipments to Korea, Europe and China. The outlook for shipments for the second half remains positive, however, there are some signs of economic uncertainty in Japan.

Production was 25.1 million tonnes in the first half of 1995. At Marandoo, production continued to increase following the successful commissioning of the mine in the second half of 1994. A new locomotive fleet was commissioned and is generating efficiency and cost improvements.

Exploration for iron ore in the Pilbara increased and resulted in the identification of potential resources of detrital material suitable for the production of lump ore.

Further orebody definition in and around the Tom Price mine indicates an extended life of this operation as a significant producer of high quality lump and fine ore.

## **ALUMINIUM**

*Contribution to profit A\$118.1 million (1994 first half A\$29.6 million)*

### **Market**

London Metal Exchange (LME) stocks fell by almost one million tonnes during the first half of the year, closing at less than 700,000 tonnes at 30 June. The average LME three month price for the six months of 1995 was US\$1,885 per tonne (US 86 cents/lb), a significant increase on the first six month average price for 1994 of US\$1,313 per tonne (US 60 cents/lb). Western world production of primary aluminium, although increasing, remains substantially below capacity.

## **Comalco (CRA 67.0 per cent.)**

Comalco reported an operating profit after tax from business activities of A\$155.1 million for the first half (1994 first half A\$25.3 million). This significant increase in profit resulted mainly from higher alumina and aluminium prices.

The Minerals & Alumina business unit improved profitability, benefiting from higher alumina prices (a result of improved alumina market conditions) and higher sales of beneficiated bauxite.

The Smelting business unit's strong profit performance was attributed primarily to the increase in the LME three month price. Work progressed on the smelter expansion and upgrades at Boyne Island and Tiwai Point.

During the first half, Comalco sold 90 per cent. of its US aluminium rolling and recycling business, Commonwealth Aluminium Corporation. In July, the remaining 10 per cent. interest was sold.

Despite marginally higher sales volumes for the first half, the Australian Rolled Products business unit operated at a loss, reflecting higher metal costs.

Comalco Extruded and Foundry Products recorded a small loss in the face of rising metal costs and a downturn in the building and construction industry resulting in reduced demand for extrusions.

The Gladstone Power Station continued to perform well and satisfactory progress was made on the five year capital expenditure programme.

Comalco New Zealand reported a higher profit than for the same period last year, reflecting continued improvement in the efficiency of operations at the Tiwai Point smelter as well as higher selling prices for primary aluminium.

## **COAL**

*Contribution to profit A\$58.9 million (1994 first half A\$55.4 million)*

### **Markets**

Annual coal price negotiations with Japanese customers resulted in a US\$5.95 per tonne rise in the benchmark price for thermal coal and an increase of US\$5.70 per tonne for hard coking coal benchmark prices. The higher prices negotiated did not come into effect until into the second quarter of the year.

The outlook for Asian and European markets is positive, with further price increases expected over the next 12 to 18 months.

### **Pacific Coal**

*Profit A\$39.2 million (1994 first half A\$40.4 milion)*

Profit was affected adversely by a stronger Australian dollar, the increase in the corporate tax rate, and increased costs at Tarong associated with major equipment maintenance and the opening up of more distant mining areas.

Production and sales from the Blair Athol mine, Queensland, were 4.9 million tonnes and 5.0 million tonnes respectively, compared with 4.4 million tonnes in the first half of 1994. There was strong demand for Blair Athol's coal and all output was sold.

At Blair Athol, an enterprise agreement, which was recently concluded with employees, provides for improved work practices in return for increases in wages.

Deliveries from the Tarong mine, Queensland, were 2.5 million tonnes against 2.6 million tonnes for the same period in 1994. The lower deliveries reflected difficulties associated with the opening of a new mining area early 1995 and wet weather. Demand from the mine's only customer, the Tarong power station, remained steady.

At Tarong, agreement in principle was reached with employees on an enterprise agreement, and processes for formal adoption were progressed. This agreement also provides for improved work practices in return for increases in wages.

#### **Coal & Allied (CRA 70.7 per cent.)**

*CRA's share of profit A\$10.4 million (1994 first half A\$5.1 million)*

Production from Coal & Allied's Mount Thorley and Hunter Valley open-cut mines in New South Wales for the six months was 4.8 million tonnes, compared with a total production of 5.1 million tonnes for the same period last year (which included 0.4 million tonnes from the underground mines sold in April 1994).

Production at both mines was affected adversely by low truck utilisation caused by staff shortages due to inflexible work practices.

Price increases on shipments to Japan announced earlier this year, will assist profitability. However coal shipments to June 1995 were mainly under contract prices applicable before the increases negotiated for the 1995/96 fiscal year. The full effect of the price increases will be realised in the second half of 1995.

Growing demand for thermal and coking coal and the low level of coal stocks in Australia is expected to keep pressure on Coal & Allied's mines to produce at maximum levels.

#### **Kaltim Prima Coal (CRA 50.0 per cent.)**

*CRA's share of profit A\$25.8 million (1994 first half A\$24.1 million)*

Production from Kaltim Prima's Indonesian steaming coal mine was 4.7 million tonnes compared with 4.8 million tonnes for the same period last year. The late arrival of over burden and coaling trucks limited production.

Sales volumes of 4.4 million tonnes were 0.5 million tonnes lower than for the first six months of 1994. (Production and sales figures include the 13.5 per cent. share attributed to the Indonesian State Coal Authority.)

#### **Novacoal**

*Profit A\$9.4 million (1994 first half A\$1.7 million)*

Novacoal's profit for the half year included Coal Rights Compensation receipts and the reversal of tax expense relating to Coal Rights Compensation receipts for the 1994 year.

Novacoal sold 2.2 million tonnes of coal during the first half, similar to that achieved in the first half of 1994.

A new loader and additional dump trucks at the Howick mine, New South Wales, will increase production during the second half of 1995. An environmental impact study for the Howick expansion project is being prepared. Novacoal expects to lodge a development application with the relevant authorities in October 1995.

The Vickery mine in New South Wales, remains a marginal project due mainly to the inability to renegotiate the Vickery award with the union. It is fundamental that work practices be established in the Namoi Valley that will help offset the high rail freight cost.

#### **Kembla Coal & Coke**

*Loss A\$25.9 million (1994 first half loss A\$15.9 million)*

Only 0.7 million tonnes of coal were produced at the West Cliff and Tahmoor mines, in New South Wales, compared with 1.2 million tonnes in the first half of 1994. The decrease resulted principally from geological problems at Tahmoor and prolonged industrial unrest at West Cliff.

Sales for the first half of 1995 were 0.6 million tonnes compared with 1.4 million tonnes for the same period in 1994. With reduced production levels that began in the third quarter of 1994, stocks dropped to such an extent that a moratorium on external shipments was declared during the second quarter of 1995. Shipments resumed in July.

During the first half of 1995, the value of KCC's fixed assets was written down to zero, utilising the group's Asset Revaluation Reserve, and additional restructuring provisions were raised. This business has been restructured with the intention of restoring its viability.

## **DIAMONDS**

*Contribution to profit A\$30.1 million (1994 first half A\$27.7 million)*

### **Markets**

The world market for diamond jewellery continued to grow, however, large scale selling from the Russian stockpile continued to cause concern with its adverse effect on the market for rough and polished diamonds. First half sales of rough diamonds by the Central Selling Organisation (CSO) were 1.6 per cent. below last year's figure.

### **Argyle Diamond Mines (CRA 59.7 per cent.)**

Production from the Argyle diamond mine in Western Australia was 19.0 million carats compared with 19.1 million carats in the first half of last year.

Processing plant throughout was constrained for five days due to the failure of a belt drive from the primary stockpile, but the plant has since resumed operation at the rate anticipated in the expansion project.

Total ore processed, including alluvials, was 6.7 million tonnes compared with 6.0 million tonnes in the previous half year.

Sales of rough diamonds were maintained and deferred purchases by the CSO remained at 15 per cent. Sales of polished diamonds were above previous levels. The CSO reduced Argyle's selling price by 11 per cent. for sales in the second half of 1995.

Recent drilling at the Argyle diamond mine in Western Australia defined a total resource of 207 million tonnes at a grade of 3.3 carats per tonne, up from 166 million tonnes at 3.4 carats per tonne reported at the end of last year. Of this total resource, 75.4 million tonnes at 3.3 carats per tonne will be mined by current open cut mining.

Further drilling at depth is under way to define the quantity of ore that may be suitable for underground mining. Examination of the results of this drilling programme will determine if a full feasibility study into underground mining is warranted.

## **GOLD AND COPPER**

*Contribution to profit A\$14.2 million (1994 first half A\$23.2 million)*

CRA's share of gold from its mines in Australia and Indonesia was 230,000 ounces (1994 first half 250,000 ounces).

### **Markets**

The gold price became more volatile in the latter part of the first half. Prices remain in a relatively narrow range of US\$380 – 390 per ounce. Demand remained strong, especially in Asian markets.

### **Kelian Equatorial Mining (CRA 90.0 per cent.)**

*CRA's share of profit A\$11.1 million (1994 first half A\$25.1 million)*

The Kelian gold mine located in East Kalimantan, Indonesia, produced 183,623 ounces of gold from 3.3 million tonnes of ore. A lower ore grade led to a reduction in gold production of 31,377 ounces and was the main reason for Kelian's reduced profit.

Construction of a full gravity circuit and expansion of the absorption circuit, to increase gold recovery, neared completion.

Government approvals have been received for the realignment of a 1.2 kilometre stretch of the Kelian River allowing expansion of the East Prampus Pit to the north east and access to additional ore reserves.

The defence continues of the action against CRA and its wholly owned subsidiary, Fundsprops Pty Limited, in relation to CRA's takeover bid for Kalimantan Gold NL in 1990-91. CRA remains confident that the plaintiffs will fail in their claims. The case is not expected to come on for trial before the middle of 1996.

### **Peak Gold Mine**

*Profit A\$9.5 million (1994 first half A\$6.2 million)*

Peak Gold Mines in New South Wales benefited from increasing gold and copper prices in the first half.

Total gold production (in bullion and concentrates) was 65,407 ounces from 261,844 tonnes of ore, compared with 57,170 ounces of gold produced from 246,592 tonnes of ore in the first half of 1994. Production of copper concentrate was 10,057 tonnes compared with 6,021 tonnes for the first half of 1994. Higher gold and copper grades in the first half of 1995 resulted in increased production of gold and copper concentrate.

Following the resumption of production of lead and zinc concentrate in the second half of 1994, 2,186 tonnes of lead concentrate and 354 tonnes of zinc concentrate were produced in the first half. Low zinc head grade made the production of zinc concentrate difficult.

An exploration programme aimed at defining additional reserves associated with the Peak gold mine began during the first half.

### **Southern Copper**

*Loss A\$6.4 million (1994 first half loss A\$8.1 million)*

The copper refinery and smelter plant at Port Kembla, in New South Wales, is now completely on care and maintenance. Recovery and sale of copper and precious metal bearing materials is proceeding.

### **Bougainville Copper (CRA 53.6 per cent.)**

*Bougainville Copper remained deconsolidated from the accounts of the CRA Group*

It has not been possible for Bougainville Copper personnel to gain access to the mine to determine the extent of damage and deterioration to the mine's assets.

### **SALT**

*Contribution to profit A\$5.6 million (1994 first half A\$5.5 million)*

### **Market**

Demand for salt in the first half of 1995 was greater than for the corresponding period in 1994 as Japanese chemical producers restocked following the recession.

### **Dampier Salt (CRA 64.9 per cent.)**

Despite the increase in the demand for salt, profit for the first half of 1995 was similar to 1994. This is due partly to the increase in the company tax rate and the higher Australian dollar against the US dollar.

Salt harvested from the Dampier and Lake MacLeod salt fields in Western Australia was 1.6 million tonnes, 0.3 million tonnes below the figure for the same period in 1994. Shipments for the first half of 1995 were 1.9 million tonnes, 0.3 million tonnes above the corresponding period for 1994.

Sales are expected to increase marginally in the second half of 1995.

#### **ZINC/LEAD/SILVER**

*Contribution to profit – nil (1994 first half A\$2.9 million)*

#### **Pasminco (CRA 10 per cent. as at 30 June 1995)**

As at 30 June 1995, CRA retained a 10 per cent. interest in Pasminco after having placed 38.9 per cent. of Pasminco with domestic and offshore institutional investors in May last year. Since Pasminco is no longer included in the consolidated results of the Group, there was no contribution to profit from zinc/lead/silver.

On 25 August 1995, CRA sold its remaining 10 per cent. interest in Pasminco. Proceeds from the sale were A\$135 million and a profit of A\$56 million was achieved. This transaction will be reported in CRA's 1995 full year results.

#### **OTHER OPERATIONS**

*Contribution to profit A\$12.3 million (1994 first half A\$5.1 million)*

#### **Industrial Components**

The Chilean plant, Proacer, operated at full capacity and generated a small profit. The Chandler plant in Arizona, USA, was sold during the period.

#### **Conzinc Asia**

Conzinc Asia reported a profit. With the sale of all minority investments completed, Conzinc Asia is now concentrating on helping the sale of CRA products into Asia. During the period, Conzinc Asia established a new office in India.

#### **NEW PROJECTS**

##### **Century Zinc**

The final feasibility study on the Century zinc-lead-silver project in north western Queensland continued and it is expected that Board approval will be sought in late 1995. Bulk sample plan activities were completed and two shipments of zinc concentrate, totalling 4,700 tonnes, were made to Pasminco's Budel smelter in Holland. A heads of agreement on concentrate sales to the Budel smelter was concluded, for the supply of up to 218,000 tonnes of zinc in concentrate per year.

In August 1995, Century Zinc presented a substantial and innovative package of benefits and programs to the Aboriginal communities in the southern Gulf of Carpentaria region. The offer covered the areas of land access, community development, employment, training, business opportunities, site protection and environmental issues. The offer has a value of over A\$60 million over the next twenty years.

#### **EXPLORATION, EVALUATION, AND RESEARCH & DEVELOPMENT**

Exploration and evaluation programs in Australia and selected countries focused on a wide range of commodities and types of resources. The proportion of exploration effort directed overseas increased.

Group costs charged against profit for exploration and evaluation of projects for the first half was A\$75.4 million (1994 first half A\$54.4 million) and capitalised expenditure was A\$28.9 million (1994 first half A\$36.3 million). Cash spending for the half year totalled A\$99.6 million (1994 first half A\$88.0 million).

At the Honeymoon Well nickel prospect near Wiluna in Western Australia, drilling continued, aimed at increasing the size of the resources. Metallurgical testwork is being conducted on material from each

deposit. The pre-feasibility study has been deferred until the results of the exploration and metallurgical work are known.

Reconnaissance exploration for kaolin at prospects in the south west of West Australia increased the extent of the province. Large resources of high brightness kaolin closer to infrastructure have been identified. Resource definition drilling has been completed on one of these prospects which has confirmed its size and continuity. A bulk sample is being collected for processing trials in Comalco's Weipa plant. A pre-feasibility study will be completed by the end of the year.

At Burunga, near Wandoan in Queensland, an encouraging methane gas flow was obtained from coal measures intersected in the Peat 2 well. Drilling of appraisal wells has begun.

Exploration near some of CRA's existing mines was stepped up, in particular in the Hamersley iron province, the Argyle diamond mine, coal fields in Australia and overseas, and in the Cobar goldfields.

Wimmera Industrial Minerals continued work on evaluation of extensive titania deposits in north western Victoria. A pre-feasibility study is being prepared.

Testing of gold and copper-gold prospects continued in a number of areas. High grade copper, as well as gold mineralisation was intersected in drilling at Sepon, Central Laos. At the Discovery prospect, about 10 million tonnes of near surface, pre-resource gold mineralisation has been identified with an average grade of approximately 3 grams per tonne including some mineralisation of substantially higher grade. The deposit is open in most dimensions and a program of evaluation drilling will start in the fourth quarter.

At Wafi, Papua New Guinea, further significant mineralisation has been identified including a high grade epithermal copper deposit partially overlying the porphyry stock. This deposit averages around 2.5 per cent. copper and 0.5 grams per tonne gold and is up to 120 metres thick with an overlying cap of low grade oxidised gold mineralisation. In the Western Zone at Wafi, about one kilometre from the known mineralisation, hole WR123 reported several pyritic intersections with 4-6 grams per tonne gold aggregating almost 120 metres.

Initial drill testing and trenching at the Famatina gold prospect in Argentina has identified a large low grade zone of outcropping gold mineralisation including several high grade veins. Intersections in high grade mineralisation vary considerably from hole to hole but intercepts of several metres grading around 8 grams per tonne gold are typical.

The Sabalong gold prospect in Indonesia and several gold prospects in Western Australia provided encouraging results. At the Hidden Valley gold prospect in Papua New Guinea, exploration was recommenced. Probable reserves currently stand at 35 million tonnes at 1.7 grams per tonne gold.

CRA entered into an option agreement earlier this year to purchase a controlling share in the Potasio Rio Colorado potash deposit, one of the world's largest undeveloped deposits, located in the Province of Mendoza in Argentina. A project team will undertake an evaluation and review process over the next twelve months.

Total costs charged against profit for research, technology and development for the first half was A\$42.5 million (1994 first half A\$50.3 million). The major areas of expense included the Hismelt (High Intensity Smelting) project and aluminium smelting technology. Cash spending for the half year totalled A\$38.7 million (1994 first half A\$32.5 million)."



## 5. Production figures for the nine months ended 30 September 1995

CRA's production and exploration report for the quarter ended 30 September 1995 was released on 23 October 1995. The following information on production derives from that report.

### CRA PRODUCTION FIGURES

(in thousands)

	Nine months ended 30 September 1995		
	Mine production	CRA equity share of mine production	
<b>Iron ore (tonnes)</b>			
Hamersley Iron's mines	34,199	100.0%	34,199
Channar	4,280	60.0%	2,568
<b>CRA total</b>			<b>36,767</b>
<b>Pacific coal (tonnes)</b>			
Tarong (a)	3,981	100.0%	3,981
Blair Athol (a)	7,911	57.2%	4,525
<b>CRA total</b>			<b>8,506</b>
<b>Kaltim Prima (tonnes)</b>			
Coal (a)	7,175	43.25%	3,103
<b>Kembla Coal Coke</b>			
(b)	1,500	100.0%	1,500
(a)	43	100.0%	43
(c)	181	100.0%	181
<b>CRA total</b>			<b>1,724</b>
<b>Novacoal (tonnes)</b>			
Howick (a)	2,445	60.0%	1,467
(b)	326	60.0%	196
Vickery (a)	268	100.0%	268
<b>CRA total</b>			<b>1,931</b>
<b>Coal &amp; Allied (tonnes)</b>			
Hunter Valley (a)	1,531	70.7%	1,082
(b)	2,730	70.7%	1,930
Mount Thorley (a)	1,466	56.6%	830
(b)	1,526	56.6%	864
<b>CRA total</b>			<b>4,706</b>
<b>Bauxite (beneficiated tonnes)</b>			
Weipa	6,992	67.0%	4,685
<b>Aluminium (tonnes)</b>			
Comalco	327	67.0%	219
<b>Gold (ounces)</b>			
Peak	86	100.0%	86
Kelian	269	90.0%	242
<b>CRA total</b>			<b>328</b>
<b>Diamonds (carats)</b>			
Argyle	27,951	59.7%	16,687
<b>Silver (ounces)</b>			
Peak	13	100.0%	13
Kelian	240	90.0%	216
<b>CRA total</b>			<b>229</b>
<b>Salt (tonnes)</b>			
DSL	2,578	64.9%	1,673

- (a) Steaming coal  
(b) Metallurgical coal  
(c) Coke

## **6. Material changes**

There has been no significant change in the financial or trading position of the CRA Group since 30 June 1995, being the date to which the last published unaudited interim results of CRA Group were drawn up.

## Part IV

### UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR THE COMBINED GROUP

#### 1. Introduction and basis of preparation

The following pro forma unified information has been drawn up to show how the financial statements would have appeared for the Combined Group if the merger had taken effect on 1 January 1994. No account has been taken of trading since 1 January 1995. The pro forma unified information has been prepared for illustrative purposes only, and because of its nature, it cannot give a complete picture of the results and financial position.

The pro forma unified financial statements set out below have been prepared in accordance with UK GAAP and the principal accounting policies of RTZ as set out in paragraph 2(f) of Part II.

The directors of both CRA and RTZ are of the view that the combined economic enterprise comprising the CRA Group and the RTZ Group should be the proper entity for the purposes of financial reporting and auditing. Because of the relative numbers of shareholders in the combined enterprise and the history of reporting to date in the UK, the combined financial statements are to be prepared in accordance with UK GAAP. The directors of CRA have sought and received relief from the Australian Securities Commission in respect of the preparation of consolidated financial statements for the CRA Group. Australian reporting requirements are to be met by the preparation of the Unified Group combined financial statements under UK GAAP, with a reconciliation to Australian GAAP.

#### 2. Letter from Coopers & Lybrand

The following is the text of a letter from Coopers & Lybrand, London and Coopers & Lybrand, Melbourne addressed to the Directors of RTZ and the Directors of CRA.

The Directors  
The RTZ Corporation PLC  
6 St James's Square  
London SW1Y 4LD

Coopers & Lybrand  
1 Embankment Place  
London WC2 6NN

The Directors  
CRA Limited  
55 Collins Street  
Melbourne, Victoria  
Australia

Coopers & Lybrand  
333 Collins Street  
Melbourne, Victoria  
Australia

27 November 1995

Dear Sirs

The RTZ Corporation PLC and CRA Limited

We have reviewed the calculations and bases of preparation for the unaudited pro forma unified profit and loss account for the year ended 31 December 1994 and the unaudited pro forma unified balance sheet at that date of The RTZ Corporation PLC ("RTZ") and CRA Limited ("CRA") and their respective subsidiary companies, for which the directors of RTZ and CRA are solely responsible. The pro forma statements, which have been prepared for illustrative purposes only, are set out under paragraphs 3 and 4 of Part IV of the respective Circulars to the shareholders of RTZ and CRA dated 27 November 1995.

In our opinion, the pro forma statements have, so far as the calculations are concerned, been properly compiled on the bases of preparation set out therein, and in paragraph 1 of Part IV of the respective Circulars, and in accordance with accounting policies consistent with those of RTZ. Further, in our opinion, the adjustments made are appropriate in the circumstances.

Yours faithfully

Coopers & Lybrand  
Chartered Accountants  
London

Coopers & Lybrand  
Chartered Accountants  
Melbourne

### 3. Pro forma unified profit and loss account

For the year ended 31 December 1994

Notes	CRA					UK GAAP \$m		
	A\$m AUS GAAP	Reclassi- fications	Adjustments	A\$m UK GAAP	\$m UK GAAP	RTZ	Elimination	RTZ-CRA
	1	2	2	2	3	4	5	6
Sales revenue	5,811	331	—	6,142	2,932	3,942	(1,185)	5,689
Share of associates' turnover	—	(331)	—	(331)	(158)	(1,654)	1,185	(627)
Other income	725	(725)	—	—	—	—	—	—
	6,536	(725)	—	5,811	2,774	2,288	—	5,062
Operating costs	(5,854)	780	96	(4,978)	(2,376)	(1,770)	—	(4,146)
Operating profit	682	55	96	833	398	518	—	916
Share of associates' profit	41	—	—	41	19	389	(171)	237
<b>Profit before exceptional items</b>	723	55	96	874	417	907	(171)	1,153
Exceptional items	(36)	47	22	33	16	7	(7)	16
Profit on ordinary activities before interest	687	102	118	907	433	914	(178)	1,169
Net interest receivable/(payable)	—	(55)	—	(55)	(26)	8	—	(18)
Profit on ordinary activities before taxation	687	47	118	852	407	922	(178)	1,151
Taxation								
Before exceptional items	(164)	—	(5)	(169)	(81)	(275)	32	(324)
Exceptional items	60	—	(20)	40	19	10	(10)	19
	(104)	—	(25)	(129)	(62)	(265)	22	(305)
Profit on ordinary activities after taxation	583	47	93	723	345	657	(156)	846
Attributable to outside shareholders	(4)	(47)	(4)	(55)	(26)	(45)	—	(71)
<b>Profit for financial year</b>	579	—	89	668	319	612	(156)	775
Dividends to RTZ and CRA shareholders	(358)	—	—	(358)	(171)	(294)	97	(368)
Retained profit for financial year	221	—	89	310	148	318	(59)	407
Earnings per share (note 7)	90.5c	—	13.9c	104.4c	49.8p	57.4p	—	55.5p
Adjusted earnings (note 8)	555	(47)	87	595	284	595	(139)	740
Adjusted earnings per share (note 8)	86.7c	(7.3c)	13.6c	93.0c	44.3p	55.8p	—	53.1p

#### Notes:

- CRA figures are extracted from the accounts of CRA, drawn up on the "Equity" basis, which are set out in paragraph 2 of Part III.
- The reclassifications and adjustments made to CRA's financial statements have been carried out to convert to UK GAAP using accounting policies consistent with those of RTZ. The adjustments are explained as follows:

#### Adjustments to CRA's net earnings for the year to 31 December 1994.

	A\$m
Elimination of goodwill amortisation	23
Elimination of revaluation depreciation	23
Abnormal charges relating to write off of higher carrying values of assets under Australian GAAP	36
Other	7
	89

- Conversion to sterling has been made using the average exchange rate for 1994 £1=A\$2.095.
- RTZ figures are extracted from the published financial statements of RTZ which are set out in paragraph 2 of Part II.
- The elimination constitutes the removal of the 49 per cent. interest in CRA already included in the RTZ Group accounts.
- The RTZ-CRA figures are set out under UK GAAP in sterling.
- Earnings per share is calculated using the weighted average number of ordinary shares in issue during 1994, except that the number of shares for CRA have been adjusted for the proposed bonus issue described in paragraph 2 of Part I, as if the issue had occurred on 1 January 1994.
- Adjusted earnings and adjusted earnings per share are shown because they reflect the underlying performance by excluding the effect of exceptional items.

#### 4. Pro forma unified balance sheet

As at 31 December 1994

	CRA					UK GAAP \$m		
	A\$m AUS GAAP	Reclassi- fications	Adjustments	A\$m UK GAAP	\$m UK GAAP	RTZ	Elimination	RTZ-CRA
Notes	1	2	2	2	3	4	5	6
<b>Fixed assets</b>								
Goodwill	48	—	(48)	—	—	—	—	—
Property, plant & equipment	5,439	295	(501)	5,233	2,595	2,718	—	5,313
Investments	754	(223)	—	531	263	1,453	(980)	736
	6,241	72	(549)	5,764	2,858	4,171	(980)	6,049
<b>Current assets</b>								
Stock/inventories	803	67	—	870	431	402	—	833
Debtors/accounts receivable and prepayments	857	429	(107)	1,179	585	750	—	1,335
Investments	—	270	(9)	261	129	270	—	399
Cash at bank and in hand	329	—	—	329	163	858	—	1,021
	1,989	766	(116)	2,639	1,308	2,280	—	3,588
<b>Creditors due within one year</b>								
Short term debt	—	(418)	—	(418)	(207)	(994)	—	(1,201)
Creditors/accounts payable and accruals	(1,547)	280	—	(1,267)	(628)	(699)	—	(1,327)
	(1,547)	(138)	—	(1,685)	(835)	(1,693)	—	(2,528)
<b>Net current assets</b>	442	628	(116)	954	473	587	—	1,060
Other non current assets	988	(988)	—	—	—	—	—	—
<b>Total assets less current liabilities</b>	7,671	(288)	(665)	6,718	3,331	4,758	(980)	7,109
<b>Creditors due after one year</b>								
Medium and long term loans	(1,227)	138	—	(1,089)	(540)	(406)	—	(946)
Provisions for liabilities and charges	(1,138)	146	(1)	(993)	(492)	(776)	—	(1,268)
Outside shareholders' interests (equity)	(622)	4	14	(604)	(299)	(128)	—	(427)
	4,684	—	(652)	4,032	2,000	3,448	(980)	4,468
<b>Capital and reserves</b>								
Called up share capital (includes non-equity)	1,192	—	—	1,192	591	118	(268)	441
Share premium account	1,289	(389)	—	900	447	1,036	(241)	1,242
Profit and loss account and other reserves	2,203	389	(652)	1,940	962	2,294	(471)	2,785
<b>Shareholders' funds</b>	4,684	—	(652)	4,032	2,000	3,448	(980)	4,468

Notes:

1. CRA figures are extracted from the accounts of CRA, drawn up on the "Equity" basis, which are set out in paragraph 2 of Part III.
2. The reclassifications and adjustments made to CRA's financial statements have been carried out to convert to UK GAAP using accounting policies consistent with those of RTZ. The adjustments are explained as follows:

Adjustments to CRA's shareholders funds at 31 December 1994

	A\$m
Elimination of goodwill	262
Elimination of unrealised asset revaluation reserves	326
Other	64
	652

3. Conversion to sterling has been made using the closing exchange rate at 31 December 1994 £1=A\$2.017.
4. RTZ figures are extracted from the published financial statements of RTZ which are set out in paragraph 2 of Part II.
5. The elimination constitutes the removal of the 49 per cent. interest in CRA already included in the RTZ Group accounts and the adjustment for the bonus issue described in paragraph 2 of Part I as if the issue had occurred on 1 January 1994.
6. The RTZ-CRA figures are set out under UK GAAP in sterling.

## 5. Restatement of key pro forma figures from UK GAAP to Australian GAAP

### (a) Introduction

The following reconciliations have been prepared to show the approximate effect of the application of Australian GAAP on RTZ-CRA unified net earnings and shareholders' funds.

The RTZ-CRA unified net earnings and shareholders' funds (expressed in £m) are extracted from the unified pro forma profit and loss account and balance sheet set out in paragraphs 3 and 4 of Part IV.

The figures are converted to Australian dollars using the average exchange rate for 1994 for the net earnings figure of £1 = A\$2.095 and the closing exchange rate at 31 December 1994 for the shareholders' funds figure of £1 = A\$2.017.

The adjustments convert the RTZ-CRA unified net earnings and shareholders' funds from UK GAAP to Australian GAAP.

### (b) Differences between Australian GAAP and the application of UK GAAP

#### (i) Accounting for goodwill

In the UK the benchmark approach for accounting for purchased goodwill is for immediate write off against reserves. In Australia, goodwill must be brought to account as an asset and, subject to the recoverable amount constraint, amortised over its expected economic life (with a cap of 20 years).

#### (ii) Accounting for deferred tax

Australian GAAP employs the comprehensive liability method of deferred tax accounting whereas the partial liability method is used in the UK.

#### (iii) Accounting for associated companies

Whereas the equity method is applied in the prime consolidated financial statements in the UK to bring to account interests in associated companies, it is used to determine note disclosures only in Australia.

#### (iv) Accounting for pensions

In the absence of an Australian accounting standard in respect of pensions liabilities, adjustment has been made to restate such items in accordance with the policy followed by CRA in its Australian statutory accounts.

### (c) Restatement of RTZ-CRA net earnings from UK GAAP to Australian GAAP

	Year ended 31 December 1994	
		£m
Net earnings under UK GAAP		775
		A\$m
Goodwill amortisation		1,624
Adjustment of deferred tax to the full provision basis		(176)
Pension accounting		8
		(6)
Approximate net earnings under Australian GAAP (equity basis)		A\$m
Adjustment to exclude earnings retained in associated companies		1,450
		(186)
Approximate net earnings under Australian GAAP (statutory basis)		A\$m
		1,264

**(d) Restatement of RTZ-CRA shareholders' funds from UK GAAP to Australian GAAP**

	<b>As at 31 December 1994</b>	
Shareholders' funds under UK GAAP	£m	4,468
	A\$m	9,012
Reversal of unamortised portion of goodwill charged to reserves		2,326
Adjustment of deferred tax to the full provision basis		(62)
Pension accounting		(22)
Approximate shareholders' funds under Australian GAAP (equity basis)	A\$m	11,254
Adjustment to exclude accumulated profits retained in associated companies		(840)
Approximate shareholders' funds under Australian GAAP (statutory basis)	A\$m	10,414

## **Part V**

### **INDEPENDENT EXPERT'S REPORT**

Set out below is the text of the report provided by Morgan Stanley Australia Limited ("Morgan Stanley"), as independent expert, to CRA, in accordance with the requirements of the Australian Securities Commission and the Listing Rules of the Australian Stock Exchange. This report includes the text of a report by Anderson & Schwab, Inc. to Morgan Stanley. These reports represent solely the views of the authors and have not been adopted or approved by the boards of directors of CRA or RTZ.



# **INDEPENDENT EXPERT'S REPORT**

**CRA LIMITED**

**&**

**THE RTZ CORPORATION PLC**

**Dual Listed Companies Proposal**

***MORGAN STANLEY AUSTRALIA LIMITED***

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# 1. INTRODUCTION

## 1.1 Purpose of Report

On October 9, 1995 CRA Limited ("CRA") and The RTZ Corporation PLC ("RTZ") announced their intention to combine their worldwide interests through a dual listed companies ("DLC") structure. The two companies will retain their separate identities, their separate shareholders and their existing share listings, but they will effect an economic merger of their businesses into one international enterprise with common boards of directors and unified management. The companies will enter into a sharing agreement and other agreements that will provide that CRA and RTZ shareholders will be entitled to equivalent cash dividends and capital returns as if they held shares in a single enterprise. The terms of the proposal (the "DLC Proposal") are fully described in the Explanatory Memorandum by CRA to its shareholders (the "CRA Explanatory Memorandum") which accompanies this Report.

As a consequence of this announcement, CRA has asked Morgan Stanley Australia Limited ("Morgan Stanley") to prepare an independent expert's report (the "Report") stating whether, in Morgan Stanley's opinion, the DLC Proposal is "fair and reasonable" to CRA shareholders other than Tinto Holdings Australia Pty Ltd, the RTZ subsidiary which holds 49% of the ordinary shares in CRA (the "CRA Public Shareholders").

This Report is prepared pursuant to instructions received by Morgan Stanley in a letter from CRA dated October 13, 1995, which stated that "Although discussions are continuing with the Australian Stock Exchange ("ASX") and the . . . Australian Securities Commission ("ASC") . . . concerning the relevant regulatory requirements for implementation of the DLC Proposal, Morgan Stanley should assume that the Report will need to meet the requirements of the ASX in respect of Listing Rule 3J(3) and 3S(3), as well as the requirements of the ASC in respect of proposals put to shareholders for approval under Section 623 of the Corporations Law."

Morgan Stanley has since been advised that the DLC Proposal will require the approval of the CRA Public Shareholders under Section 623 of the Corporations Law (as modified by the Australian Securities Commission) and under Listing Rules 3J(3) and 3S(3).

## 1.2 Structure of Report

To simplify the use of this Report by CRA's shareholders we have set out in Section 2 a description of the basis on which our opinion on the DLC Proposal was formed and a summary of that opinion. Section 3 contains an overview of the methodologies used to calculate the fair market value of the business units of both CRA and RTZ, and an overview of our methodologies for determining the relative values of the two companies. Section 4 gives a brief description of some key terms of the DLC Proposal. Section 5 presents for both CRA and RTZ a Company Summary and Valuation, and a Summary of our Relative Valuation Analysis.

We have included in Sections 6-13 for CRA and in Sections 14-18 for RTZ, detailed discussions of the operations of each company broken out by principal business unit. These business unit discussions are more detailed than the Company Summaries in Section 5. Further information about CRA and RTZ is contained in Parts II and III of Section B of the CRA Explanatory Memorandum. Each of Sections 6-18 discusses our valuation for each business unit in greater detail than in the Company Summaries and Valuations in Section 5.

We have adopted this structure to provide CRA's shareholders with both an overview of our approach and an overview of each of CRA and RTZ and their relative values, prior to providing a more detailed discussion of each company's business units and their respective values.

Throughout this Report, a reference to "\$" is to Australian dollars and a reference to "US\$" is to United States of America dollars.

## 2. MORGAN STANLEY'S OPINION

### 2.1 Basis of Opinion

As set out in Section 1.1 above, we have been asked to prepare this Report stating whether, in our opinion, the DLC Proposal is “fair and reasonable” to the CRA Public Shareholders having regard to the requirements of Section 623 of the Corporations Law and ASX Listing Rules 3J(3) and 3S(3) and the relevant ASC Policy Statements and Practice Notes. The term “fair and reasonable” is not defined in the Corporations Law nor in the ASX Listing Rules. ASC Policy Statement 74 ‘Acquisitions agreed to by Shareholders’ sets out the ASC’s views on the meaning of the term “fair and reasonable”, for non-associated shareholders in the context of a Section 623 (Corporations Law) transaction.

ASC Policy Statement 74 states that “in the context of a S.623 proposal, what is fair and reasonable should be judged in all the circumstances of the proposal [by comparing] the likely advantages and disadvantages for the non-associated shareholders if the proposal is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the value of the shares acquired under the proposal and the value of the consideration to be paid is only one element of this assessment.”

Section 623 permits an acquisition of a significant shareholding where the approval of the other shareholders is obtained. Accordingly, preparation of a report in the context of a Section 623 proposal usually involves determining whether a proposed acquisition of shares is fair and reasonable to the other shareholders.

Under the DLC Proposal, however, there will be no acquisition of CRA ordinary shares. Rather, the CRA Public Shareholders will, in effect, exchange a 51% economic interest in CRA for a 23.5% economic interest in the Combined Enterprise. CRA and RTZ have agreed that this exchange will be based on CRA and RTZ shares having an interest in the Combined Enterprise in the ratio 1.075:1 (the “Combination Ratio”).

Accordingly, in comparing the fair market value of the CRA Public Shareholders’ interest in CRA to the fair market value of the interest they will hold in the Combined Enterprise, we believe the expert must compare the Combination Ratio to his assessment of the ratio of the fair market value of CRA ordinary shares (“CRA Shares”) to the fair market value of RTZ ordinary shares (“RTZ Shares”).

Therefore, in arriving at our opinion as to whether or not the DLC Proposal is fair and reasonable to the CRA Public Shareholders, we have considered:

- (i) the comparison of fair market value of the CRA Public Shareholders’ interest in CRA to that of the interest they will hold in the Combined Enterprise as reflected by the comparison of the Combination Ratio to the ratio of the fair market values of CRA Shares and RTZ Shares;
- (ii) other advantages and disadvantages to the CRA Public Shareholders if the DLC Proposal is implemented and if it is not;
- (iii) the possibility of any alternative transactions which might be more advantageous to the CRA Public Shareholders; and
- (iv) other relevant circumstances surrounding CRA and the DLC Proposal.

### 2.2 Summary of Opinion

Based upon and subject to this Report, we are of the opinion that as of the date hereof, the DLC Proposal is fair and reasonable to the CRA Public Shareholders.

Our opinion is based on the following:

- (i) **Comparison of the Combination Ratio to the Ratio of the Fair Market Values of CRA Shares and RTZ Shares**

In comparing the Combination Ratio to the ratio of the fair market values of CRA Shares and RTZ Shares, Morgan Stanley has assessed the fair market value of each CRA Share, based on and subject to

the assumptions stated in this Report, to be in the range of \$17.63 to \$19.30 and has assessed the fair market value of each RTZ Share, as of the same date, to be in the range of \$17.92 to \$20.16.

On the basis of these valuations for CRA Shares and RTZ Shares, Morgan Stanley has assessed the ratio of the fair market value of each CRA Share (prior to the CRA bonus issue of 7.5 ordinary shares for each 100 CRA ordinary shares currently held as contemplated by the DLC Proposal) as between 0.895 and 1.050 times the fair market value of each RTZ Share.

The Combination Ratio of 1.075:1 is above the upper end of the range of the ratio of assessed fair market values. The upper end of such range reflects the high end of the range of fair market values for the CRA Shares and the low end of such range for RTZ Shares. The Combination Ratio is 11% above the ratio of fair market values based on the midpoints of the valuation ranges for CRA Shares and RTZ Shares. Therefore, in our opinion, based on and subject to the assumptions stated in this Report, the comparison of the fair market value of the economic interest to be received by the CRA Public Shareholders in the Combined Enterprise under the DLC Proposal to the fair market value of CRA Shares is favourable to the CRA Public Shareholders before taking into account the other circumstances relating to the DLC Proposal including advantages and disadvantages to the CRA Public Shareholders of the DLC Proposal.

## **(ii) Advantages of the DLC Proposal**

### ● *Scale and Diversification of Combined Enterprise*

The Combined Enterprise would be the world's largest mining group, approximately 1.5 times larger by market capitalization than its next largest competitor. It would have a broad geographic diversification of its operations, with North America representing 43% of its assets, Australia and New Zealand, 36%, and the remainder spread across Europe, South America, Asia, and Africa. (Refer to chart on page 17). It would also have strong positions in a broad range of commodities including copper, aluminium, coal, iron ore, borates, titanium dioxide feedstock, gold, zinc and diamonds.

In this way, the DLC Proposal would bring to CRA shareholders an immediate and substantial diversification of geographic and commodity exposure. Attempting to replicate this position as a stand-alone company through internal growth would involve a long time frame and substantial uncertainty as to ever being successful.

The scale, broad international presence and financial resources of the Combined Enterprise together with its combined management, technical, and operational skills will enable it to compete more effectively in the global mining industry. It will be able to undertake larger (and in many cases on a more cost competitive basis) projects or greater exposure to any particular country risk than CRA by itself would likely undertake.

### ● *Growth Opportunities*

After divesting several businesses and focusing on its core mining and smelting operations over the last few years, CRA's senior management has determined that in order to achieve the desired level of growth in CRA's business and acceptable shareholder returns, it needs to aggressively pursue international expansion opportunities in addition to those available within Australia. CRA's size in relation to the Australian mining industry and the modest record of growth it has achieved to date, in pursuing a corporate strategy focused primarily on Australia and adjacent regions, support this conclusion.

In recent years, RTZ has also pursued a strategy of divestment of non-mining operations and aggressively expanding its core mining operations into new geographic regions. As both companies seek opportunities outside their "traditional" areas of geographic focus, CRA's future growth strategy involves a greater risk of conflict or competition with RTZ than has existed to date. The DLC Proposal resolves this issue and enhances CRA's ability to realize its growth strategy. The Combined Enterprise should be able to take advantage of international growth opportunities much more effectively than CRA would by itself, due to its existing presence in a

broad range of geographic regions, its strong positions in a wide variety of commodities and its excellent record in acquiring and developing new projects.

- *Complementary Operating/Geographic Experience*

The DLC Proposal will allow for optimizing the deployment of the management, operational and technical skills of the two companies across the assets and exploration opportunities of the Combined Enterprise. RTZ has a strong record in acquisitions and new project development whereas CRA's strengths lie in operational and technical areas. The deployment of both sets of skills across the common assets should improve the effectiveness of the DLC in operating and growing its business.

An example of this type of opportunity would be utilizing CRA's experience in diamonds in the development of RTZ's diamond resource at Diavik in the NorthWest Territories in Canada. Likewise, RTZ's experience in industrial minerals processing could potentially be utilized in the development of CRA's titanium mineral sands resource in the Wimmera in Victoria.

- *Earnings Per Share Accretion*

As set out in the pro-forma unaudited financial information for the Combined Enterprise in the CRA Explanatory Memorandum, the implementation of the DLC Proposal would have resulted in an increase in earnings per share for CRA shareholders on a pro-forma basis under UK GAAP of 20% for the year ended December 31, 1994 and 67% for the six months ended June 30, 1995.

- *Dividend Policy*

CRA and RTZ have stated in the CRA Explanatory Memorandum that the Combined Enterprise will adopt RTZ's progressive dividend policy. The objective of this policy is to increase dividends over time and to avoid cutting dividends in periods of reduced earnings. If the objectives of this policy are achieved, a more stable outlook for dividends would be implied than has been the recent pattern of CRA's dividends.

- *Tax Benefits of DLC Structure over Alternatives*

We have considered the tax attributes of the DLC structure as an advantage to the extent the structure avoids potential tax disadvantages that would have been associated with a full merger of CRA and RTZ. The principal benefits of the DLC structure are that CRA's ability to pay franked dividends (subject to availability of franking credits) to the CRA Public Shareholders is not lost and it avoids crystallizing capital gains because no disposal of CRA Shares is involved. A conventional merger in which CRA Shares were exchanged for shares in a foreign merged entity would involve both these potentially adverse consequences for a tax-paying shareholder.

### **(iii) Disadvantages of the Proposal**

- *Control of CRA*

As a result of the DLC Proposal, control of CRA will reside with the board of directors of the DLC and with the shareholders of CRA and RTZ. The CRA Public Shareholders will have 23.3% of the votes in the election of the board of directors of the DLC. The current RTZ shareholders will have the remaining 76.7% of the votes. However, as the share registers currently stand, the largest shareholder in the Combined Enterprise will be a large UK funds management group, Mercury Asset Management, which, under discretionary investment management arrangements, will have approximately 8% of the votes. As we believe that effective control of CRA currently resides with RTZ by virtue of its 49% shareholding, and not with the CRA Public Shareholders, we do not view the vesting of the control of CRA with the DLC board of directors and with the shareholders of CRA and RTZ as a disadvantage to the CRA Public Shareholders. Arguably the CRA Public Shareholders are put in an improved position with respect to control. They will have 23.3% of the voting power in the election of the board of directors with the remaining 76.7% exercised by a diverse group of RTZ shareholders, rather than being subject to a single 49% shareholding block in CRA which is effectively voted by RTZ management.

● *The Possibility of a Takeover Offer for CRA*

A theoretical disadvantage of the DLC Proposal is that it practically eliminates the possibility of a separate takeover offer for CRA. As a result of provisions in the DLC structure any takeover offer would effectively be required to be made for both companies in the DLC structure. We do not view this as anything more than a theoretical disadvantage for two reasons:

- (i) In our view a takeover offer from RTZ is highly unlikely. RTZ already has effective control of CRA and the acquisition of the remaining 51% of the CRA Shares would not generate sufficient benefits to the earnings and cash flow of RTZ to provide an adequate return to RTZ shareholders on the premium that a takeover bid would require. Moreover RTZ senior management has recently re-affirmed both publicly and to Morgan Stanley directly that it will not make a takeover bid for the remaining CRA Shares that it does not own.
- (ii) A third party bid for CRA is impractical so long as RTZ holds 49% of CRA. From its current position RTZ can move to prevent a third party gaining control of CRA. RTZ's senior management has also confirmed that if the DLC Proposal does not proceed, it will not sell its shareholdings in CRA. Of course this situation could change in the future. However, considering the 33-year history of this investment, the strategic benefits to RTZ of its present ownership position, and the small number of parties who might consider the acquisition of CRA, we consider that a third party bid is therefore highly unlikely.

● *Loss of Naturalized Status for FIRB Purposes*

At present, CRA has naturalized Australian status for foreign investment purposes, despite RTZ's 49% shareholding in CRA.

If the DLC Proposal is implemented, CRA will lose its naturalized status and will be treated like any other foreign person under the Foreign Acquisitions and Takeovers Act, administered by the Foreign Investment Review Board ("FIRB").

Under existing Federal Government policy, this will require approval of acquisitions in excess of A\$50 million by CRA where CRA acquires more than 15% of an Australian corporation or control of an Australian business. Whilst this may impose restrictions on CRA that do not currently exist, Morgan Stanley's experience with the administration of the Government's foreign investment policy indicates that this is unlikely to significantly impede CRA's business development except in areas particularly sensitive under the Government's policy (e.g., uranium, media, banking, civil aviation).

**(iv) Possible Alternative Transactions**

If the DLC Proposal does not proceed, the relevant alternatives to consider would be as follows:

**(a) Status Quo**

Morgan Stanley believes that the substantial likelihood is that the relationship between CRA and RTZ would be maintained as the status quo for the foreseeable future if the DLC Proposal does not proceed. As can be inferred from the above discussion of the advantages of the DLC Proposal, we believe that it would be significantly more difficult for CRA to achieve its objective of becoming a truly global mining company on its own than it would be as part of the DLC. Its growth would be more dependent on successful exploration and development in new regions where it has not operated historically.

**(b) Takeover Bid by RTZ or a Third Party**

For the reasons discussed above, we believe this alternative is highly unlikely.

**(c) Merger Through Scheme of Arrangement or Share Exchange**

A conventional merger under which shares in CRA were exchanged for shares in RTZ or in a new holding company (whether by scheme of arrangement or share exchange takeover) would trigger



capital gains tax ("CGT") on the disposal of those CRA shares which are post-CGT holdings, that is, acquired on or after 20 September 1985. The new shares in RTZ or the merged entity would be subject to CGT on their disposal for all CRA shareholders including those whose CRA shares are not currently subject to CGT. Further, RTZ or the merged entity (assuming it would be a foreign company) would be unable to pay franked dividends on those new shares. This form of transaction would therefore be disadvantageous to tax-paying CRA shareholders compared to the DLC Proposal.

**(d) Other Forms of Business Co-operation Between CRA and RTZ (e.g., Joint Ventures, Joint Development)**

While such arrangements may be possible, they will be unlikely to capture the full long-term benefits of combining the two businesses. The differential equity interests the two companies would have in such projects compared to 100%-owned projects involves an inherent conflict of commercial interests and makes pursuit of broad co-operation in this form unlikely. We note that these forms of co-operation have not been pursued extensively by the companies to date.

**(v) Other Relevant Circumstances Surrounding CRA and the DLC Proposal**

● *Management & Board Representation*

CRA and RTZ have agreed that existing officers and directors of CRA will have significant management and board roles in the DLC structure. Although these positions are not entrenched, they will allow the CRA management significant influence over the future operations and strategy of the Combined Enterprise.

The proposed appointments are as follows:

- Mr. John Uhrig, who is the Chairman of CRA, will become Deputy Chairman of RTZ. He will also be the Chairman of the Nomination Committee of the boards of CRA and RTZ and Chairman of the Implementation Committee;
- Mr. Leon Davis, who is the Managing Director of CRA, will become the Chief Executive Officer of the whole DLC group after Sir Derek Birkin's retirement in 1996;
- Mr. Leigh Clifford, who is a CRA executive currently seconded to RTZ, will become the Managing Director of CRA in 1996;
- In addition to Mr. Clifford, six current Australian directors of CRA will sit on the boards of both CRA and RTZ. As a proportion of the total board of twenty members, this is a significant representation of CRA's current board in the DLC structure.

● *Possible Tax Implications*

Whilst the DLC Proposal should be tax neutral for the CRA Public Shareholders, its implementation may have some tax consequences for CRA in relation to deductibility of carry forward tax losses, and the capital gains tax free status of its assets.

*Tax losses*

CRA has informed Morgan Stanley that the CRA group of companies has carry forward tax losses. Under Australia's tax laws, those losses would not be deductible unless there is sufficient continuity of ownership of the relevant companies, or the relevant companies satisfy a continuity of business test. Whilst the DLC Proposal may affect the required continuity of ownership for some companies, CRA has informed Morgan Stanley that the effect (if any) on the CRA group's tax position will not be material.

*CGT free status*

Under Australia's tax laws, assets of the CRA group which were acquired prior to 20 September 1985 ("Tax Free Assets") may be "freshened up" for capital gains tax purposes if the

Commissioner of Taxation considers that there has been a change in the majority underlying interests in CRA. In those circumstances, if any of the Tax Free Assets are disposed of in the future for a price which exceeds their market value as at the date of change (indexed for inflation and plus transaction costs), the resulting gain will be subject to capital gains tax. Conversely, such a disposal could give rise to a capital loss for tax purposes if the price were less than the market value as at the date of change (plus transaction costs).

CRA has informed Morgan Stanley that it considers the DLC Proposal will not itself affect the capital gains tax free status of the Tax Free Assets, but acknowledges that the DLC Proposal may cause the Commissioner to require CRA to demonstrate that there has not been a change in the majority underlying interests in CRA.

- *Cost Savings*

The managements of CRA and RTZ have informed us that in their view there are no significant cost savings arising from the implementation of the DLC Proposal. This corroborates the view that there are unlikely to be benefits to near-term earnings from a takeover of CRA by RTZ sufficient to justify a takeover bid and therefore supports the view that such a bid is unlikely.

**Since individual circumstances of CRA Public Shareholders may vary, shareholders should consult their own financial advisor prior to determining whether to vote in favor of the DLC Proposal.**

### 3. VALUATION METHODOLOGIES

#### 3.1 Valuation Methodology

As the mining operations and other businesses of CRA and RTZ are diverse in nature, our approach to valuation was to separate each company's operations into business units with similar characteristics, and then to value each distinct business unit separately. The appropriate valuation methodology was selected for and applied to each business unit as required by the nature of the operations. The estimated fair market value of each of these business units and other assets was then aggregated, and the sum of the value of net borrowings, capitalized corporate costs and other non-trading assets and liabilities as at June 30, 1995 deducted to arrive at the equity value for the CRA Shares or RTZ Shares.

ASC Practice Note 43 outlines the appropriate methodologies which an expert should consider in valuing assets or securities. The methodologies are as follows:

- (a) Discounted cash flow analysis;
- (b) Capitalization of earnings or cash flows;
- (c) The amount which an alternative acquiror might be willing to offer if all the securities in the target company were available for purchase;
- (d) The amount that will be realized through an orderly realization of assets;
- (e) The most recent quoted price of listed securities; or
- (f) Current market value of the asset, securities or company.

Morgan Stanley has considered each of these valuation methodologies and has concluded that for most of CRA's and RTZ's business units discounted cash flow ("DCF") analysis is the most appropriate primary valuation methodology for the reasons described below. Capitalization of earnings or cash flow has been employed as a secondary valuation methodology to provide a check on the reasonableness of the result of the DCF analysis. These and certain other valuation methodologies are described below. As described in Section 2.1, the relevant comparison of value for the purposes of assessing whether the DLC Proposal is fair and reasonable is a function of the comparison of the relative fair market value of CRA Shares and RTZ Shares. Therefore, Morgan Stanley applied the same valuation methodologies to comparable business units of both companies in order to arrive at an accurate reflection of relative value.

#### a) Discounted Cash Flow Analysis

As mentioned above, the primary approach to the valuation of CRA's and RTZ's business units used by Morgan Stanley in this Report involved the calculation of each asset's Net Present Value ("NPV") by discounting that asset's expected unlevered future cash flows. In the case of mining operations with finite reserves, cash flows were projected to the end of mine life. Projected cash flows were discounted to a present value using discount rates which take into account the time value of money and risks associated with the cash flows. In the case of operations which are not subject to reserve limitations (e.g.: aluminium smelters) an assessment of the residual value of the asset remaining at the end of the forecast period was added to the discounted value of the projected cash flows. Discounted cash flow analysis is particularly appropriate for assets such as mines in that it captures the effect on value of the depletion of reserves and the significant variations in cash flow which occur over the life of a mine. It is therefore the primary method of valuation in the mining industry.

Morgan Stanley has developed cash flow models for each of CRA's and RTZ's material business units, on an asset by asset basis as appropriate. These models have been based on historical and projected financial information provided by CRA and RTZ, discussions with CRA and RTZ senior management, and on a review of the operations and of such projections by Anderson & Schwab, Inc. ("A&S"), Morgan Stanley's independent technical consultant (Refer to Section 3.2 and Appendix 20.8, below). In conducting its review of the operations, A&S visited several of CRA's and RTZ's major operations (See Appendix 20.8 for the full text of A&S's report).

The models for CRA were prepared in Australian dollars in accordance with CRA financial statements and projections. Similarly, as RTZ's internal financial statements and projections are stated in US

dollars, Morgan Stanley's models for RTZ were prepared in US dollars. The resulting valuation of RTZ was then converted into Australian dollars for comparison of relative value with CRA at an exchange rate of A\$1.00 = US\$0.745, which was the average for the 12 months ended October 27, 1995. Pounds sterling balance sheet items were translated into Australian dollars at the spot rate on the balance sheet date. For the convenience of the reader, all pounds sterling historical financial information has been translated into Australian dollars at the relevant exchange rate for the date or period as appropriate.

The models make certain assumptions including assumptions on future commodity prices, inflation rates, exchange rates, remaining mine lives and ore grades. Appendix 20.2 contains an overview of commodity markets and exchange rates. Morgan Stanley wishes to highlight that commodity and metal price assumptions depend on the economic circumstances and market characteristics of the underlying commodities and can be highly variable over time. Users of this Report should review the assumptions made by Morgan Stanley and should form their own views as to the reliability or otherwise of the price assumptions made. Morgan Stanley has assumed a base case inflation rate of 3% for all of its models. The specific assumptions utilized in each model are set out in more detail in Sections 6-13 for CRA and 14-18 for RTZ, and are referred to in Sections 6 and 7 of A&S's report which is attached as Appendix 20.8. In all models an appropriate amount for rehabilitation costs has been reflected as a cash cost at the end of the respective mine life or as otherwise appropriate.

Based on our analysis of comparable companies, we have calculated the Weighted Average Cost of Capital ("WACC") that we believe to be appropriate for each of CRA's and RTZ's business units. Consistent with the projections for each company, the WACC's for the CRA valuations were calculated in Australian dollars, and for the RTZ valuations in US dollars. The WACC's have been derived by reference to the Capital Asset Pricing Model ("CAPM"). In determining the appropriate WACC we have considered the cost of capital (both debt and equity) for selected companies to the extent possible operating in similar industries and similar regions as CRA's and RTZ's individual business units. We have also considered the appropriate notional capital structure for each of CRA's and RTZ's business units based on the capital structure of other listed comparable companies. Where the business unit is a listed company we have had particular regard to its cost of capital as derived by the CAPM. An analysis of our selection of discount rates is attached in Appendix 20.5. Set out below are the range of discount rates we have used to value each of CRA's and RTZ's business units. A sensitivity case DCF valuation comparison, where all business units for both companies were valued using a discount rate of 12.5%, is included in Appendix 20.7.

#### Discount Rates Utilized in Valuing Producing Assets

Asset	CRA			RTZ		
	Low	High		Low	High	
Aluminium	13.5%	-	14.0%			
Coal	10.5	-	11.0	10.0%	-	11.0%
Copper				10.5	-	11.5
Diamonds	13.0	-	13.5			
Gold	15.0	-	16.0	11.0	-	12.0
Iron Ore	11.0	-	12.0			
Salt	12.0	-	13.0			
Diversified/Other	14.5	-	15.0	12.0	-	13.0

#### b) Capitalization of Earnings or Cash Flows

Capitalization of earnings or cash flows is an appropriate valuation method where companies with comparable business, earnings and cash flow characteristics to the business unit to be valued, are either listed public companies or have been the subject of precedent acquisition transactions. An implied multiple of earnings or cash flow can be derived from the public market trading or acquisition value, as the case may be. This multiple is then applied to the earnings or cash flow of the relevant business unit to derive the valuation. Adjustments for surplus assets may also be made if appropriate.

As there are publicly listed companies with some degree of comparability to most of CRA's and RTZ's businesses and in certain cases precedent acquisition transactions involving comparable businesses,

we have used the capitalization of earnings or cash flow method, in the case of most business units, to provide a check on the reasonableness of our primary discounted cash flow analysis. In the case of gold and diamond business units we relied on this method as the primary valuation method for reasons explained in those sections.

When using the capitalization of earnings or cash flow methodology, Morgan Stanley has been concerned to compare multiples for similar periods. One period from which multiples have been taken on several occasions in Morgan Stanley's analysis is the latest available last twelve months. This has been reported in the following sections as LTM.

Further detail on the selection of appropriate multiples for each specific business unit for CRA appears below in Sections 6-13, and for RTZ in Sections 14-18.

### **c) Current Market Value and Trading History**

We have taken into account current and historical market prices of CRA Shares and RTZ Shares in the respective valuations, and any unusual factors affecting such prices. We have also considered the price performance of CRA Shares and RTZ Shares in relation to the price performance of comparable companies and the relevant general market indices.

In our Relative Valuation Analysis described in Section 5.5 we have reviewed and taken into account the ratio of the prices of CRA Shares and RTZ Shares over a five-year period.

### **d) Offer by Alternative Acquiror**

In our view, as described in Section 2.2, an offer by an alternative acquiror is highly unlikely due to RTZ's 49% shareholding in CRA and its intention to maintain this shareholding if the DLC Proposal does not proceed. Therefore this valuation methodology has very little practical relevance to this situation and we did not put any significant weight on it.

This view is supported by the absence of any such competing offer since the announcement of the DLC Proposal.

The valuations of CRA and RTZ have been prepared based on the latest financial information available (as of June 30, 1995) and market conditions prevailing as at October 27, 1995.

As at the date of the Report, Morgan Stanley is not aware of any change in relation to CRA, RTZ or the market generally that would impact materially on the valuations of CRA or RTZ.

## **3.2 Technical Consultant**

ASC Practice Note 43, Valuation Reports and Profit Forecasts, states that an expert, if not personally authoritative on matters which must be determined for the purposes of the Report, should retain an appropriate specialist. Having regard to this Practice Note, Morgan Stanley appointed Anderson & Schwab to provide a technical report on the assets of CRA and RTZ. In particular, Morgan Stanley requested Anderson & Schwab to advise on the following matters:

- whether production, operating cost and capital cost schedules over the most likely mine lives are reasonable and attainable on the basis of present and planned reserves, operating assets and technology
- whether there are any material risks (including environmentally related risks) or opportunities that are not recognised in the production, operating cost and capital cost schedules
- whether any differences exist between CRA and RTZ policies and practices that could have a material influence on value
- the value of CRA's and RTZ's respective exploration interests.

All of these matters are relevant to Morgan Stanley's valuations in this Report and Morgan Stanley has taken into account and relied on the conclusions of Anderson & Schwab on these matters.

Having further regard to Practice Note 43, Morgan Stanley has satisfied itself that A&S is competent in its field, has used assumptions and methodologies which seem reasonable and appropriate, and is independent. A&S has entered into a written agreement with Morgan Stanley which sets out the purpose and scope of their work. The scope and extent of the review carried out by A&S and any limitations placed on their access to confidential information are fully described in their report. A&S has consented to the use of their report in the form and context in which Morgan Stanley have used it as an Appendix to this Report.

### **3.3 Sources of Information**

As noted in Section 3.1, Valuation Methodology, above, in assessing the value of each of CRA's and RTZ's material business units, Morgan Stanley has generally relied on historical and projected financial information provided by each company, and has taken into account and relied on the conclusions of Anderson & Schwab in their report (refer to Appendix 20.8). Morgan Stanley has made such detailed inquiries with the senior management of CRA and RTZ and independent third parties as it deemed appropriate. However, Morgan Stanley has not conducted any independent verification or audit of the information provided by CRA or RTZ.

Morgan Stanley has additionally referred to other sources of information as we deemed appropriate in reviewing the assumptions, sensitivities and reasonableness of our models and valuation. These sources of information are listed in Appendix 20.1.

### **3.4 Confidential Information**

In conducting its independent review as the basis for the preparation of this Report, Morgan Stanley has had access to much information from CRA and RTZ which is both highly confidential and commercially sensitive. Both CRA and RTZ operate in very competitive industries, and are of the opinion that disclosure of this information in this Report would have material adverse consequences for their businesses. For example, competitors may be able to deduce the future position of CRA or RTZ in respect of key commercial matters.

CRA and RTZ have advised Morgan Stanley that, in their view, the detriment to their respective shareholders (and, if the DLC Proposal is implemented, shareholders in each company) would exceed the benefits shareholders would gain from disclosure of this information.

On this basis, Morgan Stanley has not disclosed any revenue, profit or cash flow forecasts for any business units of CRA or RTZ.

Nor has RTZ provided Morgan Stanley with unrestricted information in relation to certain business units of RTZ including RTZ's development and exploration properties, due to the commercial sensitivity of that information. Furthermore, the valuations of certain assets have been aggregated into business units due to the commercial sensitivity of the information relating to values of those assets.

## 4. THE DUAL LISTED COMPANIES PROPOSAL

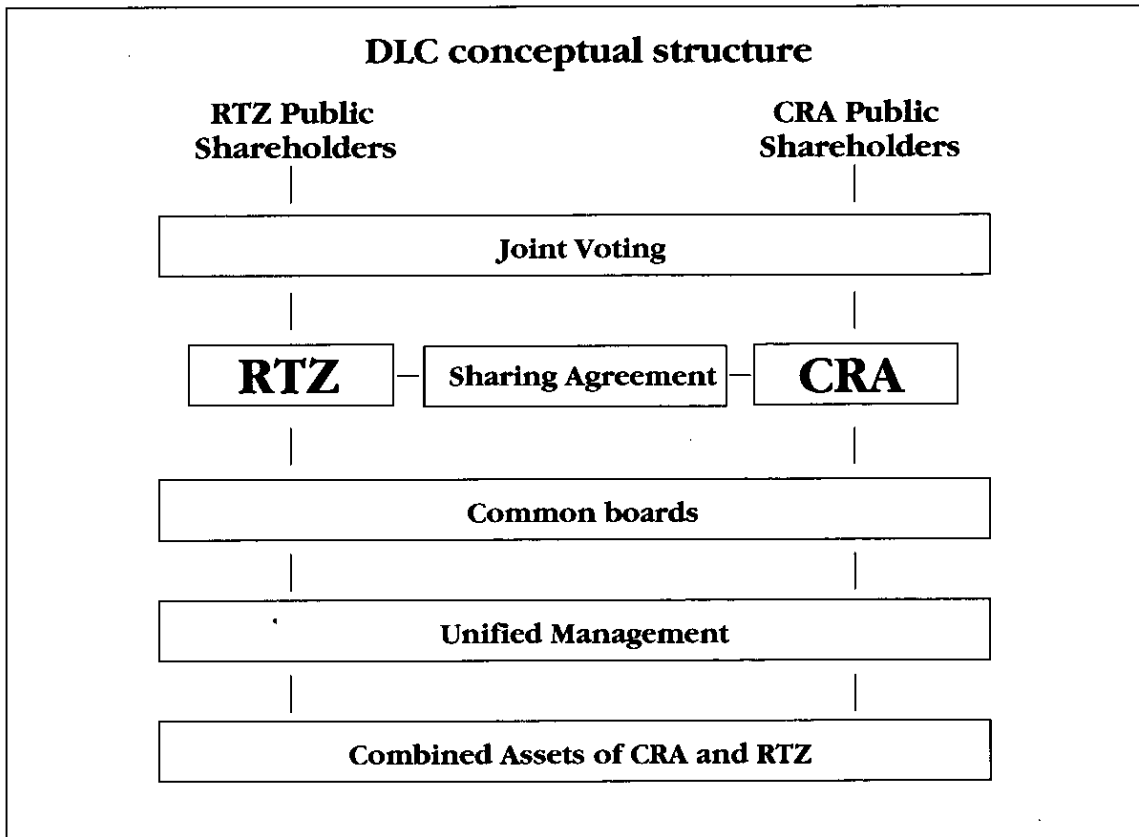
### 4.1 Background

On October 9, 1995 CRA and RTZ announced their intention to combine their worldwide interests to form the world's largest mining group to take full advantage of opportunities opening up internationally in the metals and minerals industry.

The relationship between CRA and RTZ dates from 1962, when RTZ held 92% of CRA. In 1986, it sold down to its current shareholding of 49%, and has since retained its significant shareholding in CRA. The managed assets of RTZ, excluding its shareholding in CRA, are similar in size to those of CRA.

Under the DLC Proposal, the two companies will retain their national identities, their separate shareholders and their existing share listings, but they will effectively combine their businesses into one international enterprise with common boards and unified management. This will be achieved without transferring assets, by establishing a dual listed companies structure through a sharing agreement between CRA and RTZ. This structure means that CRA and RTZ shareholders will effectively be in the same position (in terms of net cash dividends and capital returns) as if they held shares in a single enterprise holding both companies' assets. Shareholders of both companies will continue to receive dividends from the company in which they presently hold shares.

The effect of the DLC Proposal is akin to an economic merger of CRA and RTZ. For the purposes of determining dividend and capital entitlements of CRA and RTZ shareholders, the two companies will be treated as a single economic enterprise even though they will remain legally separate entities. All profits earned by RTZ will be included with CRA profits in a single notional pool from which dividends to both CRA and RTZ shareholders will be paid. In this way the DLC Proposal replicates the economic consequences of a conventional merger without involving the legal, tax and stamp duty consequences of a combination or merger of assets and liabilities.



RTZ currently controls 49% of the votes in CRA. As part of the proposed arrangements, key decisions (including the election of directors) will be made by the public shareholders of RTZ and CRA voting as a combined group. As a result, control of both RTZ and CRA on these decisions will lie with the combined public shareholder group, in which no shareholder beneficially owns more than 3% of the combined voting shares, on the basis of the current share registers.

The terms of the DLC Proposal are that the dividend and capital rights of each existing CRA share will be 1.075 times those of each RTZ share. These terms reflect the relative market values of the respective shares during the period January 3, 1995 to October 6, 1995. However, immediately prior to the implementation of the DLC Proposal, CRA will make a bonus issue to its shareholders at a rate of 7.5 shares for each 100 shares presently held so that, upon implementation, the dividend and capital rights of each CRA share relative to each RTZ share will be exactly one to one. The effect of these terms will be that RTZ shareholders will have an economic interest in 76.5 per cent. of the combined group whilst CRA Public Shareholders' interest will be 23.5 per cent.

#### **4.2 The Merged DLC Enterprise**

As of the announcement date, the DLC would have a combined market capitalization of \$26.7 billion, excluding RTZ's 49% shareholding in CRA. It will be amongst the world's largest producers of a wide and complementary range of minerals and metals. CRA is a major world producer of iron ore, aluminium and internationally traded coal. It also has significant interests in diamonds and gold. RTZ is a major world producer of copper, gold, borates and titanium dioxide feedstock with additional interests in US domestic coal. Based on the 1994 figures, the revenue of the merged group will be represented by copper (18%), aluminium (17%), coal (17%), iron ore (12%), borates (11%), titanium dioxide feedstock (9%), gold (9%) and other (7%). (Refer chart on following page).

RTZ is strongly represented in North and South America, Europe and Southern Africa, while CRA has a major presence in Australia and the Asia-Pacific region. The DLC will produce a broad geographic diversification of assets, representing North America (43%), Australia and New Zealand (36%), Europe (7%), South America (5%), Asia (5%) and Africa (4%). (Refer chart on following page).

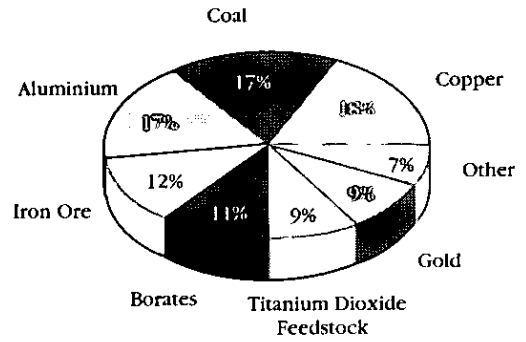
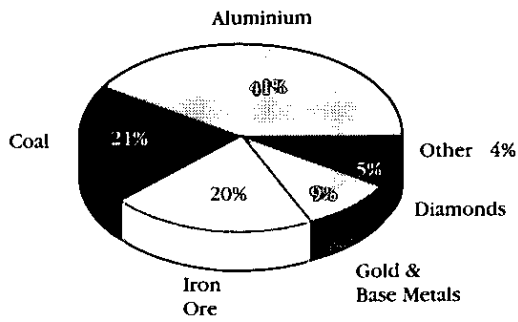


# THE MERGED DLC ENTERPRISE 1994 Revenue and Asset Breakdown

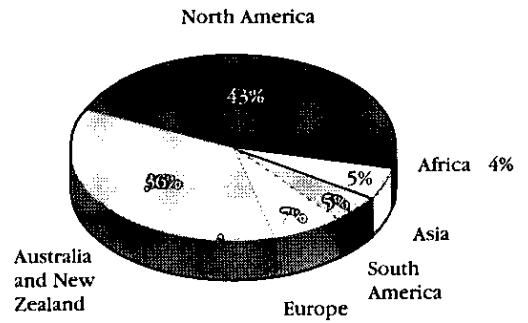
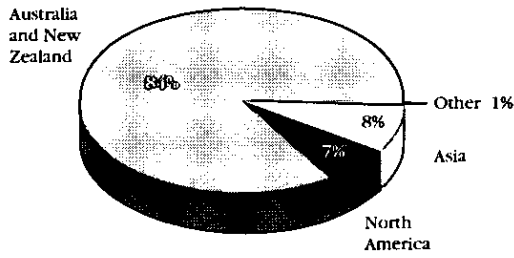
## CRA Stand Alone

## DLC Pro Forma

### Revenues



### Assets



### 4.3 Key Terms of the DLC Proposal

The key terms of the DLC Proposal are:

- (a) the shareholders of CRA and RTZ will retain their existing shares;
- (b) CRA and RTZ will have identical boards of directors;
- (c) CRA and RTZ will be managed on a unified basis as if they were a single enterprise;
- (d) both companies will retain their existing stock exchange listings;
- (e) following approval of the DLC Proposal the economic interest of ordinary shareholders of CRA and RTZ in the Combined Enterprise will be designed so that each RTZ Share and each publicly owned CRA Share ranks *pari passu* as though it were a share in a single combined company; and
- (f) the shareholders of CRA and RTZ will continue to receive dividends from the company in which they presently hold shares.

Unification of management and operations will be implemented in accordance with principles set out in an agreement to be entered into by CRA and RTZ (the "Sharing Agreement"). CRA and RTZ have also agreed to provide cross-guarantees to support the contractual liabilities of each company.

The dividends per share paid or recommended by the boards of directors of each company on its ordinary shares will be equivalent to those paid or recommended by the board of directors of the other company on its ordinary shares. CRA and RTZ have agreed that the basis of dividend equalization will be that equivalent cash dividends will be paid to all shareholders. CRA will continue to pay franked dividends (to the extent of available franking credits) in Australian dollars to the CRA Public Shareholders.

Significant decisions affecting the combined operations of CRA and RTZ will be taken by the shareholders of both companies voting together as a joint electorate ("Joint Decisions").

Significant decisions affecting the rights of shareholders in one of the companies differently from those of shareholders in the other company will be taken by the shareholders of each company separately ("Class Rights Decisions").

The articles of association of each company will be amended so that it is commercially impractical for a takeover offer to be made for one of CRA or RTZ without an equivalent offer being made for the other. The DLC Proposal also includes provisions designed to ensure that the CRA Public Shareholders and RTZ Shareholders are treated equitably in respect of capital issues and reconstructions and on winding-up.

It is intended that RTZ and CRA and their group companies will constitute a single group for the purposes of presenting unified accounts prepared under United Kingdom Generally Accepted Accounting Principles. Accounts prepared using these principles will form the basis for the dividend declarations/recommendations of both companies after the implementation of the DLC Proposal.

In addition to CRA and RTZ present listings, CRA may in due course apply for a listing on the London Stock Exchange, and RTZ may apply for a listing on the Australian Stock Exchange. No decision on this matter has yet been made.

The transaction is subject to the approval of the shareholders of both companies and to the receipt of regulatory approvals and clearances.

**Full details of the proposal, including a summary of the agreements and amendments to the articles of association of CRA and RTZ by which it will be implemented, are set out in Part I of Section B of the CRA Explanatory Memorandum which accompanies this Report.**

Subject to the transaction becoming unconditional, the sharing arrangements will take effect from 21 December 1995.

## 5. COMPANY SUMMARIES AND VALUATIONS

### 5.1 Overview – CRA Limited

#### 5.1.1 Background and Business Activities

The CRA group is a leading mining and metals producer. CRA is one of Australia's largest publicly listed corporations with a market capitalization of \$12.1 billion as of October 27, 1995. CRA had consolidated group assets of \$9.2 billion as of December 31, 1994, and had consolidated group sales revenues of \$5.8 billion in 1994. Exports from CRA's Australian subsidiary businesses totaled \$3.2 billion in 1994.

The CRA group has substantial mining and processing interests in iron ore through Hamersley Iron in Western Australia; steaming and coking coal in New South Wales, Queensland and Indonesia through various companies; and aluminium (including bauxite and alumina) through 67%-owned Comalco. The group also has significant mining and processing interests in diamonds through 60%-owned Argyle Diamonds in Western Australia; gold through the Peak mine in New South Wales and the 90%-owned Kelian mine in Indonesia; and salt through 65%-owned Dampier Salt in Western Australia. The principal markets into which the group sells are in Japan, Australia, North America, Europe, South Korea, China and other countries in the Asian region. The CRA group is comprised of both wholly and partially owned companies. References to CRA's ownership of other businesses include both direct and indirect equity interests.

#### *History*

A predecessor of the CRA group, The Consolidated Zinc Corporation Limited, began in 1905 by employing new technology to treat zinc-bearing residues at Broken Hill in New South Wales. In 1962, Conzinc Riotinto of Australia Limited was formed as a limited liability company under the laws of the State of Victoria, Australia through the merging of the Australian interests of The Consolidated Zinc Corporation Limited, and The Rio Tinto Company Limited of the United Kingdom (Refer Section 5.3). In 1980, Conzinc Riotinto of Australia Limited changed its name to CRA Limited. Public ownership of CRA increased markedly in the 1980's as RTZ reduced its holding in CRA to 49% by 1986, in order for CRA to become a naturalized company under the terms of the Australian Government's foreign investment guidelines.

#### *Recent Corporate Activity*

As part of its announced policy to concentrate on the upstream aluminium business, on March 10, 1995 CRA disposed of its interest in Commonwealth Aluminum Corporation through a public offering conducted in the United States. Subsequently, CRA announced in October 1995 that an agreement had been reached to sell Comalco Extruded Products to Capral Aluminium of Australia. Comalco Rolled Products has been recently offered for sale and negotiations are under way with interested parties.

The CRA group categorizes its operations into seven industry segments:

- Iron ore
- Coal
- Aluminium
- Gold and copper
- Diamonds
- Zinc, lead and silver
- Other (including salt, industrial components, engineering, and other development, exploration and evaluation expenditure which has not been allocated to an industry segment).

The geographical areas in which the CRA group facilities are located are categorized as Australia, New Zealand, Papua New Guinea, North America, Europe and Other (including Asia, Africa and Chile).

The tables below set out consolidated sales revenues and net earnings by industry segment for each of the last three years.

**CRA Sales Revenue by Industry Segment<sup>(1)</sup>**

	Years ended December 31		
	1994 (\$MM)	1993 (\$MM)	1992 (\$MM)
Iron Ore	1,186	1,342	1,282
Coal	1,233	1,276	760
Aluminium	2,399	2,210	2,104
Diamonds	297	309	353
Gold and Copper	511	538	413
Zinc, Lead and Silver	24	62	81
Other	161	191	244
<b>Consolidated group Total</b>	<b>5,811</b>	<b>5,928</b>	<b>5,237</b>

*Note:*

(1) Totals may not add due to rounding.

Source: CRA Limited Form 20F/A dated December 31, 1994.

**CRA Consolidated Earnings/(Losses) by Industry Segment<sup>(1)</sup>**

	Years ended December 31		
	1994 (\$MM)	1993 (\$MM)	1992 (\$MM)
Iron Ore	420	553	550
Coal	133	365	146
Aluminium	186	83	95
Diamonds	77	107	139
Gold and Copper	43	75	25
Zinc, Lead and Silver	(8)	(53)	(33)
Other	(47)	(107)	(45)
<b>Segment Total</b>	<b>804</b>	<b>1,023</b>	<b>877</b>
Corporate items including financing costs	(126)	(81)	(111)
Superannuation funds' surplus	32	114	(47)
Abnormal Item	(36)	40	28
Taxation	(91)	(242)	(320)
<b>Consolidated group Total</b>	<b>583</b>	<b>854</b>	<b>427</b>

*Note:*

(1) Totals may not add due to rounding.

Source: CRA Limited Form 20F/A dated December 31, 1994.

### 5.1.2 Financial Performance and Position

Selected consolidated financial data for the years ended December 31, 1993 and 1994 were as follows:

#### CRA Income Statement Data<sup>(1)</sup>

	Years ended December 31	
	1994 (\$MM)	1993 (\$MM)
Sales revenue	5,811	5,928
Operating profit before abnormals, interest expense and income tax expense	809	1,119
Interest expense	86	64
Operating profit before abnormals and income tax	723	1,055
Income tax expense	104	241
Abnormal items	36	(40)
Outside equity interests	4	47
Operating profit after income tax	579	807
Net income (loss) per ordinary issued share	0.97	1.36
Dividends per share	0.60	0.70

Note:

(1) Totals may not add due to rounding.

Source: CRA Limited Annual Report dated December 31, 1994.

#### CRA Balance Sheet Data<sup>(1)</sup>

	Years ended December 31	
	1994 (\$MM)	1993 (\$MM)
Current assets	1,989	2,046
Non-current assets	6,745	6,269
Investments in Associate companies	484	652
Total assets	9,218	8,967
Current liabilities	1,547	1,577
Creditors due after more than one year	1,227	1,307
Provisions for liabilities and charges – non-current	1,138	1,029
Outside shareholders' equity	621	553
CRA Shareholders' equity	4,685	4,501

Note:

(1) Totals may not add due to rounding.

Source: CRA Limited Annual Report dated December 31, 1994.

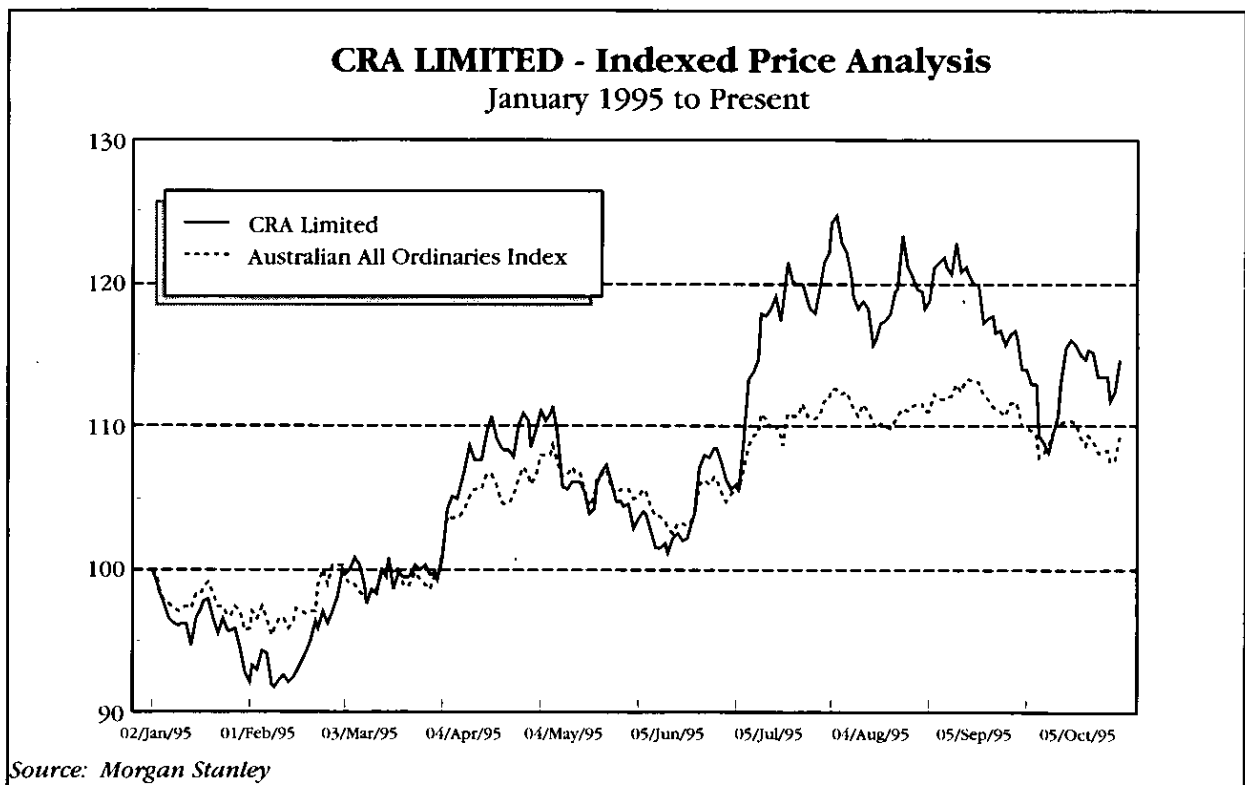
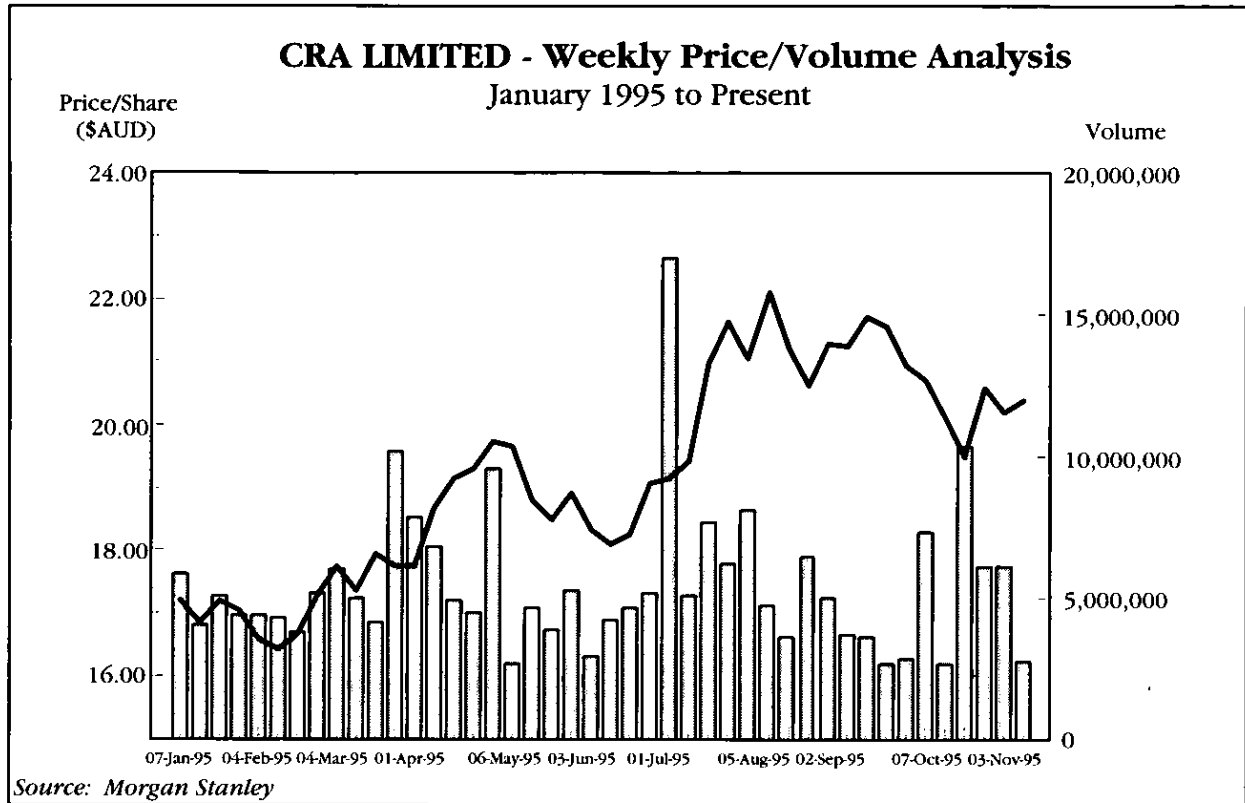
### 5.1.3 Share Capital

As of June 30, 1995, CRA had on issue 597,602,891 ordinary shares of \$2.00 each. CRA also had on issue 250,000 options each convertible into one \$2.00 ordinary share.

Source: CRA Limited.

### 5.1.4 Share Market Performance

The week end price and trading volumes for CRA Shares over the period January 1, 1995 to November 3, 1995 are set out in the chart below:



From around July of this year through until the announcement of the DLC Proposal, CRA Shares have significantly outperformed the All Ordinaries Index. In addition to general strength in the mining sector, we believe that a factor influencing the price of CRA shares in this period was speculation that RTZ would make a takeover bid for CRA. After an initial decline on announcement of the DLC Proposal, the CRA shares have recovered to preannouncement levels as the DLC Proposal has become more fully understood.

## 5.2 Summary Valuation – CRA Limited

The detailed valuation analysis of CRA, on a business unit basis, is set out in Sections 6-13 below.

A summary of the valuation of CRA is set out in the table below:

<b>Business Unit</b>	<b>Section</b>	<b>Value Range (\$MM)</b>	
Iron Ore	6	\$3,200 –	\$3,500
Coal	7	3,100 –	3,300
Aluminium	8	2,850 –	3,000
Gold & Copper	9	500 –	625
Diamonds	10	450 –	500
Other Producing Properties, Development and Exploration	11	650 –	825
Other Assets <sup>(1)</sup>	12	875 –	879
Net Debt <sup>(2)</sup>	13	(947) –	(947)
CRA Corporate	13	(144) –	(150)
Aggregate CRA Equity Value <sup>(3)</sup>		\$10,534 –	\$11,533
Value per CRA Ordinary Share <sup>(4)</sup>		\$17.63 –	\$19.30

### Notes:

- (1) Includes other assets and other liabilities.
- (2) Includes short-term and long-term debt less cash and cash equivalents.
- (3) Totals may not add due to rounding.
- (4) Based on 597,602,891 ordinary shares as of June 30, 1995.

## 5.3 Overview – The RTZ Corporation PLC

### 5.3.1 Background and Business Activities

RTZ is one of the world's leading international mining companies and one of the largest companies in the United Kingdom with a market capitalization at October 27, 1995 of \$19.76 billion. RTZ's substantial interests in mining include: copper, gold, iron ore, aluminium, zinc and silver in metals; coal and uranium in energy, and borates, titanium dioxide feedstock, talc, diamonds and zircon in other minerals. These interests are located predominantly in North America and Australasia as well as in Europe, southern Africa and South America. Products are sold worldwide, particularly North America, Western Europe, Japan and the Pacific Rim.

RTZ had consolidated group operating assets of \$10.5 billion at December 31, 1994 of which 51% were located in North America. Consolidated net sales for 1994 were \$4.8 billion, net earnings were \$1,281 million, and after excluding exceptional items, adjusted earnings were \$1,246 million.

The RTZ group consists of a number of wholly and partly owned subsidiaries and associated companies. RTZ's three major wholly-owned businesses are Kennecott Corporation ("Kennecott"), the RTZ Borax group and QIT-Fer et Titane ("QIT"). Kennecott's operations comprise mainly copper, gold and coal operations in the US, and contributed \$425 million to net earnings in 1994. RTZ Borax, based mainly in the US, produces borates, and together with the Talc group, contributed \$176 million to net earnings in 1994. QIT, which is based in Canada, produces titanium dioxide feedstock, high purity iron steel billets

and metal powders. RTZ's 50% interest in Richards Bay Minerals ("RBM"), which produces titanium dioxide feedstock in South Africa, is reported jointly with QIT as RTZ Iron and Titanium. RTZ Iron and Titanium contributed \$103 million to 1994 net earnings.

The major associated companies of RTZ are CRA and Minera Escondida Limitada ("Escondida"). RTZ's 49% share in CRA contributed \$291 million to RTZ's net earnings in 1994. RTZ owns a 30% share in Escondida which owns and operates the Escondida copper mine in Chile and contributed \$188 million to RTZ's net earnings in 1994.

### ***History***

RTZ (formerly The Rio Tinto-Zinc Corporation Limited) was formed in 1962 by the merger of two English companies, The Rio Tinto Company Limited and The Consolidated Zinc Corporation Limited (a predecessor of CRA). The Rio Tinto Company was incorporated in 1873 to reopen ancient copper workings in Spain. By 1962 the company had a range of projects extending across Canada, southern Africa and Australia and included interests in iron ore and uranium as well as in copper. The Consolidated Zinc Corporation's origins trace back to the Australian mining industry at the turn of the century. Operating out of Broken Hill in New South Wales it came to prominence with the mining of silver, lead and zinc deposits and later expanded into lead and zinc smelting. With the discovery in 1955 of extensive bauxite deposits at Weipa, Queensland, the company came to play a leading role in the development of the aluminium industry in Australia.

Since 1962, the RTZ group has developed several major projects including Palabora (copper) in South Africa, Rossing (uranium) in Namibia, and Neves Corvo (copper and tin) in Portugal. The RTZ group has also grown through acquisitions, including the acquisition of the Borax group in 1968. Between 1968 and 1985, RTZ also developed significant interests in cement, chemicals, oil and gas and manufacturing components for the construction and automotive industries.

A major review of corporate strategy between 1985 and 1987 led to a series of disposals and acquisitions which refocused the Company on mining and related activities. As a result, during 1988 and 1989, the group disposed of its oil and gas, cement and chemicals businesses and other minor interests for an aggregate consideration of approximately £1.7 billion.

During 1988 and 1989, acquisitions in mining were made for an aggregate consideration of approximately £2.6 billion. These acquisitions included the 1989 acquisition of the major part of the minerals business of The British Petroleum Company PLC at a cost of US\$3.7 billion. Included in the acquisition was Kennecott's Bingham Canyon copper and gold mine in Utah, USA, together with QIT and the 50% interest in RBM, leading producers of titanium dioxide feedstock. As a result, RTZ enhanced its portfolio of low cost copper mines, gained additional industrial minerals businesses and became one of the world's largest gold producers outside South Africa.

In June 1992, RTZ sold its 51.5% interest in Rio Algom Limited, a Canadian mining company with interests in uranium, copper, molybdenum, potash and coal and a metals distribution business in North America, Australia and New Zealand. Also, in 1992, RTZ purchased the talc businesses of Cyprus Minerals. The Cyprus talc mines are located primarily in the US. Now renamed Luzenac America, this business has been integrated with RTZ's existing talc business, Talc de Luzenac, which was acquired in 1988.

### ***Recent Corporate Activity***

In 1993, RTZ acquired two significant coal mining companies in the United States. In February 1993, RTZ acquired Nerco, Inc. for \$693 million (plus the assumption of \$1,008 million of debt) and in June 1993, RTZ acquired the Cordero Mining Company for \$179 million. After the prompt disposal of Nerco's non-strategic assets, the overall net outlay for these businesses was reduced to \$700 million.

In 1993 and 1994, RTZ sold the businesses managed by its wholly owned industrial products subsidiary, RTZ Pillar, for approximately \$1,850 million. As a result, RTZ is now focused solely on mining related activities.

In December 1994, RTZ expanded its presence in the low sulphur, western US coal market with the purchase of a general partnership interest in the Colowyo Mine in Colorado.



Following an announcement in March 1995, RTZ invested \$671 million (US\$500 million) and signed letters of intent with Freeport-McMoRan Inc. (FTX), a major natural resources company based in the US, pursuant to which RTZ group companies acquired 11.8% of FTX's subsidiary Freeport-McMoRan Copper & Gold Inc. (FCX). FCX's principal asset is the 86% interest in the Grasberg copper/gold mine in Irian Jaya, Indonesia, one of the world's richest mineral resources. This mine has been expanded to produce some 500,000 tonnes of copper and 1.5 million ounces of gold per year from 1996. As part of the arrangements, RTZ will also fund the next US\$100 million of agreed exploration work to earn a 40% interest in FCX's extensive Irian Jaya exploration acreage. RTZ will also lend up to \$990 million (US\$750 million) for agreed future expansions of the Grasberg mine and will earn, after recovering its funding with interest from 100% of the incremental cash flow, a 40% interest in the subsequent incremental cash flow. Any further expansions at Grasberg would be financed 60% by FCX's subsidiary PTFI, and 40% by RTZ.

The RTZ group reports its diverse product range under two broad headings:

1. Mining and metals
  - Copper and Gold
  - Iron Ore
  - Aluminium
  - Zinc, Lead and Silver
  - Coal and Uranium
  
2. Industrial and other minerals
  - Borates, including talc
  - Titanium dioxide feedstock and co-products
  - Other minerals

The tables below set out consolidated sales revenues and net earnings by industry segment for each of the last three years.

#### RTZ Sales Revenue by Industry Segment<sup>(1)</sup>

	Years Ended December 31		
	1994 (\$MM)	1993 (\$MM)	1992 (\$MM)
<b>Mining and Metals</b>			
Copper and Gold	2,839	2,388	2,373
Iron Ore	586	666	653
Coal and Uranium	1,266	1,305	576
Aluminium	1,089	988	949
Lead and Zinc	218	360	478
Other	59	172	149
	6,057	5,879	5,178
<b>Industrial Minerals</b>	2,196	2,213	2,063
Continuing operations before exceptional items	8,253	8,092	7,241
Discontinued operations and exceptional items	—	2,569	3,838
<b>Consolidated group Total</b>	<b>8,253</b>	<b>10,661</b>	<b>11,079</b>

Note:

(1) Totals may not add due to rounding.

Source: The RTZ Corporation PLC Annual Report dated December 31, 1994.

**RTZ Consolidated Earnings/(Losses) by Industry Segment<sup>(1)</sup>**

	<b>Years Ended December 31</b>		
	<b>1994</b> <b>(\$MM)</b>	<b>1993</b> <b>(\$MM)</b>	<b>1992</b> <b>(\$MM)</b>
<b>Mining and Metals</b>			
Copper and Gold	657	367	478
Iron Ore	159	201	175
Coal and Uranium	161	217	60
Aluminium	88	35	34
Lead and Zinc	15	(11)	(7)
Other	2	(37)	(7)
	<u>1,082</u>	<u>772</u>	<u>733</u>
<b>Industrial Minerals</b>	331	298	300
	<u>1,413</u>	<u>1,070</u>	<u>1,033</u>
Exploration and development	(163)	(179)	(115)
	<u>1,250</u>	<u>891</u>	<u>918</u>
Corporate Items	11	(68)	(96)
Net finance charges	(15)	(66)	(65)
	<u>1,246</u>	<u>757</u>	<u>757</u>
Continuing operations before exceptional items	1,246	757	757
Discontinued operations and exceptional items	35	(122)	(183)
	<u>1,281</u>	<u>635</u>	<u>574</u>
<b>Consolidated group Total</b>	<u><u>1,281</u></u>	<u><u>635</u></u>	<u><u>574</u></u>

*Note:*

(1) Totals may not add due to rounding.

Source: The RTZ Corporation PLC Annual Report dated December 31, 1994.

### 5.3.2 Financial Performance and Position

Selected consolidated financial data for the years ended December 31, 1993 and 1994 were as follows:

#### RTZ Income Statement Data<sup>(1)</sup>

	Years ended December 31	
	1994 (\$MM)	1993 (\$MM)
Net sales	4,790	7,040
Operating profit	1,084	792
Share of associates' profit	814	696
Exceptional items	15	(480)
Net interest	17	(46)
Income before taxes and outside shareholders' interests	1,930	962
Taxes on income	(555)	(254)
Outside shareholders' interests	(94)	(73)
Net earnings	1,281	635
Earnings per share data		
adjusted earnings	\$1.17	\$0.78
net earnings	\$1.20	\$0.60
Dividends per share	\$0.58	\$0.45

Note:

(1) Totals may not add due to rounding.

Source: The RTZ Corporation PLC Annual Report dated December 31, 1994.

#### RTZ Balance Sheet Data<sup>(1)</sup>

	Years ended December 31	
	1994 (\$MM)	1993 (\$MM)
Current assets	4,599	4,636
Investment in associated companies	2,898	2,801
Other fixed assets	5,514	5,567
Total assets	13,011	13,004
Current liabilities	3,415	2,953
Medium and long-term loans	819	1,184
Provisions for liabilities and charges	1,565	1,665
Outside shareholders' interests	258	248
Shareholders' equity	6,954	6,954

Note:

(1) Totals may not add due to rounding.

Source: The RTZ Corporation PLC Annual Report dated December 31, 1994.

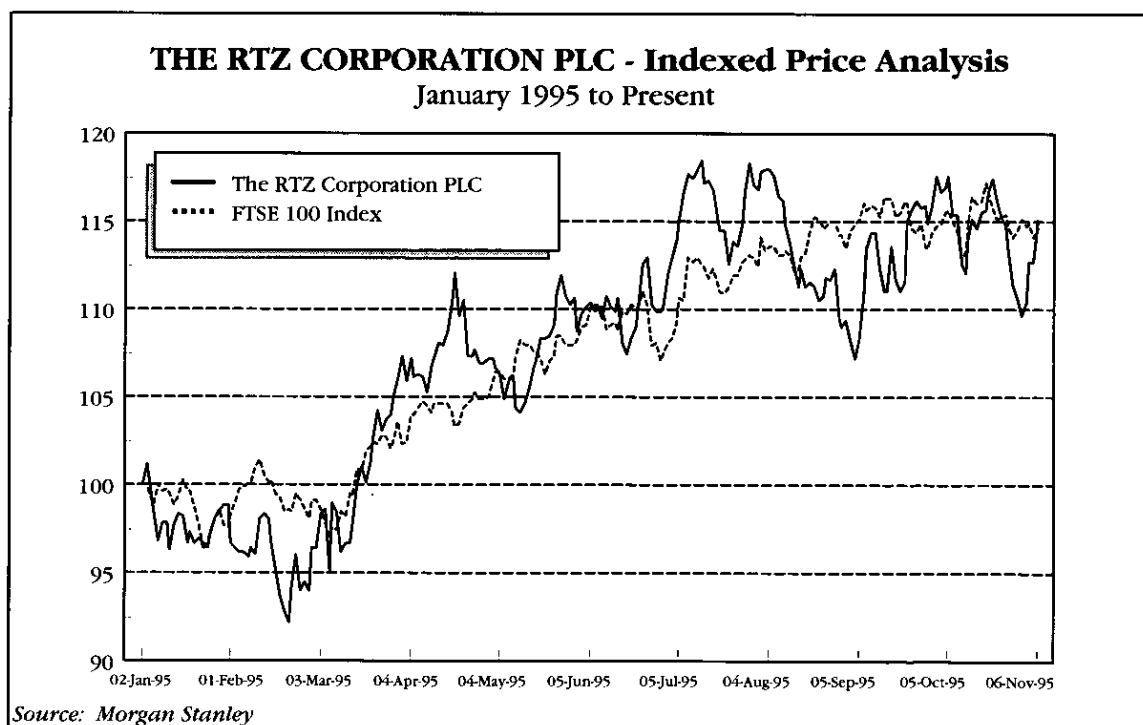
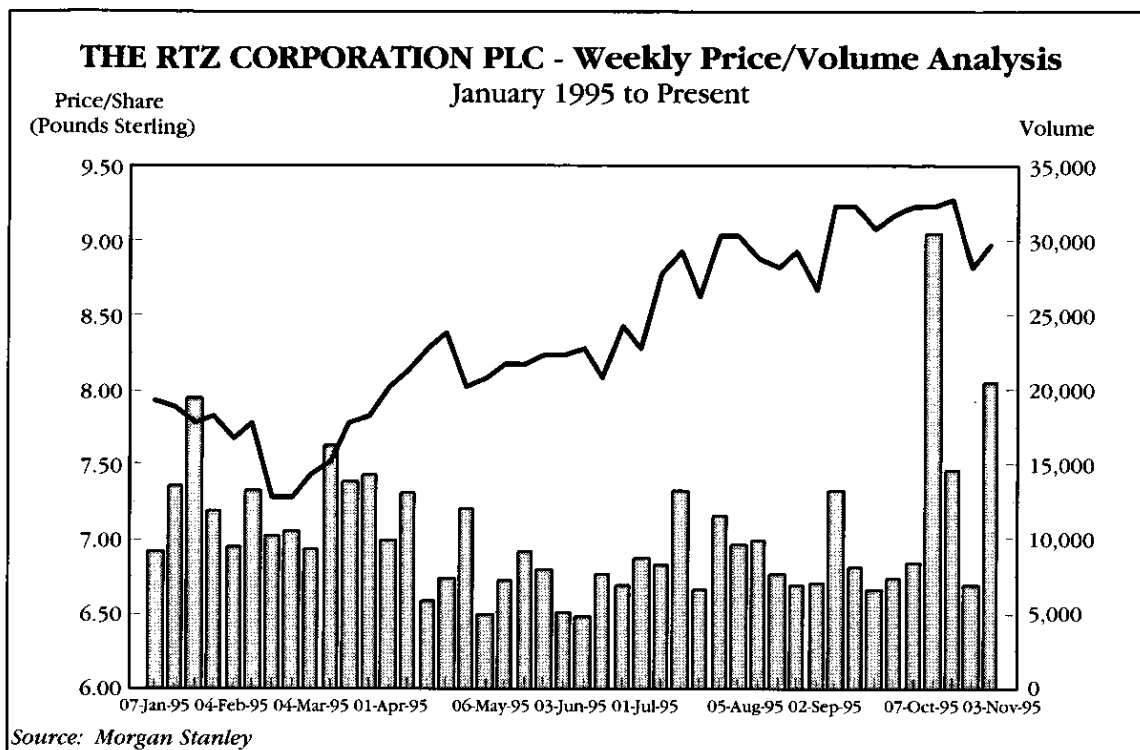
### 5.3.3 Share Capital

As of June 30, 1995, RTZ had on issue 1,067,746,037 ordinary shares of 10p each. RTZ also had on issue 4,527,750 options; 7,732,967 "A" Cumulative Preference Shares; and 3,143,750 "B" Cumulative Preference Shares.

Source: The RTZ Corporation PLC.

### 5.3.4 Share Market Performance

The week end price and trading volumes for RTZ Shares over the period January 1, 1995 to November 3, 1995 are set out in the chart below:



## 5.4 Summary Valuation - The RTZ Corporation PLC

The detailed valuation analysis of RTZ, on a business unit basis, is set out in Sections 14-18 below.

A summary of the valuation of RTZ is set out in the table below:

Business Unit	Section	Value Range (\$MM)	
Copper & Gold	14	\$8,050	\$8,850
Coal & Uranium	15	1,200	1,500
Industrial Minerals	16	3,900	4,450
Other Producing Properties, Development and Exploration	17	2,350	2,650
CRA (49% share)	-	5,144	5,631
Net Debt & Other Assets <sup>(1)</sup>	18	(756)	(756)
RTZ Corporate	18	(750)	(800)
Aggregate RTZ Equity Value <sup>(2)</sup>		\$19,136	\$21,523
Value per RTZ Ordinary Share <sup>(3)</sup>		\$17.92	\$20.16

Notes:

- (1) Includes net debt, other assets, other liabilities and preferred.
- (2) Totals may not add due to rounding.
- (3) Based on 1,067,746,037 ordinary shares as of June 30, 1995.

## 5.5 Summary Relative Valuation Analysis

As discussed in Section 2.1, in assessing the DLC Proposal the expert must compare his assessment of the ratio of fair market values of CRA Shares and RTZ Shares to the Combination Ratio. This comparison is set out in the table below:

### Relative Valuation Summary<sup>(4)</sup>

	Fair Market Value ("FMV")						
	(\$/share)				Ratio of Fair Market Values		
	CRA Shares		RTZ Shares				
	Low	High	Low	High	Low <sup>(2)</sup>	MidPoint	High <sup>(3)</sup>
Morgan Stanley FMV Range <i>FMV Implied Ownership<sup>(1)</sup></i>	\$17.63	\$19.30	\$17.92	\$20.16	0.895 20.4%	0.970 21.7%	1.050 23.1%
DLC Proposal Combination Ratio <i>DLC Proposal Ownership</i>					1.075 23.5%	1.075 23.5%	1.075 23.5%
Excess above FMV Implied Ownership					3.1%	1.8%	0.4%

Notes:

- (1) The ownership interest of the CRA Public Shareholders in the Combined Enterprise which would result if the exchange of interests was based on the fair market values in the Morgan Stanley Valuation Range.
- (2) Based on the low end of the range of fair market values for CRA Shares and a value of \$19.70 per share for RTZ Shares. This value for RTZ Shares represents the high end of the range of fair market values for all assets of RTZ except its holding in CRA which is valued at the low end of such range consistent with the value used in the numerator.
- (3) Based on the high end of the range of fair market values for CRA Shares and a value of \$18.38 per share for RTZ Shares. This value for RTZ Shares represents the low end of the range of fair market values for all assets of RTZ except its holding in CRA which is valued at the high end of such range consistent with the value used in the numerator.
- (4) Appendix 20.7 also presents a sensitivity case where the fair market values of both CRA Shares and RTZ Shares are examined using a common discount rate of 12.5%.

The table below summarizes the implied fair market value of the Combined Enterprise, assuming that it is equivalent to the aggregate fair market value of CRA and RTZ. It also compares the implied fair market value of the interest in the Combined Enterprise to be held by the CRA Public Shareholders based on the Combination Ratio with the fair market value of their CRA shares based on the Morgan Stanley valuation range.

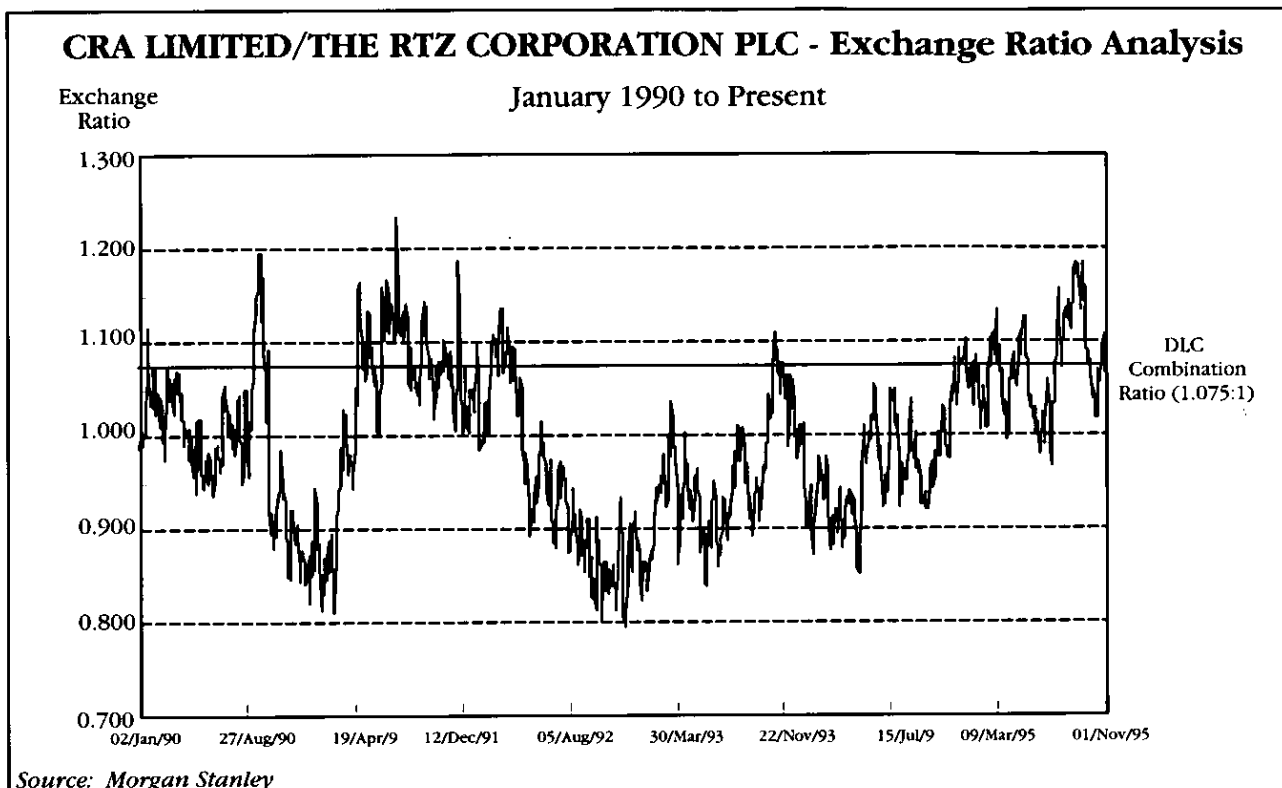
#### Implied DLC Fair Market Value

	Low <sup>(3)</sup>		Mid Point		High <sup>(4)</sup>	
	Aggregate Market Cap (\$MM)	Per Share	Aggregate Market Cap (\$MM)	Per Share	Aggregate Market Cap (\$MM)	Per Share
CRA	\$10,534	\$17.63	\$11,034	\$18.46	\$11,533	\$19.30
RTZ	\$21,035	19.70	20,329	19.04	19,623	18.38
RTZ exCRA <sup>(1)</sup>	\$15,891		14,942		13,992	
Implied DLC	\$26,426		25,975		25,525	
CRA Public Shareholders' DLC Interest <sup>(2)</sup>	6,210	20.31	6,104	19.96	5,998	19.61
Morgan Stanley FMV CRA Shares		17.63		18.46		19.30

*Notes:*

- (1) This is the fair market value of RTZ excluding its 49% shareholding in CRA.
- (2) This is the implied fair market value of the interest of the CRA Public Shareholders in the DLC using the Combination Ratio and assuming that the fair market value of the Combined Enterprise is equivalent to the aggregate fair market values of CRA and RTZ.
- (3) Based on the low end of the range of fair market values for CRA Shares and a value of \$19.70 per share for RTZ Shares. This value for RTZ Shares represents the high end of the range of fair market values for all assets of RTZ except its holding in CRA which is valued at the low end of such range consistent with the value used in the numerator.
- (4) Based on the high end of the range of fair market values for CRA Shares and a value of \$18.38 per share for RTZ Shares. This value for RTZ Shares represents the low end of the range of fair market values for all assets of RTZ except its holding in CRA which is valued at the high end of such range consistent with the value used in the numerator.

Morgan Stanley also analyzed the historical ratio of the market price of CRA Shares to the market price of RTZ Shares over the last 5 years. A graphical summary of this analysis appears below. This ratio has been above the Combination Ratio of 1.075:1 only infrequently since January 1990, and for most of this period has been at a ratio below 1.075:1.



### **Conclusion**

The Combination Ratio of 1.075:1 is above the upper end of the range of the ratio of assessed fair market values. The upper end of such range reflects the high end of the range of fair market values for the CRA Shares and the low end of such range for RTZ Shares. The Combination Ratio is 11% above the ratio of fair market values based on the midpoints of the valuation ranges for CRA Shares and RTZ Shares. Consequently, the interest of the CRA Public Shareholders in the Combined Enterprise is above the upper end of the range implied by the ratio of fair market values described above and is an incremental interest of 1.8% compared to (or 8% above) the mid point of such range.

Therefore, in our opinion the Combination Ratio is favourable to the CRA Public Shareholders before taking into account the other advantages and disadvantages to the CRA Public Shareholders of the DLC Proposal.

## 6. CRA IRON ORE

### 6.1 Introduction

The CRA Group's iron ore operations are conducted by Hamersley Iron. Iron ore operations contributed approximately 20% of CRA's 1994 consolidated group sales revenues and as at December 31, 1994, accounted for 27% of consolidated group assets. In 1994, iron ore operations contributed approximately \$420 million of CRA's operating earnings, which compares with \$553 million in 1993 and \$550 million in 1992.

Hamersley Iron is one of the world's largest iron ore producers and exporters. Sales to Japan account for 40% of shipments, with remaining deliveries being made to Europe, the People's Republic of China, Taiwan and Republic of Korea. Representative offices are maintained in Tokyo, London, Beijing and Hong Kong to assist with Hamersley's marketing activities.

Hamersley's operations, all in Western Australia, include open pit mines at Paraburdoo, Marandoo, Channar (CRA 60%, CMIEC 40%) and Brockman; an open pit mine and concentrator at Mount Tom Price; loading, rail and administrative center at Dampier and a large private railway complex.

The Marandoo mine, with an annual capacity of 12 million tonnes of iron ore per year, began production in 1994.

The Port of Dampier, through which Hamersley's iron ore is exported, has two ore loading facilities. One berth is at Parker Point and the other is at East Intercourse Island.

<u>Capacity</u>	<u>Tonnes per year</u>
Iron ore	55,000,000

### Hamersley Iron

	<u>1994</u>	<u>1993</u>
	(\$MM)	(\$MM)
Net sales revenue (CRA share)	1,186	1,342
Total assets (CRA share)	2,129	2,051
Capital expenditure (CRA share)	252	223
Iron ore (million wet tonnes)		
Total production	51.3	50.3
CRA share	49.0	47.8
Total shipments	51.7	50.3
CRA share	49.9	48.0
Employees	2,609	2,518

### 6.2 Business Description

#### 6.2.1 Industry Profile

The overall outlook for the worldwide seaborne traded iron ore market for the next ten years is for low demand growth (1% p.a.). Iron ore demand is expected to grow at less than the rate of steel production as Electric Arc Furnaces ("EAFs") continue to gain market share. Marginal iron ore producers will continue to exit the industry.

World steel production is expected to grow at 2-3% p.a. through 1998 with particular strength in Hamersley's key market, non-Japan Asia, where demand is expected to grow by 20MMt through 1998. Steel prices have moved up in 1995 and are expected to peak in 1996. The iron ore market is currently very tight. Market observers expect prices will increase 2-4% in 1996 and 1% in 1997 (in real terms), recovering from declines of recent years. The long term price trend is expected to remain consistent with the historical secular trend of 1-2% p.a. decrease in real terms.



## 6.2.2 Market Position

Hamersley is one of the world's largest producers of iron ore, and is the largest producer of lump, which commands premium prices (at the same cost of production) to fines. It is one of the lowest cost producers in the industry due to the scale and efficiency of its operations. As a result, Hamersley has the highest profit margins of any major iron ore producer.

Hamersley has experienced strong recent growth in production, from 50MMt in 1993 to approximately 53MMt expected for 1995. Hamersley is planning further expansion from its existing mines to 59MMt and development of a new mine at Yandicoogina in 1998-99. In addition, Hamersley is improving the quality of its product through the construction of a fine ore processing plant at Paraburdoo.

Iron ore demand is shifting towards direct charged blast furnace feeds. Prices for these feeds are therefore expected to remain high as lump is in short supply and pellet capacity is limited. Hamersley is well-positioned to capitalize on this trend. Customers are also expected to place continuing emphasis on reducing levels of alumina and phosphorus in fines. Hamersley will be better positioned as a result of its fines processing plant.

CRA is considered to be at the forefront of direct iron making research, through its HIs melt project. However, BHP has begun construction of a hot-briquetted iron ("HBI") plant, taking advantage of its position as an integrated steel producer, which is scheduled for completion in 1998.

Hamersley's principal competitors include CVRD, BHP and Robe River.

## 6.3 Valuation Analysis

### 6.3.1 Methodology Assumed

Morgan Stanley has valued the Iron Ore business unit ("CRA Iron Ore") using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

### *Overview of CRA Iron Ore Cash Flow Model*

Morgan Stanley's CRA Iron Ore cash flow model was based on information provided by CRA, principally in the form of the Hamersley Iron ("HI") three year plan produced in October 1995. The HI plan is an amalgamation of the individual plans prepared for HI's principal mines at Mt. Tom Price, Paraburdoo, Marandoo, Brockman and HI's share of its Channar mine, together with infrastructure costs such as operating its freight line to Dampier and its facility and loading costs at the port. The model comprises a 20 year analysis of CRA Iron Ore's unlevered free cash flows expressed in Australian dollars. Commodity prices and costs of production have been adjusted to reflect U.S. and Australian expected inflation of 3% p.a., and a declining A\$/US\$ exchange rate.

### *Key Assumptions in the Cash Flow Model*

We have discussed the key assumptions underlying the CRA Iron Ore model with the appropriate CRA personnel and A&S, and have also used third-party sources as we deemed appropriate to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow model are:

- *Life of Mine:* CRA Iron Ore has approximately 15 years of reserves (at current production rates) remaining. It has been assumed that an additional 1,000MMt of ore will be recovered from areas surrounding the Mt. Tom Price and Paraburdoo mines currently categorized as inferred resources. These additional reserves will enable HI to continue production from these mines for a further 15 years for a total mine life of 30 years.
- *Commodity Prices:* Due to the commercial sensitivity of prices for this commodity, they are not included in this section. However, Morgan Stanley has had access to the information necessary to make its price projections for the purpose of the cash flow model.

- **Production:** CRA Iron Ore is in the middle of a major expansion program. Annual production is assumed to increase from approximately 53MMt in 1995 to 59MMt in 1998, declining to 55MMt from existing mines by 2001. Production from these mines is then projected to remain at 55MMt until the end of the mine life. New production of Limonite fines is expected to be brought on-line progressively from 1999 until it reaches full production of 10MMt in 2001 raising total output to 65MMt. These fines are expected to be mined at CRA Iron Ore's Yandicoogina deposit in Western Australia.
- **Products:** The Lump/Fines mix is projected to remain constant at 48% excluding the effect of the Yandicoogina expansion.
- **Operating Cash Costs:** The operating cash costs per tonne have been estimated based on the CRA plan, CRA Iron Ore's recent experience, and the expectation of a 1.5% decline p.a. in real terms over time.
- **Capital Expenditure:** Major capital expenditure on new projects is projected for the period 1995-2002, to cover expanded port facilities, increased production at existing and new mines, expanded rail capacity, and Yandicoogina coming on-line in 1999. After 2002, capital expenditure represents maintenance capital expenditure only.
- **Terminal Value:** A terminal value has been calculated for CRA Iron Ore based on the 2014 unlevered free cash flow, which has been grown for another 10 years (to estimated end of mine life) at our inflation assumption of 3.0% p.a.

Based on our analysis set out in Appendix 20.5, we believe the appropriate discount range to use in valuing CRA Iron Ore would be 11.0% to 12.0%. Applying this range to CRA Iron Ore's cash flows provides the DCF valuation set out below:

DCF Value – CRA Iron Ore	Low (\$MM)	High (\$MM)
Discount Rate	12.0%	11.0%
DCF Value – CRA Iron Ore	\$3,216	\$3,527

#### **Sensitivity Analysis – CRA Iron Ore**

Set out below is an analysis of the extent to which changes in certain key economic and operating variables will affect the value of CRA Iron Ore based on our cashflow model, using a discount rate of 11.0%:

#### **Sensitivity Analysis - CRA Iron Ore**

Variable/change	Base Case	Impact on value (\$MM)
A\$/US\$ exchange rate (+/- \$0.01)	A\$1 = US\$0.730	\$(185)/190
Inflation Rate (+/-1%)	3.0%	116/(116)
Commodity prices (per tonne) (+/- 5%)		756/(756)

#### **Alternative Valuation Methodologies**

As a check of our DCF valuation, we have compared our valuation of CRA Iron Ore with that derived from the application of cash flow and net income multiples obtained from a review of comparable publicly traded companies to the cash flow and net income of CRA Iron Ore as appropriate.

There are no directly comparable publicly traded iron ore companies. The market valuation of CVRD is distorted by factors related to its pending privatization, Caemi is too small to be comparable to Iron Ore and Cleveland Cliffs has a lower quality asset base. We do not believe North to be a useful comparable company because of the nature of its iron ore production and the influence of North's

non-iron ore businesses. Based on a review of the trading multiples of other publicly traded bulk commodity companies (e.g., coal companies), it is Morgan Stanley's view that net income and cash flow multiples of 10.0-12.0x and 7.0-8.0x respectively are appropriate to value CRA Iron Ore. This analysis produced a range of values for CRA Iron Ore as follows:

**Comparable Companies Valuation Analysis – CRA Iron Ore**

	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
1996E Net Income Multiple	10.0x	12.0x
Valuation	\$3,155	\$3,786
1995E Cash Flow Multiple	7.0	8.0
Valuation	\$3,099	\$3,542

It is Morgan Stanley's view that there are no comparable precedent acquisition transactions of iron ore businesses for which statistics are available and that this methodology is therefore inapplicable for CRA Iron Ore.

*6.3.2 Summary Valuation Table*

In view of our DCF valuation of CRA Iron Ore, supported by valuations based on the capitalization of CRA Iron Ore's earnings and cash flow, the appropriate range of values for CRA Iron Ore is as follows:

<b>Business Unit</b>	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
Iron Ore	\$3,200	\$3,500

## 7. CRA COAL

### 7.1 Introduction

The CRA Group's coal mining operations are conducted through Pacific Coal, Coal & Allied, Kaltim Prima, Novacoal and Kembla Coal and Coke ("KCC"). In 1994, these investments generated 21% of CRA's consolidated group sales revenues, and as at December 31, 1994, accounted for approximately 20% of its consolidated group assets. Because Kaltim Prima is an equity accounted Associated Company, its sales revenue is not included in CRA's consolidated group sales revenues. The coal and coke operations contributed operating earnings of \$133 million in 1994 compared with \$365 million in 1993 and \$146 million in 1992.

#### *Pacific Coal:*

This business unit is responsible for the management and development of the Group's coal interests in Queensland, including the Tarong and Blair Athol projects, CRA's 69% interest in Hail Creek, and its 35.5% interest in Clermont.

Pacific Coal also conducts exploration activities in Queensland.

- **Blair Athol** – The Blair Athol Coal Project (CRA 57.195%) has a contract with Electric Power Development Company and Japan Coal Development Company for the delivery of 79 million tonnes of steaming coal over 16 years from 1984. The open pit project also sells coal to a number of Asian and European customers. Expansion work at Blair Athol has increased the mine's annual production to 10 million tonnes. Resources of steaming coal are also held at Valeria, formerly known as Capella, 70 kilometres south east of Blair Athol. These are the subject of continuing investigation.
- **Tarong** – An open pit steaming coal mine was commissioned in 1984 to supply a 1400 MW capacity power station at Tarong. The power station has a projected life in excess of 30 years, and is supplied from the Group's Meandu deposit at a rate of up to 5.5 million tonnes a year during peak years.
- **Hail Creek Development** – CRA has a 69% interest in coal deposits at Hail Creek, Queensland.
- **Clermont Development** – CRA has a 35.5% interest in steaming coal deposits at Clermont, Queensland.

Capacity	Tonnes per year
Blair Athol	10,000,000
Tarong	5,350,000

#### **Pacific Coal (CRA 100%)**

	1994 (\$MM)	1993 (\$MM)
Net sales revenue (CRA share)	322	359
Total assets (CRA share)	420	402
Capital expenditure (CRA share)	67	20
Production (million tonnes)		
<b>Blair Athol (CRA 57.2%)</b>		
Total	9.7	9.3
CRA share	5.6	5.3
<b>Tarong</b>	5.2	5.3
Employees	633	626

#### *Coal & Allied:*

- Coal & Allied Limited is a publicly listed Australian company in which CRA has a 70.7% equity interest, with the remaining equity being held by institutional investors and the public.

- Coal & Allied (CRA 70.7%) operates two large open-cut steaming and coking coal mines in the Hunter Valley region of New South Wales. The mines produce a total of around 10 million tonnes of coal annually.
- **Hunter Valley Mine** – The open cut mine, located 24 kilometres north of Singleton in the Hunter Valley, produces a range of high quality, low sulphur coals.
- **Mount Thorley Mine** – The Mount Thorley Mine is a large open cut mine located 11 kilometres southwest of Singleton in the Hunter Valley. The mine, owned 80% by Coal & Allied and 20% by Pohang Iron & Steel Co Limited, produces high quality, low sulphur coals ranging from soft coking to thermal coals.

#### Coal & Allied (CRA 70.7%)

	1994 (\$MM)	1993 (\$MM)
Net sales revenue	554	642
Total assets	587	728
Capital expenditure	29	29
Production (million tonnes)	9.8	11.7
Sales (million tonnes)	11.9	12.3
Employees	1,330	1,847

#### *Kaltim Prima*

Kaltim Prima Coal (CRA 50%) operates an export coal mine in East Kalimantan, Indonesia. In 1994, the mine produced 9.9 million tonnes. Production from this high quality thermal coal resource is exported to markets in Japan, Taiwan, Hong Kong, Malaysia, USA and a number of European countries.

#### Kaltim Prima Coal (CRA 50%)

	1994 (\$MM)	1993 (\$MM)
Net sales revenue	411	418
Total assets	712	761
Capital expenditure	25	61
Production (million tonnes)		
Total	9.9	8.9
CRA share	4.3	3.8
Shipments (million tonnes)		
Total	10.0	8.6
CRA share	4.3	3.8
Employees		
CRA secondments	15	13
Total employees	2,300	2,258

#### *Novacoal*

This business unit was formed in 1989 to develop some of CRA's New South Wales steaming coal assets. The main focus is on the management of the Howick and Vickery mines, and the evaluation of the prospective Maules Creek, Mt. Airly and Oaklands deposits.

- **Howick** – The Howick mine (CRA 60%, Mitsubishi Development Pty Ltd 40%) is located near Singleton, 110 kilometres west of Newcastle. The open cut mine produces both steaming and semi-soft coking coal. The colliery supplies steaming coal to the nearby Bayswater and Liddell power stations, and exports steaming and coking coal to Asian markets.

- **Vickery** – The Vickery open cut mine, located near Gunnedah, was constructed in 1991 as a pilot for developments in the Namoi Valley and to establish a market presence prior to a decision on committing capital to the 5 MMtpa Maules Creek deposit about 20 kilometres from Vickery. Open cut mining will continue at the current rate to 1999, producing a high calorific value coal suitable for both power stations and as pulverized coal injection feed to steel mills in South East Asia.
- **Mt. Airly** – CRA holds a mining lease for an underground mine capable of producing up to 2 MMtpa coal. A domestic contract with Mt. Piper power station is a prerequisite for development.

Capacity	Tonnes per year
Howick	3,600,000
Vickery	750,000

#### Novacoal (CRA 100%)

	1994 (\$MM)	1993 (\$MM)
Net sales revenue (CRA share)	148	155
Total assets (CRA share)	202	208
Capital expenditure (CRA share)	3	3
Production – saleable coal (million tonnes)		
Total	4.8	4.6
CRA share	3.3	3.2
Sales (million tonnes)		
Total	4.9	4.9
CRA share	3.4	3.4
Employees	410	435

#### *Kembla Coal and Coke*

See Section 12, Other Assets, Below

## 7.2 Business Description

### 7.2.1 Industry Profile

The market for seaborne steaming coal is expected to grow at 6% p.a. over the next decade. Exports to Europe will rise primarily as a result of declining local production. Exports to Asia will rise based on the expected growth of the indigenous economies — greater demand for power will be increasingly met with coal-fired generation, increasing thermal coal demand.

The Japanese market is exhibiting good growth prospects, and is expected to double its demand for thermal coal in the next 5 years (+15% p.a.). China currently produces 75% of its energy from coal. Its inability to meet growth in energy demand from domestic production is creating growth in demand for imports.

Pricing is generally set by the Japanese. There is a ripple-effect from the coking coal price negotiations through to thermal coal prices. Prices generally have firmed in 1995 relative to 1994. Thermal coal over time has seen support in the US\$38-US\$40/tonne (FOB Australia) range, and is expected to peak in 1996 at just under US\$45/tonne. Prices will then decline to the US\$38-US\$42/tonne range (in real terms) through the end of the decade.

## 7.2.2 Market Position

CRA is Australia's largest producer of thermal coal. BHP, the largest producer of coking coal, is not a major player in thermal coal. CRA's main thermal coal competitors include Shell, Oakbridge, Exxon and Peabody.

Generally open pit mines have better economics. All of CRA's mines are open pit. While cost competitiveness is measured on a mine by mine basis, Blair Athol is considered by management to be the lowest cost mine in Australia. CRA believes that it has the best portfolio of coal assets in Australia.

Europe is not a natural market for CRA due to disadvantages in freight costs compared with the American and Latin American producers. However, it is ideally positioned to take advantage of the high-growth Asian markets. CRA is a large exporter to Taiwan. Other areas of potential growth for which CRA is well positioned include China, India, Thailand, Malaysia and Korea.

## 7.3 Valuation Analysis

### 7.3.1 Methodology Assumed

Morgan Stanley has valued CRA's Coal business unit ("CRA Coal") using the Discounted Cash Flow Methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

### *Overview of CRA Coal Cash Flow Model*

Morgan Stanley's CRA Coal cash flow model was based on information provided by CRA, principally in the form of the three year plans for Coal & Allied, Novacoal and Pacific Coal produced in October 1995, and for Kaltim Prima Coal produced in October 1994. The model is an amalgamation of individual cash flow models produced for each of the coal mines owned by these operating units. Each model comprises a 20 year analysis of that mine's unlevered free cash flows expressed in Australian dollars, except for Vickery Coal (6 years) and Blair Athol Coal (16 years). Commodity prices and costs of production have been adjusted to reflect U.S. and Australian expected inflation of 3% p.a., and a declining A\$/US\$ exchange rate.

### *Key Assumptions in the Cash Flow Model*

We have discussed the key assumptions underlying the CRA Coal model with the appropriate CRA personnel and A&S, and have also used third-party sources as we deemed appropriate to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow model are:

– *Life of Mine:*

- **Coal & Allied** – The Hunter Valley and Mount Thorley mines have approximately 16 years and 10 years respectively, of reserves remaining (at current production rates). It has been assumed that there are 20 years of reserves at each mine and that these additional reserves will be recovered from areas surrounding the mines.
- **Novacoal** – The Howick and Vickery mines have approximately 16 years and 6 years respectively, of reserves remaining (at current production rates). It has been assumed that an additional 20MM tonnes of reserves will be recovered from areas surrounding the Howick mine. These additional reserves will enable Howick to continue production for a further 10 years from 2014. It has been assumed that Vickery will close in 2000.
- **Pacific Coal** – The Blair Athol and Tarong mines have approximately 16 years and 30 years respectively, of reserves remaining (at current or planned production rates). It has been assumed that Blair Athol will cease production in 2010 and that Tarong will continue production for a further 10 years beyond 2014. Due to the uncertainty surrounding the Kunioon expansion, we have not included specific projections for this expansion in our valuation. Development of the Clermont mine has been assumed to contain sufficient reserves for a further 20 years of production beyond 2014.

- **Kaltim Prima** – The Kaltim Prima mine has approximately 24 years of reserves remaining (at current or planned production rates). It has been assumed that the Bengalon mine will be developed, and contains approximately 27 years of reserves, enabling Bengalon to continue production for a further 10 years beyond 2014.
- *Commodity Prices:* Due to the commercial sensitivity of prices for this commodity, they are not included in this section. However, Morgan Stanley has had access to the information necessary to make its price projections for the purpose of the cash flow model.
- *Production:*
- **Coal & Allied** – Hunter Valley is in the midst of expanding production from 5.2MMt in 1995 to 7.5MMt in 1998. Production will remain flat at this level over the remaining mine life. Mount Thorley is assumed to keep production flat at the 5.3 – 5.4MMt level over the remaining mine life.
- **Novacoal** – Howick is assumed to increase production from 2.5MMt (CRA share) in 1995 to 3.4MMt in 1999 and 4.0MMt in 2000. Production would then remain at this level throughout the mine life. Vickery is also assumed to increase production from 300kt in 1995 to 800kt in 1998 through 2000, at which time the mine will close.
- **Pacific Coal** – Blair Athol is assumed to expand production from 6.2MMt in 1995 (CRA share) to 7.4MMt in 1998 before falling back to 6.9MMt from 1999 until the end of the mine life in 2010. Tarong is assumed to keep production flat in the 5.4 – 5.5MMt range over the life of the mine. Clermont is assumed to come on stream in 2008 producing 1.5MMt, moving to 6.0MMt in 2012 and beyond.
- **Kaltim Prima** – Kaltim Prima is expanding production of both its Prima and Pinang coals so that CRA's share would increase from 3.0 and 1.3MMt respectively in 1995 to 4.5 and 1.9MMt in 1998. Production is assumed to stay flat at this level until 2005 when a gradual switch to production of Pinang coal only results in 5.2MMt being produced from 2006 through the end of the mine life. Bengalon is assumed to come on stream in 1998.
- *Operating Cash Costs:* The operating cash costs per tonne have been estimated based on the CRA plans, the recent experience at each of the mines and an inflation expectation of 3.0%.
- *Capital Expenditure:*
- **Coal & Allied** – The increase in production at Hunter Valley necessitates some major capital expenditure in the 1996-1998 period. \$100MM is expected to be expended for a new dragline for Hunter Valley in 2000 to improve the economics of the project. After 2000, capital expenditure represents maintenance capital expenditure only. This is the case for all of Mount Thorley's forecast capital expenditure.
- **Novacoal** – The increase in production at Howick is reflected in new projects capital expenditures in the years 1997-1999. After 1999, capital expenditure represents maintenance capital expenditure only. This is also the case for all of Vickery's forecast capital expenditure.
- **Pacific Coal** – The Blair Athol and Tarong capital expenditures represents maintenance capital expenditure only. The opening of the Clermont expansion in 2008 will require major capital expenditure in the 2005-2008 period.
- **Kaltim Prima** – Capital expenditure at the Kaltim Prima mine represents maintenance capital expenditure only. The Bengalon expansion will require major expenditure in the 1997-1998 period.
- *Terminal Value:*
- **Coal & Allied** – The Hunter Valley and Mount Thorley mines have been assumed to cease production in 2014 and have been assigned a terminal value of zero.
- **Novacoal** – A terminal value for the Howick mine has been calculated based on the 2014 unlevered free cash flow which has been grown for another 10 years (to estimated end of mine life) at our



inflation assumption of 3.0%. The Vickery mine will cease production in 2000 and has been assigned a terminal value of zero.

- **Pacific Coal** – The Blair Athol mine will cease production in 2010 and has been assigned a terminal value of zero. Terminal values for the Tarong and Clermont mines have been calculated based on the 2014 unlevered free cash flow which has been grown for another 10 and 20 years respectively (to estimated end of mine lives) at our inflation assumption of 3.0% p.a.
  - **Kaltim Prima** – Terminal values for the Kaltim Prima and Bengalon mines have been calculated based on the 2014 unlevered free cash flow which has been grown for another 4 and 10 years respectively (to estimated end of mine lives) at our inflation assumption of 3.0% p.a.
- *Other Assumptions:*
- **Kaltim Prima** – It has been assumed that if and when CRA and BP are required under the Contract of Work to reduce their current holdings in the Kaltim Prima mine, such sale will be for an amount representing fair market value.

Based on our analysis set out in Appendix 20.5, we believe the appropriate discount range to use in valuing CRA Coal would be 10.5% to 11.0%. Applying this range to CRA Coal's cash flows provides the DCF valuation set out below:

DCF Value – CRA Coal	Low (\$MM)	High (\$MM)
Discount Rate	11.0%	10.5%
DCF Value – CRA Coal	\$3,162	\$3,287

#### ***Sensitivity Analysis – CRA Coal***

Set out below is an analysis of the extent to which changes in certain key economic and operating variables will affect the value of CRA Coal based on our cash flow model, using a discount rate of 10.5%:

#### **Sensitivity Analysis – CRA Coal**

Variable/change	Base Case	Impact on Value (\$MM)
A\$/US\$ exchange rate (+/- \$0.01)	A\$1 = US\$0.730	\$(158)/163
Inflation Rate (+/-1%)	3.0%	234/(216)
Commodity prices (per tonne) (+/-5%)		778/(778)

#### ***Alternative Valuation Methodologies***

As a check of our DCF valuation, we have compared our valuation of CRA Coal with that derived from the application of cash flow and net income multiples obtained from a review of publicly traded coal companies to the cash flow and net income of CRA Coal as appropriate. This analysis produced a range of values for CRA Coal as follows:

#### **Comparable Companies Valuation Analysis – CRA Coal**

	Low (\$MM)	High (\$MM)
1996E Net Income Multiple	10.0x	12.0x
Valuation	\$2,301	\$2,761
1995E Cash Flow Multiple	7.0	8.0
Valuation	\$2,257	\$2,580

The multiples we have calculated for these comparable companies are based on net income and cash flow (defined as net income plus depreciation and amortization) projections from brokers' reports. This analysis produced a range of multiples as follows:

#### Comparable Companies Multiple Analysis – CRA Coal

Company	1996E Net Income Multiple	1995E Cash Flow Multiple
Ashland Coal	8.3x	3.1x
Zeigler Coal	5.8	3.0
QCT Resources	10.4	11.7

It is Morgan Stanley's view that publicly-traded coal companies are not useful valuation benchmarks. There are few publicly-listed coal companies in the world, many of which are extremely small, have lesser quality assets, different coal types, participate in different markets, are highly leveraged or have limited control over the mines in which they have significant interests. Accordingly, we have exercised discretion in using publicly-traded coal company multiples to derive a valuation for CRA Coal.

It is Morgan Stanley's view that CRA Coal warrants a valuation at or above the high end of the companies listed above, taking into account geographical position, quality of individual assets and past and expected future performance. Accordingly we have applied net income and cash flow multiples of 10.0-12.0x and 7.0-8.0x, respectively.

We have also compared our valuation of CRA Coal with that derived from the application of multiples obtained from a review of comparable precedent acquisition transactions in the coal business to the relevant CRA Coal financial statistic. This analysis produced a range of values for CRA Coal as follows:

#### Precedent Transaction Valuation Analysis – CRA Coal

	Low (\$MM)	High (\$MM)
\$ per tonne of Production	\$90	\$110
Valuation	\$2,620	\$3,203

The multiples we have calculated for these precedent transactions are based on price paid per tonne of annual production. Although this is a crude benchmark, it is often the only multiple that can be derived from public information relating to transactions in the coal industry. This analysis produced a range of multiples as follows:

#### Precedent Transaction Multiple Analysis – CRA Coal

Acquiror	Acquiree	Date	\$ per Tonne of Production
CRA Ltd.	Coal & Allied	12 March, 1993	\$100
Peabody Coal	Costain Group	19 October, 1992	65

It is Morgan Stanley's view that CRA Coal warrants a valuation at or above the high end of these precedent transactions due to the high quality of CRA's coal assets. It is our view that the appropriate multiple would be in the range of \$90 to \$110 per tonne of annual production for a transaction involving CRA Coal.

As a further check of our DCF valuation, we have compared our valuation of Coal & Allied with its public market trading value.

### 7.3.2 Summary Valuation Table

It is Morgan Stanley's view that the DCF methodology is the most appropriate valuation approach for coal assets. Accordingly, based primarily on our DCF valuation of CRA Coal, supported to a lesser extent by valuations based on the capitalization of CRA Coal's earnings and cash flow, the appropriate range of values for CRA Coal is as follows:

<b>Business Unit</b>	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
Coal	\$3,100	\$3,300

## 8. CRA ALUMINIUM

### 8.1 Introduction

The CRA Group's bauxite, alumina and aluminium operations are conducted by Comalco. During 1994, these operations generated approximately 41% of CRA's consolidated group sales revenues and as at December 31, 1994, accounted for 34% of CRA's consolidated group assets. In 1994, Comalco contributed approximately \$186 million of CRA's operating earnings, which compares with \$83 million in 1993 and \$95 million in 1992.

Comalco is an international integrated aluminium company which is engaged in the mining of bauxite, the production of calcined bauxite and kaolin, refining bauxite into alumina and smelting alumina into aluminium. It also has interests in aluminium processing and finishing operations which it is in the process of divesting. It markets the products at each stage of its operations to third parties as well as supplying them to its other integrated operations. Comalco Limited is a publicly listed Australian company in which CRA has a 67% equity interest, with the remaining equity being held by institutional investors and the public.

### *Comalco Minerals & Alumina*

This business unit (CRA 67%) manages Comalco's bauxite and kaolin interests in Australia and has an interest in the Boké bauxite operations in Guinea, West Africa. It also manages Comalco's interests in alumina in Queensland and Sardinia and markets its share of alumina production.

The business unit's industrial minerals activities include the production of calcined bauxite for the abrasives industry and kaolin for paper coating.

- **Weipa** — the mining, treatment and shipment of bauxite is carried out at Weipa in far north Queensland. The bauxite mine is one of the world's largest, producing 8% of total world production. Over 70% of the output is shipped to the Gladstone plant of Queensland Alumina Limited, with most of the balance exported to Japan and Europe.

The kaolin plant supplies customers in the paper coating industry in Asia and Europe. An expansion of the plant to a 200,000 tonnes per year capacity is in progress.

<u>Capacity</u>	<u>Tonnes per year</u>
Bauxite - Weipa	10,000,000
Calcined bauxite	200,000
Kaolin	200,000

- **QAL Refinery** — Queensland Alumina (Comalco 30.3%) operates the world's largest capacity alumina refinery at Gladstone, Queensland, which exclusively processes bauxite from Comalco's Weipa mine. Comalco's share of alumina is used by its three aluminium smelters in Australia and New Zealand.
- **Eurallumina Refinery** — The Eurallumina SpA (Sardinia, Italy) (Comalco 26.9%) alumina refinery draws about 50% of its bauxite requirements from the Weipa mine and the balance from Guinea.

<u>Capacity (Total)</u>	<u>Tonnes per year</u>
QAL	3,330,000
Eurallumina	850,000

**Comalco Minerals & Alumina (CRA 67.0%)**

	1994 (\$MM)	1993 (\$MM)
Total sales	610	602
Total assets	615	597
Capital expenditure (JV basis)	43	34
Bauxite (million tonnes)		
Weipa production	8.9	8.5
Weipa shipments	8.9	8.2
Boké shipments (Comalco share)	1.0	0.9
Alumina (million tonnes)		
Entitlements	1.4	1.2
Shipments	1.5	1.3
Employees	816	833

**Comalco Smelting**

This business unit (CRA 67%) is responsible for the management of the Group's primary aluminium smelters in Australia and New Zealand, and the marketing of Comalco's share of the output.

- **Boyne Island** — The Boyne Island, Queensland smelter (Comalco 50%), operated by Comalco Smelting on behalf of a consortium, was commissioned in 1982. Alumina for the smelter is supplied from the nearby QAL Refinery.
- **Bell Bay** — The Bell Bay, Tasmania smelter is 100% owned by Comalco. In addition to primary aluminium, Bell Bay also produces aluminium powder and paste.
- **Tiwai Point** — New Zealand's only primary aluminium smelter, at Tiwai Point, near Invercargill, is operated by New Zealand Aluminium Smelters (Comalco 79.36%). Alumina supplies are drawn from the QAL Refinery.

<u>Capacity (Total)</u>	<u>Tonnes per year</u>
Boyne Island	260,061
Bell Bay	120,000
Tiwai Point	259,000

**Comalco Smelting (CRA 67.0%)**

	1994 (\$MM)	1993 (\$MM)
Total sales	1,022	1,015
Total assets	1,123	1,095
Capital expenditure (JV basis)	60	34
Aluminium production ('000 tonnes)		
Bell Bay	101	120
Tiwai Point (Comalco share)	214	213
Boyne Island (Comalco share)	120	89
Total	435	422
Employees	3,158	3,280

**Gladstone Power Station**

Purchase of the 1680 MW thermal power station from the Queensland Electricity Commission for \$750 million was finalized on 30 March 1994.

Comalco's equity in the unincorporated joint venture which owns the station is 42.125%.

The operator of the station, which is an integral part of the Queensland Electricity grid and supplies energy to the Boyne Island aluminium smelter and the Queensland Electricity Commission, is NRG Gladstone Operating Services Pty Limited, a subsidiary of NRG Energy, a U.S. power utility with a 37.5% equity holding in the joint venture.

## **8.2 Business Description**

### **8.2.1 Industry Profile**

Aluminium market demand is expected to grow at 2-3% p.a. for the next decade, which is in turn expected to generate similar growth in the bauxite and alumina markets. The traded markets for bauxite and alumina are flat, with only pull-through demand from metal consumption fueling market increases.

Following the signing of the Memorandum of Understanding in 1994 between the major western bloc aluminium producing nations and Russia, when approximately 1.0 million tonnes of smelting capacity was temporarily closed down, the aluminium industry has experienced a strong recovery in earnings. LME inventories have declined to 0.6 million tonnes from their peak level of 2.7 million tonnes in May 1994 and are anticipated to be essentially worked off by year-end 1995. With capacity projected to grow at only modest rates over the next few years, and secular growth in demand from the Asian region, the fundamentals for the aluminium market are expected to remain strong.

Strong competition on bauxite price and market share, particularly in Europe, is expected in the short to medium term. The alumina market is expected to remain very tight in the short term with a significant increase in prices in 1996 following the market's historical pattern of replicating the run-up in aluminium prices which occurred in 1995.

Market analysts expect aluminium prices to remain high in 1996 and 1997 before declining to long-term trend prices in 1998. Production is expected to rise in the near term as idled capacity is restarted in response to higher prices.

### **8.2.2 Market Position**

Comalco produces approximately 22% of Australia's total bauxite output, 8% of its alumina and 16% of its primary aluminium, and is currently one of Australia's largest producers of rolled aluminium products (although this business is for sale).

Comalco has recently announced its intentions to refocus its operations to concentrate investment on the upstream sectors of mining, refining and smelting. Accordingly, Comalco sold its interest in Commonwealth Aluminum in the US via a public offering of shares in March 1995. Comalco has also recently announced an agreement to sell Comalco Extruded Products, and is looking to sell Comalco Rolled Products and its foundry business, completing its exit from the downstream aluminium products business.

The Weipa deposit is one of the largest in the world and remains the base of Comalco's integrated business. Comalco's Boyne Island smelter in Queensland will be among the largest in the world when its expansion to 475,000 tonnes p.a. is commissioned in 1997.

Comalco's smelter entitlement from Boyne Island, Bell Bay and Tiwai Point consolidate Comalco's position among the ten leading aluminium companies worldwide.

Much of Comalco's bauxite and alumina is sold and processed within the group — external sales represent only a small part of Comalco Minerals & Alumina's business.

## **8.3 Valuation Analysis**

### **8.3.1 Methodology Assumed**

Morgan Stanley has valued CRA Aluminium using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

### **Overview of CRA Aluminium Cash Flow Model**

Morgan Stanley's CRA Aluminium cash flow model was based on information provided by CRA, principally in the form of the three-year plans produced in October 1995 by Comalco Minerals & Alumina and Comalco Smelting. The model is an amalgamation of individual cash flow models prepared for each of the major assets owned by these operating units. Each model comprises a 20-year analysis of that asset's unlevered free cash flows expressed in Australian dollars, except for the Bell Bay Smelter (8 years). Commodity prices and costs of production have been adjusted to reflect U.S. and Australian expected inflation of 3% p.a., and a declining A\$/US\$ exchange rate.

### **Key Assumptions in the Cash Flow Model**

We have discussed the key assumptions underlying the CRA Aluminium model with the appropriate CRA personnel and A&S, and have also used third-party sources as we deemed appropriate to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow model are:

— *Life of Asset:*

● **Comalco Minerals & Alumina**

- + *Weipa Bauxite* – Weipa has approximately 22 years of reserves remaining (at current grades and production rates). It has been assumed that additional ore will be recovered from the surrounding areas enabling Weipa to continue production for at least 30 years.
- + *QAL Refinery* – It has been assumed that QAL will continue operating indefinitely.
- + *Eurallumina Refinery* – It has been assumed that Eurallumina will continue operating indefinitely.

● **Comalco Smelting**

- + *Bell Bay Smelter* – It has been assumed that Bell Bay will cease operations in 2001.
- + *Boyne Island Smelter* – It has been assumed that Boyne Island will continue operating indefinitely, with Boyne Island Line No. 3 coming on stream in 1997.
- + *Tiwai Point Smelter* – It has been assumed that Tiwai Point will continue operating indefinitely.

● **Gladstone Power Station (“GPS”)** – It has been assumed that GPS will continue operating indefinitely.

— *Commodity Prices:* Prices are assumed to be as follows (in real terms):

- **Aluminium** – 1996: +1.7%; 1997: +2.6%; 1998: -8.3%; and from 1999 onwards, flat until the end of the DCF period.

Due to the commercial sensitivity of prices for alumina, bauxite and kaolin, they are not included in this section. However, Morgan Stanley has had access to the information necessary to make its price projections for the purpose of the cash flow model.

Refer also to Appendix 20.2, Overview of Commodity and Foreign Exchange Markets, below.

— *Production:*

● **Comalco Minerals & Alumina**

- + *Weipa Bauxite* – Production of beneficiated bauxite is assumed to grow steadily from 9.3MMt in 1995 to 10.0MMt in 1998, a level which is assumed to be sustained until the end of the DCF period. Production of calcined bauxite is assumed to grow steadily from 154 kt in 1995 to 165 kt in 1997 and beyond. Production of kaolin is assumed to increase rapidly from 130 kt in 1995 to 202 kt in 1998, 308 kt in 2000 and 370 kt in 2002 and beyond.
- + *QAL Refinery* – Production of alumina is assumed to grow from 1,026 kt (Comalco share) in 1995 to 1,104 kt in 1997, settling back to 1,008 kt in 1999 and beyond. The model assumes no expansion to production at QAL.

- + *Eurallumina Refinery* – Production of alumina is assumed to remain flat around the 237 kt level (Comalco share) for the life of the asset.
- **Comalco Smelting**
  - + *Bell Bay Smelter* – Production of aluminium is assumed to remain flat around the 100 kt level (Comalco share) for the life of the asset.
  - + *Boyne Island Smelter* – Production of aluminium from Lines 1 and 2 is assumed to grow from 128 kt (Comalco share) in 1995 to 137 kt in 1997 and thereafter. Production from Line 3 is assumed to come on stream in 1998 at 114 kt (Comalco share) and remain at that level throughout the DCF period.
  - + *Tiwai Point Smelter* – Production of aluminium is assumed to grow from 216 kt (Comalco share) in 1995 to 234 kt in 1996 and 254 kt in 1998. Production is assumed to remain at this level throughout the DCF period.
- **Gladstone Power Station** – Production of electricity is assumed to grow from 2,507 Gwh (Comalco share) in 1995 to 3,578 Gwh in 1998 with further steady increases up to 4,277 Gwh in 2004 before declining to 3,530 kt in 2010 and thereafter.
- *Operating Cash Costs*: The operating cash costs per tonne have been estimated based on the CRA plan, Comalco's recent experience, and an inflation expectation of 3.0%.
- *Capital Expenditure*:
  - **Comalco Minerals & Alumina** - Capital expenditure on new projects is assumed for the 1996-1997 period to cover increased production at Weipa. After 1997, capital expenditure represents maintenance capital expenditure only.
  - **Comalco Smelting** - Major capital expenditure on new projects is assumed for the 1995-1998 period to cover the start up of Line 3 at Boyne Island, upgrade of production at Tiwai Point and Bell Bay and environmental compliance at all smelters. Beyond 1998, capital expenditure represents maintenance capital expenditure only.
  - **Gladstone Power Station** - Capital expenditure represents maintenance capital expenditure only.
- *Terminal Value*: A terminal value has been calculated for each major asset based on the 2014 unlevered free cash flow which has been grown into perpetuity at our inflation assumption of 3.0% p.a. Bell Bay has been assigned a terminal value of zero as it is forecast to cease production in 2001.

Based on our analysis set out in Appendix 20.5, we believe the appropriate discount range to use in valuing CRA Aluminium would be 13.5% to 14.0%. Applying this range to CRA Aluminium's cash flows provides the DCF valuation set out below:

#### DCF Value - CRA Aluminium

	Low (\$MM)	High (\$MM)
Discount Rate	14.0%	13.5%
DCF Value - CRA Aluminium	\$2,865	\$3,011

#### Sensitivity Analysis - CRA Aluminium

Set out below is an analysis of the extent to which changes in certain key economic and operating variables will affect the value of CRA Aluminium based on our cashflow model, using a discount rate of 13.5%:

#### Sensitivity Analysis - CRA Aluminium

Variable/change	Base Case	Impact on value (\$MM)
A\$/US\$ exchange rate (+/- \$0.01)	A\$1 = US\$0.730	\$(159)/163
Inflation Rate (+/-1%)	3.0%	321/(290)
Commodity prices (per tonne) (+/-5%)		651/(651)



### **Alternative Valuation Methodologies**

As a check of our DCF valuation, we have compared our valuation of CRA Aluminium with that derived from the application of EBITDA and net income multiples obtained from a review of comparable publicly traded companies to the EBITDA and net income of CRA Aluminium as appropriate. This analysis produced a range of values for CRA Aluminium as follows:

#### **Comparable Companies Valuation Analysis - CRA Aluminium**

	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
1996E Net Income Multiple	8.5x	9.5x
Valuation	\$2,719	\$2,982
1995E EBITDA Multiple	6.0	7.0
Valuation	\$2,330	\$2,718

The multiples we have calculated for these comparable companies are based on net income and EBITDA (earnings before interest, taxes, depreciation and amortization) projections from brokers' reports. This analysis produced a range of multiples as follows:

#### **Comparable Companies Analysis - CRA Aluminium**

<b>Company</b>	<b>1996E Net Income Multiple</b>	<b>1995E EBITDA Multiple</b>
Alcoa	8.4x	6.2x
Alcan Aluminium	7.5	6.4
Reynolds Metals	6.6	5.9
Alumax	5.9	5.7
Kaiser Aluminum	4.6	6.4

It is Morgan Stanley's view that CRA Aluminium warrants a valuation at or above the high end of the companies listed above, taking into account its dominant position in the Australian market, upstream focus, world class assets, growth potential in production and past and expected future performance. Accordingly we have applied net income and EBITDA multiples of 8.5 - 9.5x and 6.0 - 7.0x, respectively.

It is Morgan Stanley's view that there are no comparable precedent acquisition transactions in the aluminium business for which statistics are available, and that this methodology is therefore inapplicable for CRA Aluminium.

As a further check of our DCF valuation, we have compared our valuation of CRA Aluminium with Comalco's public market trading value.

#### **8.3.2 Summary Valuation Table**

In view of our DCF valuation of CRA Aluminium supported by valuations based on the capitalization of CRA Aluminium's earnings and EBITDA, the appropriate range of values for CRA Aluminium (67% of Comalco) is as follows:

<b>Business Unit</b>	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
Aluminium	\$2,850	\$3,000

## 9. CRA GOLD AND COPPER

### 9.1 Introduction

The CRA Group investments in gold and copper operations in 1994 were held through Kelian (CRA 90%), Peak (CRA 100%) and Southern Copper (CRA 100%) (see Section 12, CRA Other Assets, below). In addition, CRA has a 53.6% interest in Bougainville Copper Limited located on Bougainville Island in Papua New Guinea, which conducted copper, gold and silver operations from 1972 until it suspended operations in May 1989 as a result of civil unrest and law and order problems.

In 1994, the gold and copper operations accounted for approximately 9% of CRA's consolidated group sales revenues and 8% of its consolidated group assets as at December 31, 1994. In 1994, gold and copper operations contributed \$43 million of CRA's operating earnings, which compares with \$75 million in 1993 and \$25 million in 1992.

#### *Kelian*

The Kelian gold mine (CRA 90%) is located in East Kalimantan, Republic of Indonesia. The mine began production in 1992. In 1994 it processed more than six and a half million tonnes of ore by conventional carbon-in-pulp cyanide leaching technology and produced 433,000 ounces of gold.

#### **Kelian Equatorial Mining (CRA 90%)**

	1994 (\$MM)	1993 (\$MM)
Net sales revenue	234	248
Total assets	333	389
Capital expenditure	26	12
Total gold production ('000 ounces)	433	464
Sales ('000 ounces)	440	465
Employees	1,300	1,247

#### *Peak*

The Peak underground gold mine, south of Cobar, New South Wales, began production in 1992 after being developed at a cost of \$135 million. Reserves (at December 31, 1994) are estimated at 3.5 million tonnes of ore with a grade of 7.1 grams of gold per tonne of ore, 0.6% copper, 0.8% lead, 0.9% zinc and 5.0 grams per tonne of silver. Production in 1994 totalled 120,000 ounces of gold and 16,000 tonnes of copper concentrate, derived from a mill throughput of 499,000 tonnes.

#### **Peak Gold Mines (CRA 100%)**

	1994 (\$MM)	1993 (\$MM)
Net sales revenue	71	83
Total assets	135	143
Capital expenditure	9	7
Ore production ('000 tonnes)	499	456
Total gold production ('000 ounces)	120	146
Sales ('000 ounces)	105	120
Employees	156	179

#### *Bougainville Copper*

Bougainville Copper Limited ("BCL") (CRA 53.6%) owns an open pit mine and concentrator at Panguna, on Bougainville Island in Papua New Guinea. This business unit's production capacity was 600,000 tonnes of copper concentrate a year, with a significant amount of contained gold.

On 15 May 1989 production at the mine was brought to a halt by militant activity.

Because of the inability to examine or monitor the condition and assess the value of the assets of BCL, the accounts of that company have not been consolidated with those of the rest of CRA from 1990. Although CRA expects that mining operations will eventually resume, it is not currently possible to estimate the value of its investment with any precision. Therefore, in CRA's 1991 accounts a full provision was made against CRA's investment in BCL, which at December 31, 1991, was A\$267 million.

### **Bougainville Copper (CRA 53.6%)**

	1994 (\$MM)	1993 (\$MM)
Net sales revenue	—	—
Total assets	290	388
Capital expenditure	—	—
Production	—	—
Employees	3	—

## **9.2 Business Description**

### *9.2.1 Industry Profile*

The average gold price for 1994 was US\$385 per ounce compared with US\$355 per ounce in 1993. The gold price traded in a relatively narrow band during the year and did not display the volatility that was evident in the previous year.

Gold industry fundamentals appear to be improving. The improving economies of the developing nations are using more, as increased personal wealth drives increased demand for jewellery.

Increasing physical demand is expected to drive increases in the gold price in the coming year. However, the possibility of renewed central bank and, especially, producer forward selling could create an effective gold price cap at around US\$390 an ounce in 1995 dollars.

### *9.2.2 Market Position*

Peak, which produces 120,000 ounces p.a., is Australia's largest underground gold mine. Kelian, which produces 420,000 ounces p.a., is among the top 20 producing gold mines worldwide.

Despite these two leading properties, CRA lacks significant Australian or international market share in gold production. CRA management has indicated a desire to boost annual production to around the one million ounces p.a. level in the near to medium term.

## **9.3 Valuation Analysis**

### *9.3.1 Methodology Assumed*

Morgan Stanley has valued CRA's Gold & Copper business unit ("CRA Gold") using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

However, it is Morgan Stanley's view that DCF valuation of gold assets is not generally accepted as the appropriate methodology to use. DCF valuation typically returns a value around one-half of the generally accepted fair market value. This fair market value is more often determined by reference to alternative valuation methodologies such as comparable companies valuation and precedent transaction valuation (see below). For this reason, Morgan Stanley has adopted the capitalization of ounces of reserves and reserve profit methodology as its primary methodology for the valuation of CRA Gold.

Bougainville Copper has been valued by reference to the market trading value of CRA's interest. A substantial discount has been applied to reflect the major uncertainties surrounding any restart of production and the costs associated therewith.

### ***Overview of CRA Gold Cash Flow Model***

Morgan Stanley's CRA Gold cash flow model was based on information provided by CRA, principally in the form of the three year plans produced in October 1995 for The Peak Gold Mines ("Peak") and Kelian Equatorial Mining ("Kelian"). The model is an amalgamation of these individual plans. The model comprises an 8 year analysis of CRA Gold's unlevered free cash flows expressed in Australian dollars. Commodity prices and costs of production have been adjusted to reflect U.S. and Australian expected inflation of 3% p.a. and a declining A\$/US\$ exchange rate.

### ***Key Assumptions in the Cash Flow Model***

We have discussed the key assumptions underlying the CRA Gold model with the appropriate CRA personnel and A&S, and have also used third-party sources as we deemed appropriate to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow model are:

— *Life of Mine:*

- **Peak** – Peak has approximately 6 years of reserves remaining (at current production rates). It has been assumed that the mine will close in 2000.
- **Kelian** – According to current published reserves, Kelian has approximately 3 years of reserves remaining (at current production rates). However, it is anticipated that an additional 1.8MM ounces (CRA share) will be recovered from surrounding areas. These additional ounces will enable Kelian to continue mine production until 2002.

— *Commodity Prices:* Gold prices are assumed to stay flat (in real terms) throughout the DCF period. Silver prices are assumed to be as follows (in real terms) — 1996: -2.6%; 1997: +0.8%; 1998: -3.0%; 1999: + 1.8%; and from 2000 onwards, flat until the end of the DCF period. Copper, lead and zinc prices are assumed to be as follows (in real terms) — 1996: Copper -12.1%, Lead +13.4%, Zinc +7.7% ; 1997: Copper -16.0%, Lead -12.4%, Zinc -6.4%; 1998: Copper -8.0%, Lead -1.3%, Zinc +1.0%; and from 1999 onwards, Copper and Lead are flat until the end of the DCF period with Zinc rising 2.8% in 1999 and staying flat thereafter.

Refer also to Appendix 20.2, Overview of Commodity and Foreign Exchange Markets, below.

— *Production:*

- **Peak** – Annual production is assumed to stay flat for two years, increasing in 1997 and 1998 before falling in 1999 and 2000. The mine is assumed to close in 2000.
- **Kelian** – Annual production is assumed to increase from 1995 to 1996 and stabilize for two years before dropping in 1999. Production is assumed to increase again in 2000 and 2001 before dropping back in the final year.

— *Grades:*

- **Peak** – Gold grades are assumed to drop in 1996, recover in 1997 then drop sharply in 1998 and 1999.
- **Kelian** – Gold grades are assumed to increase in 1996 and remain stable thereafter.

— *Operating Cash Costs:* The operating cash costs per ounce have been estimated based on the CRA plans, Peak's and Kelian's recent experience and an inflation expectation of 3.0%.

— *Capital Expenditure:*

- **Peak** – Capital expenditure represents maintenance capital expenditure only.
- **Kelian** – Major capital expenditure on new projects is projected for the period 1996-1998 to cover diversion of the Kelian River, construction of a waste dump dam, increased mining rate and

fleet replacement. After 1998, capital expenditure represents maintenance capital expenditure only.

— *Terminal Value:* A terminal value of zero has been assigned to both Peak and Kelian as they are forecast to cease production in 2000 and 2002 respectively.

— *Other Assumptions:*

- **Kelian** – It has been assumed that if and when CRA is required under the Contract of Work to reduce its current 90% stake in the Kelian mine to allow for 51% Indonesian ownership, such sale will be for an amount representing fair market value.

Based on our analysis set out in Appendix 20.5, we believe the appropriate discount range to use in valuing CRA Gold would be 15.0% to 16.0%. Applying this range to CRA Gold's cash flows provides the DCF valuation set out below:

<b>DCF Value – CRA Gold</b>	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
Discount Rate	16.0%	15.0%
DCF Value – CRA Gold	\$272	\$281

#### *Sensitivity Analysis — CRA Gold*

Set out below is an analysis of the extent to which changes in certain key economic and operating variables will affect the value of CRA Gold based on our cashflow model, using a discount rate of 15.0%:

#### **Sensitivity Analysis — CRA Gold**

<b>Variable/change</b>	<b>Base Case</b>	<b>Impact on Value (\$MM)</b>
A\$/US\$ exchange rate (+/- \$0.01)	A\$1 = US\$0.730	\$(8)/8
Inflation Rate (+/-1%)	3.0%	28/(27)
Commodity prices (per ounce) (+/-5%)		61/(61)

#### *Alternative Valuation Methodologies*

As noted above, we have compared our DCF valuation of CRA Gold with that derived from the application of reserves and reserve profit multiples obtained from a review of comparable publicly traded companies to the reserves and reserve profit of CRA Gold as appropriate. This analysis produced a range of values for CRA Gold as follows:

#### **Comparable Companies Valuation Analysis — CRA Gold**

	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
\$ per ounce of Reserves	\$150	\$175
Valuation	\$465	\$542
Reserve Profit	0.9x	1.0x
Valuation	\$553	\$614

The multiples we have calculated for these comparable companies are based on proven and probable reserves and on reserve profit (defined as [spot gold price minus cash costs of production] times reserves). This analysis produced a range of multiples as follows:

#### Comparable Companies Analysis — CRA Gold

Company	Reserves Multiple	Reserve Profit Multiple
Gold Mines of Kalgoorlie	\$158	1.0x
Mount Leyshon	194	0.9
Placer Pacific	257	1.0
Australian Resources	223	0.9

It is Morgan Stanley's view that CRA Gold warrants a valuation below these comparable companies, taking into account reserve life, quality of assets and past and expected future performance. Accordingly, we have applied reserves and reserve profit multiples of \$150–\$175 and 0.9–1.0x, respectively.

We have also compared our valuation with that derived from the application of multiples obtained from a review of comparable precedent acquisition transactions in the gold business to the relevant CRA Gold financial statistic. This analysis produced a range of values for CRA Gold as follows:

#### Precedent Transaction Valuation Analysis — CRA Gold

	Low (\$MM)	High (\$MM)
\$ per ounce of Reserves	\$120	\$150
Valuation	\$372	\$465
Reserve Profit	0.8x	0.9x
Valuation	\$491	\$553

The multiples we have calculated for these precedent transactions are based on price paid per ounce of proven and probable reserves, and on reserve profit (defined as [spot gold price minus cash costs of production] times reserves). This analysis produced a range of multiples as follows:

#### Precedent Transaction Multiple Analysis — CRA Gold

Acquiror	Acquiree	Date	\$ Per Ounce of Reserves	Reserve Profit
Homestake Mining	Homestake Australia	14 August 1995	\$220	1.3x
Pegasus Gold	Zapopan	10 April 1995	204	3.9
Poseidon Gold	Reynolds Metals	9 February 1994	221	0.8

It is Morgan Stanley's view that CRA Gold warrants a valuation below these precedent transactions, taking into account reserve life, quality of assets and past and expected future performance. Accordingly, we have applied reserves and reserve profit multiples of \$120–\$150 and 0.8–0.9x, respectively.

#### 9.3.2 Summary Valuation Table

It is Morgan Stanley's view that the primary valuation methodology for determining the range of values for CRA Gold should not be DCF valuation. In accordance with standard gold industry practice, the valuation should be based on capitalization of CRA Gold's reserves and reserve profit, supported by our DCF valuation. Accordingly, the appropriate range of values for CRA Gold (including a value for Bougainville Copper) is as follows:

Business Unit	Low (\$MM)	High (\$MM)
Gold & Copper	\$500	\$625

## 10. CRA DIAMONDS

### 10.1 Introduction

CRA has a 59.7% equity interest in the Argyle Diamond Mines Joint Venture in the East Kimberley region, Western Australia. Ashton Mining Limited has a 40.1% equity interest in Argyle with the balance (0.2%) being held by the public through its interests in the Western Australian Diamond Trust. In 1994, the diamond operations group sales revenue accounted for approximately 5% of CRA's consolidated group sales revenues and group assets accounted for 6% of the consolidated group assets. In 1994, diamonds contributed \$77 million of CRA's operating earnings, which compares with \$107 million in 1993 and \$139 million in 1992.

Argyle Diamond Mines Joint Venture was established in 1982 to develop and mine the joint venturers' diamond interests in the Argyle and Ellendale areas of Western Australia. Argyle Diamond Mines Pty Limited, a wholly owned subsidiary of CRA, is manager of the joint venture.

Commercial mining of alluvial diamonds at Argyle began in 1983 and continued until November 1985. Mining of alluvial diamonds began again in 1989.

In December 1985, Argyle's main lamproite mine and treatment plant commenced production. After two years construction, the project was completed on schedule and within budget.

<u>Capacity</u>	<u>Per year</u>
Ore milled (tonnes)	10,900,000
Diamonds (carats)	42,800,000

Argyle Diamond Sales ("ADS") (CRA 60%) conducts marketing of the Argyle production.

In 1985, ADS established an office in the world's diamond capital, Antwerp, in Belgium. A representative office was established in 1988 in Bombay, India.

Ashton Exploration Joint Venture, 59.7% effectively owned and managed by CRA Exploration, conducts exploration and evaluation activities in the Kimberley region of Western Australia.

### Argyle Diamonds (CRA 59.7%)

	<u>1994</u>	<u>1993</u>
	<u>(\$MM)</u>	<u>(\$MM)</u>
Net sales revenue (CRA share)	297	309
Total assets (CRA share)	445	433
Capital expenditure (CRA share)	34	58
Production (million carats)		
Total	42.8	40.9
CRA share	25.5	24.4
Sales (million carats)		
Total	27.0	21.6
CRA share	16.1	12.9
Employees	1,006	930

### 10.2 Business Description

#### 10.2.1 Industry Profile

The majority of the world's natural diamonds are marketed through an organization known as the Central Selling Organization, or CSO, which is controlled by De Beers Consolidated Mines. The CSO purchases diamonds from producers under long-term variable price and volume contracts, and then sells to end-users (gem cutters, industrial users) from its stockpile.

The world's diamond markets are gradually emerging from recession, as evidenced by generally improving demand. Industry observers believe that a 10% price reduction implemented by the CSO in July 1995 has now balanced current demand with supply. However, with CSO and Russian stockpiles remaining significantly above historical levels, management does not expect world stockpiles to return to levels consistent with market equilibrium for 1½ – 2 years.

Prices are accordingly estimated to remain flat for the next two years before beginning a recovery in 1998 as demand equals supply. The CSO has also implemented a system of deferred purchases, under which it can defer purchase of diamonds under supply contracts with producers until market conditions improve. With the price reduction imposed in July, the average price received from the CSO has fallen by 25% in real terms since 1991.

Demand for diamond jewelry is estimated to be growing at 3.5-4.0% p.a. in real terms, with the demand for small polished diamonds increasing at an even faster rate.

### *10.2.2 Market Position*

Argyle is the largest diamond mine in the world in terms of carats produced. Through its 59.7% equity interest, CRA is one of the largest independent diamond producers in the world. However, due to the consolidated nature of the world natural diamond industry (De Beers markets over 50% of world production), CRA's market position is not one of influence.

Argyle will renegotiate its 5 year supply contract with the CSO in June 1996. While there are presently no indications that this contract will not be renewed, management is confident it has the infrastructure in place to market its entire production capacity outside the CSO structure (Argyle already markets about 20% of its output directly), which would make it a significant player in the independent diamond market.

## **10.3 Valuation Analysis**

### *10.3.1 Methodology Assumed*

Morgan Stanley has valued CRA Diamonds using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

However, it is Morgan Stanley's view that a comparable companies valuation approach is more appropriate for the diamond business. For this reason, Morgan Stanley has adopted the capitalisation of net income and cash flow as its primary methodology for the valuation of CRA Diamonds.

### *Overview of CRA Diamonds Cash Flow Model*

Morgan Stanley's CRA Diamonds cash flow model was based on information provided by CRA. The model comprises a 10 year analysis of CRA Diamonds' unlevered free cash flows expressed in Australian dollars. Commodity prices and costs of production have been adjusted to reflect U.S. and Australian expected inflation of 3% p.a., and a declining A\$/US\$ exchange rate.

### *Key Assumptions in the Cash Flow Model*

We have discussed the key assumptions underlying the CRA Diamonds model with the appropriate CRA personnel and A&S, and have also used third-party sources as we deemed appropriate to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow model are:

- *Life of Mine:* Argyle has approximately 10 years of reserves remaining (at current production rates) including 7 years of production and 3 years of stockpile sales.
- *Commodity Prices:* Due to the commercial sensitivity of prices for this commodity, they are not included in this section. However, Morgan Stanley has had access to the information necessary to make its price projections for the purpose of the cash flow model.
- *Production:* Argyle is forecast to increase AK1 ore processed from 9.0MMt in 1995 to 10.9MMt in 1998, settling at 10.5MMt in 2000. Part of this increase is due to a change in grinding policy,



increasing bottom cut-size from 1mm to 1.5mm. Alluvial ore processed is also forecast to increase from 5.4MMt in 1995 to 9.0MMt in 1997- 1998 before settling around 6.3MMt in 1999. Due to declining grades for both alluvial and AK1 ore, carats recovered are forecast to decline in 1995 and 1996, recover in 1997 and decline further in 1998.

- *Grades:* The AK1 recovered grade is projected to decline from 3.95 cts/t in 1995 to 2.55 cts/t in 1998. The alluvial grade is projected to decline from 0.60 cts/t in 1995 to 0.32 cts/t in 1998.
- *Operating Cash Costs:* The operating cash costs per tonne have been estimated based on the Argyle plan, Argyle's recent experience and an inflation expectation of 3.0%.
- *Capital Expenditure:* Capital expenditure represents maintenance capital expenditure only.
- *Terminal Value:* Due to the fact that Argyle will cease production in 2002, a terminal value of zero has been assigned.

Based on our analysis set out in Appendix 20.5, we believe the appropriate discount range to use in valuing CRA Diamonds would be 13.0% to 13.5%. Applying this range to CRA Diamonds' cash flows provides the DCF valuation set out below:

DCF Value – CRA Diamonds	Low (\$MM)	High (\$MM)
Discount Rate	13.5%	13.0%
DCF Value – CRA Diamonds	\$320	\$326

#### *Sensitivity Analysis – CRA Diamonds*

Set out below is an analysis of the extent to which changes in certain key economic and operating variables will affect the value of CRA Diamonds based on our cashflow model, using a discount rate of 13.0%:

#### *Sensitivity Analysis – CRA Diamonds*

Variable/change	Base Case	Impact on value (\$MM)
A\$/US\$ exchange rate (+/- \$0.01)	A\$1 = US\$0.730	\$(20)/21
Inflation Rate (+/-1%)	3.0%	(3)/3
Commodity prices (per ct) (+/-5%)		75/(75)

#### *Alternative Valuation Methodologies*

We have compared our DCF valuation of CRA Diamonds with that derived from the application of cash flow and net income multiples obtained from a review of comparable publicly traded companies to the cash flow and net income of CRA Diamonds as appropriate. This analysis produced a range of values for CRA Diamonds as follows:

#### *Comparable Companies Valuation Analysis – CRA Diamonds*

	Low (\$MM)	High (\$MM)
1996E Net Income Multiple	8.0x	10.0x
Valuation	\$355	\$443
1995E Cash Flow Multiple	5.0	6.0
Valuation	\$477	\$572

The multiples we have calculated for these comparable companies are based on net income and cash flow (defined as net income plus depreciation and amortization) forecasts from brokers' reports. This analysis produced a range of multiples as follows:

**Comparable Companies Multiple Analysis – CRA Diamonds**

<u>Company</u>	<u>1996E Net Income Multiple</u>	<u>1995E Cash Flow Multiple</u>
Ashton Mining	10.9x	10.1x

It is Morgan Stanley's view that CRA Diamonds warrants a valuation below Ashton Mining, taking into account the relative successes of the companies with expansion and exploration activities. Accordingly we have applied net income and cash flow multiples of 8.0-10.0x and 5.0-6.0x respectively.

It is Morgan Stanley's view that there are no comparable precedent acquisition transactions in the diamond business for which statistics are available, and that this methodology is therefore inapplicable for CRA Diamonds.

*10.3.2 Summary Valuation Table*

It is Morgan Stanley's view that the primary valuation methodology for determining the range of values for CRA Diamonds should not be DCF valuation. Morgan Stanley believes that the valuation should be based on capitalisation of CRA Diamonds' net income and cash flow, supported by the DCF valuation. Accordingly the appropriate range of values for CRA Diamonds is as follows:

<u>Business Unit</u>	<u>Low (\$MM)</u>	<u>High (\$MM)</u>
Diamonds	\$450	\$500

## 11. CRA OTHER PRODUCING PROPERTIES, DEVELOPMENT AND EXPLORATION

### 11.1 Introduction – Other Producing Properties

The CRA Group's only other producing property is Dampier Salt Limited ("DSL"). DSL is 64.9% owned by the CRA Group. The other shareholders are Marubeni Corporation (20.5%), Nissho Iwai (10.1%) and Itochu (4.5%). DSL is managed by the CRA Group. DSL produces industrial salt by solar evaporation of sea water at Dampier in Western Australia, and of underground brine at Lake MacLeod in Western Australia. DSL produced 3.7 million tonnes of salt in 1994. The majority of salt produced by this business unit is sold to Japan and other Asian countries for use mainly in the chemical industry.

Capacity	Tonnes per year	
Salt	4,500,000	
<b>Dampier Salt (CRA 64.9%)</b>		
	1994 (\$MM)	1993 (\$MM)
Net sales revenue (CRA share)	85	95
Total assets (CRA share)	121	119
Capital expenditure (CRA share)	9	10
Production (million tonnes)	3.7	3.8
Sales (million tonnes)	4.0	3.9
Employees	280	302

### 11.2 Business Description – Other Producing Properties

#### 11.2.1 Industry Profile

The market for internationally traded salt continued to be very competitive as a result of excess supply capacity and slowing demand in salt consumption. However, some positive demand factors have emerged. The liberalization of domestic salt markets in Japan, Korea and Taiwan is progressing faster than anticipated. This provides the opportunity to substitute imported salt for high cost domestic production. In Korea, Taiwan and Indonesia new chlor-alkali plant capacity is already under construction or planned. This will result in a significant increase in demand from 1997 and consequently, prices are forecast to increase. Salt is a basic feedstock for a wide range of products including glass, aluminium, plastics, pulp, paper and chemicals.

Excess supply put pressure on salt prices as suppliers competed aggressively to secure a larger share of the reduced market in an effort to offset price reductions and minimize the impact on profit. Dampier Salt responded through increased marketing activity and by focussing on costs to maintain its competitive position.

#### 11.2.2 Market Position

DSL is the world's second largest producer of industrial salt by solar means. Despite some increase in demand, competition in all markets continues to be very keen. CRA management forecasts market share in Japan to increase in 1995. Sales to Indonesia and Korea are meeting management's expectations, while sales to Taiwan are below expectations. The South African market is expected to be strong while Nigeria is expected to continue to be difficult due to foreign exchange restrictions.

### 11.3 Valuation Analysis – Other Producing Properties

#### 11.3.1 Methodology Assumed

Morgan Stanley has valued CRA's Other Producing Properties ("CRA Other Producing Properties") using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

## ***Overview of CRA Other Producing Properties Cash Flow Model***

Morgan Stanley's CRA Other Producing Properties cash flow model was based on information provided by CRA. The model comprises a 20 year analysis of the CRA Other Producing Properties' unlevered free cash flows expressed in Australian dollars. Commodity prices and costs of production have been adjusted to reflect U.S. and Australian expected inflation of 3% p.a., and a declining A\$/US\$ exchange rate.

### ***Key Assumptions in the Cash Flow Model***

We have discussed the key assumptions underlying the CRA Other Producing Properties model with CRA personnel to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow model are:

- *Life of Asset:* Dampier produces industrial salt by solar evaporation of sea water and underground brine. It has been assumed that Dampier will continue operating indefinitely.
- *Commodity Prices:* Due to the commercial sensitivity of prices for this commodity, they are not included in this section. However, Morgan Stanley has had access to the information necessary to make its price projections for the purpose of the cash flow model.
- *Production:* Dampier is in the process of increasing annual production from 4,150 kt in 1995 to 4,500 kt in 1997. Production is assumed to stay flat at that level until the end of the DCF period.
- *Operating Cash Costs:* The operating cash costs per tonne have been estimated based on the CRA plan, Dampier's recent experience and an inflation expectation of 3.0%.
- *Capital Expenditure:* Capital expenditure on new projects is projected for 1996 to increase production at existing facilities. After 1996, capital expenditure represents maintenance capital expenditure only.
- *Terminal Value:* A terminal value has been calculated for Dampier based on the 2014 unlevered free cash flow, which has been grown into perpetuity at our inflation assumption of 3.0% p.a.

Based on our analysis set out in Appendix 20.5, we believe the appropriate discount range to use in valuing the CRA Other Producing Properties would be 12.0% to 13.0%.

### ***Alternative Valuation Methodologies***

As a check of our DCF valuation, we have compared our valuation of the CRA Other Producing Properties with that derived from the application of net income multiples obtained from a review of comparable publicly traded companies to the net income of CRA Other Producing Properties.

There are no directly comparable publicly traded salt companies. Based on a review of the trading multiples of other publicly traded bulk commodity companies (e.g., coal companies), it is Morgan Stanley's view that net income multiples of 10.0-12.0x are appropriate to value the CRA Other Producing Properties.

It is Morgan Stanley's view that there are no comparable precedent acquisition transactions in the salt business for which statistics are available, and that this methodology is therefore inapplicable for the CRA Other Producing Properties.

## **11.4 Introduction – Development and Exploration**

### ***Development Properties:***

The major property at the development stage in CRA is the Century Zinc deposit.

In 1990, CRA discovered the Century zinc deposit, located in far north Queensland, around 250 kilometers north west of Mt. Isa. Century is a major deposit of 118 million tonnes, averaging 10.2% zinc, 1.5% lead and 35 grams per tonne silver.

In April 1994, CRA decided to proceed with the final feasibility study for the deposit. The study, completed in early 1995, determined the economic viability of a mine capable of producing around 450,000 tonnes of zinc in concentrate and an average of around 40,000 tonnes of lead in concentrate per year. The proposal is to pump the concentrates, in slurry form, to Karumba in the Gulf of Carpentaria where it will be dewatered for shipment to markets.

In addition, a bulk sample has been extracted and processed through an on-site pilot plant to assist potential customers in evaluating the product and to test the proposed mining and metallurgical processes.

An environmental draft impact assessment study report was released in October for public review.

The development of the Century deposit will be one of the largest projects undertaken in the zinc business worldwide.

***Exploration Properties:***

CRA Group exploration activities have identified a number of projects for possible future development. Any decision to proceed with these projects will depend upon market conditions, anticipated returns and other factors, and there can be no assurance that any such decisions to proceed will be reached.

CRA's exploration activities are divided into four main groups:

- Eastern Region (Northern Territory, Queensland, New South Wales & Victoria)
- Western Region (Western Australia and South Australia)
- South East Asia (Indonesia, Laos, Vietnam, Cambodia, Thailand, Myanmar and Malaysia)
- International Region (Balance of the eastern hemisphere with a present focus on Papua New Guinea; Philippines; Continental Asia – India and China; and Argentina).

There are many exploration projects located in each of the regions, all at differing stages. While some projects are considered to be at a major exploration stage, all are still described as “prospective”.

CRA has an active exploration program both in areas of existing operations and at greenfields locations. This exploration is conducted by either CRA Exploration or directly by mine site exploration personnel. CRA's exploration activities currently employ 645 people.

CRA's exploration assets other than mine site exploration have been reviewed and valued by Anderson & Schwab Inc. A&S's report is attached (refer to Section 6.8 of Appendix 20.8) and should be read in conjunction with the following.

CRA's significant exploration interests are outlined below:

## CRA – Exploration Properties

Project Name	Location	Tenements Size km <sup>2</sup>	CRA Interest (%)	Status <sup>(1)</sup>	Targets
1. Burunga	Qld	325	80%	RD	Gas
2. Curara Well/Yilgarn	W.A.	263	75%	RD	Gold
3. Dugald River/Mt. Roseby	Qld	195	60-100/0-85%	RD	Zinc/Copper
4. Famatina	Argentina	38	Option to 100%	RD	Gold
5. HI Detritals	W.A.	Various			Iron Ore
6. Hidden Valley	PNG	241	100%	RD	Gold
7. Honeymoon Well/ Yilgarn Nickel	W.A.	38	65%	PF	Nickel
8. Indonesia (various Contracts of Work)	Indonesia	Not yet granted			Gold
9. Kintyre	W.A.	237	100%	PD	Uranium
10. Klondyke	W.A.	64	Option to 100%	RD	Gold
11. PRC	Argentina	380	Option to 80%	RE/PF	Potash
12. Rhodes Ridge	W.A.	1142	50%	F	Iron Ore
13. Sepon	Laos	5000	90%	RD/RC	Gold
14. S.W. Kaolin	W.A.	8000	100%	PF	Kaolin
15. Stanton	N.T.	62	85%	RD	Copper/Cobalt
16. Wafi	PNG	96	100%	RD	Gold/Copper
17. WIM	Vic.	43338	100%	PD	Titanium
18. Westmoreland	Qld	33	Dependent on drilling	RC	Uranium

**Note:**

(1) Status categories are as follows:

P – Preliminary target delineation	RE – Reserve estimates and calculation
GS – Geochemical sampling/testing	PF – Pre-feasibility
GM – Geological mapping	F – Feasibility
RC – Reconnaissance drilling	PD – Pre-development
RD – Resource evaluation drilling	D – Development

## 11.5 Valuation Analysis – Development and Exploration

### 11.5.1 Methodology Assumed

It should be noted that there is a grey area between exploration on the one hand and projects on the other. The Morgan Stanley estimated valuation of CRA's development and exploration properties includes some items which could be regarded as projects rather than exploration.

#### **Development Properties:**

Morgan Stanley has valued the CRA Development Properties using the Discounted Cash Flow methodology. The only Development Property of any significant value is the Century Zinc deposit. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

#### **Overview of CRA Development Properties Cash Flow Model**

Morgan Stanley's CRA Development Properties cash flow model was based on information provided by CRA, principally in the form of the Century Case for Approval produced in November 1995. The model comprises a 20 year analysis of the CRA Development Properties' unlevered free cash flows expressed in Australian dollars. Commodity prices and costs of production have been adjusted to reflect U.S. and Australian expected inflation of 3% p.a., and a declining A\$/US\$ exchange rate.

### ***Key Assumptions in the Cash Flow Model***

We have discussed the key assumptions underlying the CRA Development Properties model for the Century Zinc deposit with the appropriate CRA personnel and A&S, and have also used third-party sources as we deemed appropriate to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow model are:

- *Life of Mine:* Century has approximately 20 years of reserves remaining (at planned production rates). It has been assumed that additional reserves will be recovered from areas surrounding the deposit. These additional reserves are forecast to enable Century to continue production for a further 10 years from 2014.
- *Commodity Prices:* Prices for lead and zinc are forecast as follows (in real terms) – 1996: Zinc +7.7%, Lead +13.4%; 1997: Zinc –6.4%, Lead –12.4%; 1998: Zinc +1.0%, Lead –1.3%; 1999: Zinc +2.8%, Lead 0.0%; and from 2000 onwards, flat until the end of the forecast period. Refer also to Appendix 20.2, Overview of Commodity and Foreign Exchange Markets, below.
- *Production:* Zinc production is projected to grow from 213kt in 1998 to 468kt in 2001 before stabilizing in the 420-450kt range. Lead production is projected to remain in the 50-70kt range from 1998-2005 before dropping to the 20-30kt range in 2006 and thereafter.
- *Grades:* Head grade of 10.85% with zinc recovery of 81% has been assumed.
- *Operating Cash Costs:* The operating cash costs per tonne have been estimated based on the Century Case for Approval, CRA's recent experience and an inflation expectation of 3.0%.
- *Capital Expenditure:* Major capital expenditure is projected for the period 1995-1997 to cover the start up of the mine. After 1998, capital expenditure represents maintenance capital expenditure only.
- *Terminal Value:* A terminal value has been calculated for Century based on the 2014 unlevered free cash flow, which has been grown for another 10 years (to estimated end of mine life) at our inflation assumption of 3.0% p.a.

Based on our analysis set out in Appendix 20.5, we believe the appropriate discount range to use in valuing the CRA Development Properties would be 14.5% to 15.0%. Due to the commercial sensitivity associated with the Century project, Morgan Stanley has not disclosed the separate DCF valuation for CRA Development Properties. However, this value has been reflected in the total valuation for CRA Development and Exploration (refer to Section 11.6 below).

### ***Alternative Valuation Methodologies***

As a check of our DCF valuation, we would usually compare our valuation of the CRA Development Properties with that derived from the application of cash flow and net income multiples obtained from a review of comparable publicly traded companies to the cash flow and net income of CRA Development Properties as appropriate.

However, it is Morgan Stanley's view that there are no directly comparable publicly traded non-producing zinc companies for which statistics are available, and that this methodology is therefore inapplicable for the CRA Development Properties.

It is also Morgan Stanley's view that there are no comparable precedent acquisition transactions in the zinc business for which statistics are available, and that this methodology is therefore inapplicable for the CRA Development Properties.

Accordingly, Morgan Stanley has relied on its application of DCF methodology as the appropriate valuation for the CRA Development Properties.

### ***Exploration Properties:***

#### ***Overview of Valuation Approach:***

The valuation methodology used is the best method deemed applicable, by Morgan Stanley in consultation with A&S, to the circumstances. Other approaches deemed applicable are used as contextual

checks. The valuation approach in relation to the exploration properties has relied heavily on the work done to date by CRA geologists and mine evaluation personnel, who have significant experience in identifying and realizing value from CRA resources. Clearly, the quality of the valuation is highly dependent on a detailed understanding of the assets.

### ***Alternative Valuation Methodologies***

The following paragraphs discuss some of the valuation approaches that were considered by A&S in preparing their report to Morgan Stanley, which appears below in Appendix 20.8.

#### ***(1) Comparable Transactions***

The first step in valuation of a resource is to identify comparable transactions. Every resource differs in geology, quality, market, grade, mining, metallurgy, environmental, labor, transportation and many other considerations. For every “comparable” transaction that is identified, one or more such factors are often sufficiently incomparable to eliminate the use of the transaction for valuation purposes.

Typical benchmarks include multiples of tonnes (or ounces) of reserves/resources or a certain dollar amount per hectare of land subject to the exploration rights. Factors that will influence value include:

- Commodity type
- Level of knowledge of the resource
- Size of the resource
- Resource depth, quality and grade
- Likely mine method
- Estimated cash costs
- Location/access to infrastructure
- Blue sky exploration potential
- Country risk

#### ***(2) Capital Invested To Date***

Mining companies worldwide generally value their actual or potential mineral resources for accounting or external reporting purposes at their acquisition cost (if any) plus the capitalized value of any expenditures made to explore and develop the property, net of depreciation and depletion. Such capitalized values provide a clear objective measure of value. However, the measure must be used carefully because cash flow in the future is regarded as the most important consideration, not how much has been spent in the past.

#### ***(3) Market Capitalization Measures***

Market capitalization measures such as market capitalization per ounce of reserves in the ground for a junior gold company, provide standards that are often used, particularly by financial analysts. This method has the virtue of representing a proxy for real value, i.e., how much investors are willing to pay for specific assets. However, it is difficult to apply because the intrinsic values of different properties differ. It would not be appropriate to apply a standard based on one case to determine the value of the other.

#### ***(4) Rules Of Thumb***

It was once common to apply rules of thumb to value mineral resources, e.g., 5 cents per tonne of coal, \$50 per ounce of gold, etc. However, the application of rules of thumb has the same risk that is met with the use of comparable transactions, market capitalization measures and finding costs, which is the risk involved from applying an average measure of value to a specific situation.



### *(5) The Income Or Royalty Approach*

Another approach that has occasionally been used is to ascribe value based on the discounted cash flow value of the royalty that a property could command. However, applying this method to mining resources is difficult and probably inaccurate in most cases because the “royalty” value is a function of the “intrinsic” value of the asset which is what the valuation is trying to establish.

### *(6) Speculative Value*

Speculative value is always there: in almost any situation (at least where value is positive), someone can be found willing to buy for a speculative price. However, there is no objectively reproducible method to establish speculative value.

### *(7) The Development Approach (Discounted Cash Flow)*

In principle, the value of an asset (such as an ore body) is a function of its ability to create economic gains (i.e., generate cash flows). Accordingly, DCF methodology is theoretically the best to adopt.

Practically, DCF is the best method as well, because most mining companies formulate their acquisition decisions using DCF; thus, the evaluator of the property is using a method that will be used by potential buyers to value the same property in a free market.

DCF is preferred because it takes into account the specific circumstances of the assets in question such as:

- Commodity type
- Ore composition, grade and mineral processing implications
- Mining method
- Depth of deposits
- Location/access to infrastructure
- Scale of the operations
- Product quality considerations
- Infrastructure (particularly for bulk commodities)
- Competitive position (e.g., cash costs)
- Market supply, demand and price outlook

The method is principally used to estimate the value of operating properties but may also be applicable to proven and probable reserves, and resources that show good prospects for the development of a mine.

DCF can most safely be applied to a permitted property that has a completed feasibility study, because the feasibility study and permitting process serve to reduce project risks sufficiently to enable a buyer to measure property value reasonably effectively.

### *(8) Alternative Use*

There may be circumstances where because of lack of detailed knowledge about a property, market conditions, market prices or regulatory constraints, the value of the property on the basis of other valuation methods is very low and the property’s value in an alternative use may become more relevant.

### *Assumptions Influencing Valuation Methodology*

- (1) CRA geologists and mine evaluation staff know more about CRA resource values than anyone else. They are the most valuable source of relevant information.
- (2) Most undeveloped resources in the world have little significant present value.

Present markets for most minerals (gold being an exception) will not sustain development of all known resources. Hence, development of certain resources is postponed for some time. In this situation, discounted cash flow analysis will highlight an important consideration; relatively little value will be ascribed to cash flows that occur well into the future.

- (3) Many undeveloped resources have less attractive economics than current producing properties.
- (4) All other factors being equal, the amount of information that is known about the deposit has a positive impact on value.

For the purposes of its valuation, Morgan Stanley has ascribed a range of values to CRA Exploration Properties, based on A&S's estimate of value and CRA management's estimate of value (refer to Section 11.6 below). The net capitalized value of the CRA Exploration Properties as at 30 June 1995 was \$267.9MM

*11.6 Summary Valuation Table — Other Producing Properties, Development and Exploration*

Morgan Stanley has aggregated the valuation of CRA's Other Producing Properties and CRA's Development and Exploration due to the commercial sensitivity of the value of the latter.

In view of our DCF valuation of CRA's Other Producing Properties, supported by valuations based on the capitalization of earnings, and our valuation estimate for CRA's Development and Exploration, we believe the appropriate range of values for CRA Other Producing Properties, Development and Exploration is as follows:

<u>Business Unit</u>	<u>Low (\$MM)</u>	<u>High (\$MM)</u>
Other Producing Properties, Development and Exploration	\$650	\$825

## 12. CRA OTHER ASSETS

### 12.1 Introduction

These assets fall into two classes

- Other Business Units; and
- Non-Operating Assets

#### *Other Business Units:*

Includes businesses that have been or are expected to be sold or shut down in the near future such as Southern Copper, Industrial Components, Comalco Rolled Products, Comalco Extruded and Foundry Products and Commonwealth Aluminum. Other Business Units also includes some continuing operations such as Kembla Coal & Coke, Conzinc Asia, Minenco, and other operational units.

#### **Southern Copper:**

In November 1994, Southern Copper announced that its copper smelter and refinery at Port Kembla, New South Wales would be placed on care and maintenance progressively from January 1995. Minimum further expenditure of A\$120 million for environmental upgrading and up to A\$130 million for expansion of the plant was not supported by the then current shareholders.

On December 22, 1994 CRA increased its equity in Southern Copper from 60% to 100%.

#### **Southern Copper (1994 CRA 100%, 1993 CRA 60.0%)**

	1994 (\$MM)	1993 (\$MM)
Net sales revenue (CRA share)	221	217
Total assets (CRA share)	131	233
Capital expenditure (CRA share)	6	9
Production ('000 tonnes)		
Cathode copper	54	52
Blister copper	82	85
Employees	369	447

#### **Industrial Components:**

This business manufactures and supplies grinding media such as grinding balls to the mining industry of South America through Productos Chilenos de Acero Limitada (Proacer) in Santiago, Chile.

#### **Comalco Rolled Products:**

Comalco Rolled Products (CRA 67%) manages Comalco's Australian interests in the manufacture and marketing of aluminium rolled products. This business is for sale. It supplies Australian and export markets (predominantly South East Asia) with can sheet, general purpose sheet and foil. The production facility is at Yennora, New South Wales, and incorporates remelting and casting facilities together with the rolling plant. This unit also operates Australia's largest aluminium can recycling program.

#### **Comalco Rolled Products (CRA 67.0%)**

	1994 (\$MM)	1993 (\$MM)
Total sales (CRA share)	207	235
Total assets (CRA share)	174	153
Capital expenditure (CRA share)	18	18
Employees	556	583

**Comalco Extruded & Foundry Products:**

Comalco Extruded & Foundry Products (CRA 67%), manages Comalco's Australian and overseas interests in the manufacture and distribution of aluminium extrusions and foundry products. Agreement has been reached for the sale of the Comalco Extruded Products business. The business unit's extrusion operations use some of the most modern equipment in the world. Production facilities are located at Minto and Yennora (New South Wales), Hemmant (Queensland) and Belmont (Western Australia). Aluminium distribution centers (distributing aluminium extrusions, aluminium rolled products and accessory items) are located in all Australian capital cities and a number of regional centers.

Comalco Extruded & Foundry Products also manages a cast aluminium wheel plant in Tasmania, adjacent to the Comalco Bell Bay aluminium smelter. The plant, operated by Southern Aluminium, is designed to produce 600,000 automotive wheels a year for the export market.

**Comalco Extruded & Foundry Products (CRA 67.0%)**

	1994 (\$MM)	1993 (\$MM)
Total sales (CRA share)	219	196
Total assets (CRA share)	164	155
Capital expenditure (CRA share)	5	6
Employees	943	907

**Commonwealth Aluminum:**

On March 10, 1995, Comalco sold 87.5% of Commonwealth Aluminum Corporation through a public offering conducted in the United States. The remaining 12.5% was also sold shortly thereafter.

**Kembla Coal & Coke:**

KCC is responsible for the CRA Group's coking coal mines in the Illawarra region of southern New South Wales. Its operations consist of two underground longwall mines, West Cliff and Tahmoor and associated coal preparation facilities, which together have an annual total production capacity of approximately 4 million tonnes of washed metallurgical coal. It is involved in exploration, mining and marketing of coal, manufacturing and marketing of coke, and the supply and servicing of equipment for the coal mining industry. Based on projected production levels, recoverable reserves held by the mines are enough to support full production for at least 15 years. KCC is currently operating at a breakeven level after recording losses for the past few years. KCC converts some of its coal to metallurgical coke at its coke works which has an annual capacity of 230,000 tonnes of coke.

**Kembla Coal & Coke**

	1994 (\$MM)	1993 (\$MM)
Net sales revenue (CRA share)	222	263
Total assets (CRA share)	306	354
Capital expenditure (CRA share)	12	11
Production (million tonnes)		
Coking coal	2.0	3.1
Steaming coal	0.1	0.1
Coke	0.2	0.2
Sales (million tonnes)		
Export coking coal	2.1	3.6
Total coal	2.3	3.9
Employees	1,108	1,145

**Conzinc Asia:**

Conzinc Asia's network of offices in Asia markets aluminium and other CRA products as agent to CRA's business units. It provides CRA with access to developments in that region. About 85% of its sales are CRA

products. Conzinc Asia's head office is in Hong Kong and its trading offices are located in Seoul, Kuala Lumpur, Bangkok, Kaohsiung, Jakarta and Manila.

**Minenco:**

Minenco, project managers and engineers, has been active in the mining and processing industries since 1957. It provides engineering services ranging from preliminary feasibility studies through design to project management.

The business unit has a multi-discipline capability, with expertise in orebody evaluation, ore dressing, mine planning and equipment selection, mineral processing, financial evaluation, environmental management, bioremediation, engineering design of mining and processing developments, materials handling and manufacturing plants and their project and construction management.

Minenco has completed projects in Australia, Papua New Guinea, India, Indonesia, Malaysia, New Zealand, China, Japan, Philippines, Taiwan and several southern African countries.

*Non-Operating Assets:*

Includes listed and non-listed investments and superannuation fund surpluses.

## **12.2 Valuation Analysis**

### *12.2.1 Methodology Assumed*

Morgan Stanley has valued CRA's Other Assets on two bases – Other Business Units and Non-Operating Assets, as set out below.

- A. Other Business Units** – These assets have been valued using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

#### ***Overview of Other Business Units Cash Flow Model***

Morgan Stanley's Other Business Units cash flow model was based on information provided by CRA, principally in the form of the internal CRA Management Reports produced in June 1995. The model comprises a 20 year analysis of the Other Business Units' unlevered free cash flows expressed in Australian dollars. Projected earnings have been adjusted to reflect US and Australian expected inflation of 3% p.a. and a declining A\$/US\$ exchange rate.

#### ***Key Assumptions in the Cash Flow Model***

We have discussed the key assumptions underlying the Other Business Units model with CRA personnel to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow model are:

- *Discontinued Operations – Sale of Assets:* It has been assumed that Industrial Components is sold in 1995. It has been assumed that Southern Copper will be shut down in 1995. The sales of Commonwealth Aluminum and Comalco Extruded Products are assumed to take place in 1995, while Comalco Rolled and Foundry Products is assumed to be sold in 1996. Morgan Stanley has relied on the actual sale prices realized/to be realized on discontinued assets sold or contracted to be sold as at the date of our analysis. For other assets assumed to be sold we have relied on CRA management's estimates of net realizable value and management representations as to sale proceeds expected from negotiations currently in progress.
- *Continuing Operations:* It has been assumed that Conzinc Asia, Minenco, and other operational units will be continuing operations within the Other Business Units.
- *Terminal Value:* A terminal value has been calculated for Other Business Units (continuing operations) based on the 2014 unlevered free cash flow which has been grown into perpetuity at our inflation assumption of 3.0% p.a.

Based on our analysis set out in Appendix 20.5, we believe the appropriate discount range to use in valuing Other Business Units would be 14.5% to 15.0%. Applying this range to Other Business Units' cash flows provides the DCF valuation set out below:

<b>DCF Value – Other Business Units</b>	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
Discount Rate	15.0%	14.5%
DCF Value – Other Business Units	\$181	\$186

***Sensitivity Analysis – Other Business Units***

Due to the nature of these businesses, a sensitivity analysis does not produce a meaningful result.

***Alternative Valuation Methodologies***

***Continuing Operations*** – It is Morgan Stanley's view that there are no comparable publicly traded companies or comparable precedent acquisition transactions for which statistics are available, and that this methodology is therefore inapplicable for the continuing operations within Other Business Units.

**B. Non-Operating Assets** – These assets have been valued at book value as of 30 June 1995 (or 31 December 1994 if unavailable) with the exception of one investment in a publicly listed company which has been valued at market value as of October 27, 1995.

***12.2.2 Summary Valuation Table***

In view of our DCF valuation of Other Business Units in addition to our book and market valuation of Other Non-Operating Assets, the appropriate range of values for Other Assets is as follows:

<b>Business Unit</b>	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
Other Assets	\$875	\$879

## 13. CRA LIABILITIES, CORPORATE OVERHEAD AND DILUTION OF CAPITAL

### 13.1 Debt

The debt balance for CRA as of 30 June, 1995 was calculated using CRA's Management Accounts as of 30 June, 1995. The book value of CRA debt consolidates the debt of partly owned subsidiaries of CRA. The minority share of the debt of such subsidiaries was deducted from the debt of CRA. The resulting total was \$1,308.1MM as at 30 June, 1995. The net debt (total debt less cash and cash equivalents of \$361.4MM as at 30 June, 1995) was \$946.7MM as at 30 June 1995.

### 13.2 Other Liabilities

After discussions with appropriate CRA personnel and review of the Management Accounts as of 30 June, 1995, there was no evidence that there were other material liabilities that were not captured in our DCF valuation. CRA management informed Morgan Stanley that there are no material contingent liabilities as at 30 June, 1995.

### 13.3 Tax Liability

Morgan Stanley has considered the valuation impact of any outstanding or projected tax liabilities at the individual asset level. The overall tax position of the Group was discussed with the appropriate CRA personnel.

### 13.4 Corporate Provisions

Corporate provisions comprise amounts set aside for post retirement health care, future close down, environmental and restoration costs and other deferred costs. Morgan Stanley has taken account of the valuation impact of any outstanding or projected corporate provisions at the individual asset valuation level.

### 13.5 Corporate Overhead

CRA incurs headquarters and service unit administration costs relating to the management of its various operations. Following discussion with CRA management, we have made an estimate as to the required level of corporate overhead that is needed to manage the existing operations of CRA. We have excluded such costs as exploration, evaluation and research and development from our analysis as these costs are not necessarily incurred in running CRA's existing business units. In addition, these costs may be subject to rationalization should CRA be acquired by another company.

Morgan Stanley has evaluated Corporate Overhead using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

#### *Overview of Corporate Overhead Cash Flow Model*

Morgan Stanley's Corporate Overhead cash flow model was based on information provided by CRA, principally in the form of the internal CRA Management Reports produced in June 1995. The model comprises a 20 year analysis of Corporate Overhead's unlevered free cash flows expressed in Australian dollars. Cash flows have been adjusted to reflect Australian expected inflation of 3% p.a.

#### *Key Assumptions in the Cash Flow Model*

We have discussed the key assumptions underlying the Corporate Overhead model with the appropriate CRA personnel, and have also used third-party sources as we deemed appropriate to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the base case cash flow model are:

- *Terminal Value:* A terminal value has been calculated based on the 2014 unlevered free cash flow which has been grown into perpetuity at our inflation assumption of 3.0% p.a.

Based on our analysis set out in Appendix 20.5, we believe the appropriate discount range to be used in valuing Corporate Overhead would be 14.5% to 15.0%. Applying this range to Corporate Overhead's base case cash flows provides the DCF valuation set out below:

<b>DCF Value – Corporate Overhead</b>	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
Discount Rate	15.0%	14.5%
DCF Value – Corporate Overhead	\$(144)	\$(150)

### 13.6 Dilution of Capital

The primary number of shares outstanding for CRA was 597,602,891 as at 30 June, 1995.

The number of options issued but not exercised as of the same date was as follows:

<b>Option Plan</b>	<b>Options Outstanding</b>
Employee Participation Scheme (EPS)	0
Senior Executive Share Plan (SESP)	250,000
<b>Total</b>	<b>250,000</b>

These options cannot be exercised before April 1997 and expire on 20 April, 2000.

Due to the relative immateriality of the number of options in relation to the primary shares outstanding, we have assumed that the total number of shares outstanding for CRA is accurately represented by the primary shares outstanding. The difference in value per share for CRA if the options were included would be less than 0.1%.



## 14. RTZ COPPER AND GOLD

### 14.1 Introduction

RTZ's principal copper and gold interests are Kennecott's Bingham Canyon mine in the U.S., Escondida in Chile and its investment with Freeport-McMoRan Copper and Gold ("FCX") in Indonesia. Copper and gold operations contributed approximately 34% of RTZ's 1994 Group sales and as at December 31, 1994, accounted for 47% of the Group's assets. In 1994 copper and gold operations contributed approximately \$657 million of RTZ's net earnings, which compares with \$367 million in 1993 and \$478 million in 1992.

Bingham Canyon in Utah, USA, is owned by Kennecott, a US subsidiary of RTZ and is one of the world's largest open pit mines, producing copper, with gold, silver and molybdenum by-products. Refined cathode copper is sold to a wide range of US copper fabricators; gold and silver to major bullion dealers. The remaining concentrate is sold to smelters worldwide.

Escondida is a large, low operating cost, open pit copper mine located in the Atacama Desert in Chile. RTZ has a 30% interest in the project, which is managed by the 57.5% shareholder BHP.

RTZ owns an 11.8% interest in FCX and, subject to governmental approval, will enter into a joint venture agreement with FCX relating to future development of copper and gold interests in Irian Jaya in Indonesia. These interests generally are regarded as some of the best in the world.

RTZ's other copper and gold operations include, among others, a 38.9% interest in the publicly quoted Palabora Mining Company in South Africa, four gold mines owned by Kennecott, and a 17.1% interest in Lihir Gold Limited, a publicly quoted company which owns one of the largest undeveloped gold deposits in the world.

### Copper and Gold

	1994 (\$MM)	1993 (\$MM)
Group sales	2,839	2,388
Group assets	4,970	4,828
Copper production ('000 tonnes)	1,091	996
RTZ share ('000 tonnes)	610	570
Gold production ('000 ounces)	1,910	1,983
RTZ share ('000 ounces)	1,298	1,372

### 14.2 Business Description

#### 14.2.1 Industry Profile

The copper industry has enjoyed over the last several years high levels of profitability due to better-than-expected growth in consumption, the fall off in Central African production and the closure of the Bougainville mine in Papua New Guinea. Consequently the industry is dramatically expanding mining and smelting capacity. As new production comes on line inventories are expected to rise and prices decline. However, in the medium term industry analysts expect consumption to increase and growth in mine capacity to decline reversing this negative trend.

Jewellery accounts for approximately 85% of the world wide demand for gold. Consequently growth in demand is highly dependent on growth in levels of personal wealth. In recent years wealth has grown particularly in China and India, two markets which have precious metal markets which have only recently been liberalised. This growth in demand is expected to continue leading to supply tightening, particularly if there is a resurgence in investment demand.

#### 14.2.2 Market Position

Bingham Canyon, with mine production of 310 thousand tonnes of contained copper in concentrate in 1994 is one of the world's largest open pit mines.

In 1993 Kennecott embarked on a \$1.3 billion investment programme for the construction of a new smelter and modernised refinery at Bingham Canyon. The new smelter, which is designed to treat one million tonnes of concentrate per year, will match the mine capacity but is expected to be able to operate at significantly above name plate capacity. The new smelter will improve recovery rates for copper, gold and silver. There are several expansion possibilities open for Bingham Canyon including reduction in the cut-off grade at the mine, additional grinding and increase of the ore throughput. Further, management is evaluating the feasibility of the construction of a fifth concentrator line. A sixth line may be considered in the future.

Construction of the mine at Escondida, for which total investment to date is approximately \$2.1 billion, commenced in 1988 and production started in 1990. Phase III of an expansion plan which will increase annual output from 480,000 tonnes of copper in concentrate initially to 900,000 began in 1994, and is expected to be fully operational in 1996, making Escondida the world's largest copper mine. Recent exploration has resulted in a large increase in proven and probable ore reserves.

RTZ's development investment with FCX relates to a mine at Grasberg in the Irian Jaya region of Indonesia. In 1994 Grasberg produced in concentrate 320,000 tonnes of copper and 800,000 ounces of gold. RTZ has agreed to fund FCX's next \$134 (US\$100 million) million of exploration in Irian Jaya in order to increase reserves. Further, RTZ has agreed to loan up to \$1,007 (US\$750 million) million to expand the existing mine from 118,000 tonnes per day to 175-200,000 tonnes. In return RTZ will receive a 40% interest in the expansion of the Grasberg mine above the existing throughput and 40% of new discoveries in FCX's contracts of work in Irian Jaya.

### 14.3 Valuation Analysis

#### 14.3.1 Methodology Assumed

Morgan Stanley has valued RTZ's copper and gold operations using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

It is Morgan Stanley's view that DCF valuation of gold assets is not generally accepted as appropriate for determining the fair market value of gold assets. DCF valuation typically returns a value around one-half of the generally accepted fair market value<sup>(1)</sup>. The fair market value is more often determined by reference to alternative valuation methodologies such as comparable companies valuation and precedent transactions valuation (see below). For this reason, Morgan Stanley has adopted the capitalization of ounces of reserves and reserve profit methodology as its primary methodology for the valuation of RTZ's gold operations.

#### *Overview of Copper and Gold Cash Flow Models*

Morgan Stanley's copper and gold cash flow models were based on information provided by RTZ, in the form of RTZ's latest available financial projection models. Such models were constructed from the underlying life of mine plans. Individual models were built for each of the Kennecott owned properties, as well as Escondida, FCX, Palabora, Lihir, Morro do Ouro, Neves Corvo and Rio Tinto Zimbabwe. The models comprise a projected life of mine analysis of unlevered free cash flow expressed in U.S. dollars. Commodity prices and costs of production were adjusted to reflect U.S. expected inflation of 3% p.a.

#### *Key Assumptions in the Cash Flow Models*

We have discussed the key assumptions underlying the copper and gold models with the appropriate RTZ personnel and A&S, and have used third-party sources, as we deemed appropriate, to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow models are:

- *Life of Mine:* The models have taken account of financial projections over the lives of the various mines as projected by the latest mine plans. For Bingham Canyon, the projected mine life is 25 years, for Escondida 50 years, and for FCX 45 years.

*Note:*

- (1) The valuation differential between Morgan Stanley's derived trading value for RTZ's gold operations and the DCF valuation is less significant than one-half since the value of some of the assets, including the FCX joint venture and Cortez Pipeline, are not captured by the comparable company valuation method.

- *Commodity Prices:* Prices for copper and gold are identical to those used in the CRA cash flow models. Refer to Section 9.3.1.
- *Production:* Annual production figures are those currently forecast by RTZ in accordance with current mine plans. Production for Escondida is subject to rapid increase over the next three years, averaging 30-35% per annum, reflecting the early stage of its development.
- *Operating Cash Costs:* The operating cash costs per tonne have been estimated based on RTZ's projections and an inflation expectation of 3%.
- *Capital Expenditure:* Major capital expenditure is expected at Escondida and Lihir over the next two to three years reflecting their early stage of development. Continued development at Grasberg will require substantial capital expenditure until 1998. From 1999 onwards capital expenditure principally represents maintenance capital expenditure.
- *Terminal Value:* No terminal values have been applied to the copper and gold cash flow models reflecting their nature as full life of mine models.

Based on our analysis set out in Appendix 20.5 we consider the appropriate discount range to use in valuing RTZ copper and gold operations to be 10.5% to 11.5% for the copper operations and 11.0% to 12.0% for the gold operations.

Applying the ranges to the cash flows provides the DCF valuation set out below:

#### DCF Valuation – Copper and Gold

	Low (\$MM)	High (\$MM)
Discount Rates		
– Copper	11.5%	10.5%
– Gold	12.0%	11.0%
DCF Valuation – Copper and Gold	\$7,968	\$8,701

#### Sensitivity Analysis – Copper and Gold

Set out below is an analysis of the extent to which changes in certain key economic and operating variables will affect the value of the copper and gold operations of RTZ based on our cash flow models. This analysis has been done using a discount rate of 11.0% for the copper operations and 11.5% for the gold operations.

#### Sensitivity Analysis – Copper and Gold

Variable/change	Base Case	Impact on Value (\$MM)
Inflation Rate (+/- 1%)	3.0%	\$709 / (615)
Commodity Prices (+/- 5%)		\$960 / (960)

#### Alternative Valuation Methodologies

We have compared our valuation of RTZ's copper and gold operations with that derived from the application of EBDIT and net income multiples to the EBDIT and net income of the copper operations as appropriate and EBDIT, reserves and reserve profit multiples to the EBDIT, reserves and reserve profit of the gold operations as appropriate. For those assets which are publicly traded – FCX, Lihir, Palabora and RTZ Zimbabwe – Morgan Stanley's valuation was considered with respect to the current market capitalisation.

Using the multiples laid out below, this analysis produces the following range of values:

### Comparable Companies Valuation Analysis – Copper and Gold<sup>(1)</sup>

	Low (\$MM)	High (\$MM)
<b>Copper</b>		
– 1994 EBDIT Multiple	4.5x	5.5x
– 1996 Net Income Multiple	6.5	7.5
<b>Gold</b>		
– 1994 EBDIT Multiple	11.0	13.0
– 1994 Reserves Multiple (\$/oz) <sup>(2)</sup>	134.2	161.1
– 1995 Reserves Profit Multiple <sup>(3)</sup>	0.8	0.9
<b>Valuation</b>	<b>\$6,305</b>	<b>\$7,997</b>

Note:

- (1) Comparable companies valuation analysis excludes Cortez Pipeline and the joint venture with FCX on account of their not generating earnings until after 1996
- (2) Based on 1994 proven and probable reserves
- (3) Based on 1994 proven and probable reserves adjusted for 1995 production, and the spot price of gold minus cash costs of production

It is important to note that Morgan Stanley considers the application of multiples to certain of RTZ's gold and copper operations, notably Escondida, unsatisfactory due to their early stages of development. We have made allowance for this when using this comparable companies valuation analysis as a check on our DCF valuation.

Morgan Stanley obtained its multiples from a review of comparable publicly traded companies. Morgan Stanley reviewed the following LTM multiples and applied its judgement to arrive at the appropriate 1994 multiples as applied above. This analysis produced a range of multiples as follows:

### Comparable Companies Analysis – Copper

Company	LTM EBDIT Multiple	1996E Net Income Multiple
Phelps Dodge	5.0x	6.8x
Cyprus Amax	4.7	6.4
Magma Copper	5.0	5.1
Asarco	5.4	5.5

### Comparable Companies Analysis – Gold

Company	LTM EBDIT Multiple	Reserve Multiple <sup>(1)(2)</sup>	Reserve Profit Multiple <sup>(3)</sup>
		(\$/oz)	
Homestake	13.4x	161	1.0x
Santa Fe Pacific	9.8	130	0.5
TVX Gold	14.8	150	0.6
Hemlo Gold	6.8	150	0.4
Echo Bay	9.2	118	0.6
Battle Mountain	10.6	138	0.6
Cambior	10.8	162	0.9
Amax Gold	N.M.	123	3.2

Note:

- (1) Based on proven and probable reserves
- (2) Converted from US dollars to Australian dollars at an exchange rate of US\$/\$0.745
- (3) Based on proven and probable reserves and the spot price of gold minus cash costs of production

Whilst it is Morgan Stanley's view that there are no comparable precedent acquisition transactions in the copper industry, we have taken account of comparable precedent acquisition transactions in the gold industry. The analysis produced a multiple range of \$101 to \$134 per ounce of reserves (US\$75 – US\$100 per ounce of reserves):

We have derived our multiples from a review of comparable precedent transactions. This analysis produced a range of multiples as follows:

#### Precedent Transactions Multiple Analysis – Gold

Acquiror	Acquiree	Date	\$ Per Ounce of Reserves <sup>(1)</sup>
Homestake Mining	Homestake Australia	14 August 1995	\$220
Kinross Gold	Barrick/Macassa	28 April 1995	82
Pegasus Gold	Zapopan	10 April 1995	204
Poseidon Gold	Reynolds Metals	9 February 1994	221
Placer Dome U.S.	USMX	15 May 1993	82
International Corona	Stikine	27 December 1991	141
Inco	Consolidated TVX	3 December 1990	133

Note:

(1) Converted from US dollars to Australian dollars at an exchange rate of US\$/A\$ 0.745

#### 14.3.2 Summary Valuation Table

Morgan Stanley's primary valuation methodology for determining the range of values for RTZ's copper operations was DCF valuation which was supported by the valuation based on the capitalization of EBDIT and net income. It is Morgan Stanley's view however, that the primary valuation methodology for determining the range of values for RTZ's gold operations should, in accordance with standard gold industry practice, be based on the capitalization of reserves and reserve profit, supported by our DCF valuation. Accordingly, the appropriate range of values for RTZ's combined copper and gold operations is as follows:

Business Unit	Low (\$MM)	High (\$MM)
Copper and Gold	\$8,050	\$8,850

## 15. RTZ COAL AND URANIUM

### 15.1 Introduction

RTZ's interests in coal operations, putting aside those coal interests held through its holding in CRA, are held through Kennecott Energy and Coal Company ("Kennecott Energy") in the U.S. RTZ's coal and uranium operations as a whole, that is including its operations in CRA, contributed approximately 15% of RTZ's 1994 Group sales and as at December 31, 1994, accounted for 11% of Group assets. In 1994 coal and uranium operations as a whole contributed \$161 million of RTZ's net earnings, which compares with \$217 million in 1993 and \$60 million in 1992.

The assets owned by RTZ through its fully owned subsidiary Kennecott Energy were acquired by three separate transactions. The coal mines at Decker, Antelope and Spring Creek were acquired in 1993 when RTZ purchased Nerco Inc., subsequently disposing of its non-coal assets. Cordero was acquired from Sun Company, also in 1993, and, in 1994 RTZ expanded its presence in the US coal market with the purchase of a general partnership interest in Colowyo Coal Company, L.P. which owns and operates the Colowyo mine.

Decker is 50% owned by RTZ and W.R. Grace retains a limited partnership interest in Colowyo entitling it to share in the proceeds of the long term coal contracts.

RTZ's interest in uranium is held through 66.2% owned Rössing Uranium Limited in Namibia.

### Coal and Uranium

	1994 (\$MM)	1993 (\$MM)
Group sales	1,267	1,305
Group assets	1,172	1,205
Total production		
— Coal ('000 tonnes)	87,075	82,188
— Uranium (tonnes)	2,255	1,967
RTZ share		
— Coal ('000 tonnes)	49,876	36,737
— Uranium (tonnes)	1,185 <sup>(1)</sup>	851 <sup>(2)</sup>
Kennecott Energy ('000 tonnes)	45,300 <sup>(3)</sup>	39,000 <sup>(3)</sup>
Kennecott share ('000 tonnes)	36,600	23,200

*Note:*

- (1) Production figures reflect an increase in ownership of Rössing Uranium Limited from 51.3% to 56.3% in September 1994.
- (2) Production figures reflect an increase in ownership of Rössing Uranium Limited from 41.35% to 51.3% in September 1993.
- (3) Full production includes quantities produced prior to acquisition by RTZ.

### 15.2 Business Description

#### 15.2.1 Industry Profile

The coal produced by Kennecott Energy is environmentally friendly so-called compliance coal, defined as having under 1.2 lbs of sulphur dioxide per million Btu. The outlook for compliance coal is attractive due to the implementation of Phase I of the Clean Air Act in the U.S. which requires that, by the end of 1995, power utilities use compliance coal, invest in flue gas desulphurisation equipment, or acquire so-called sulphur credits in the Chicago futures exchange. Further, Phase II requires that levels be reduced to below 1.0 lb of sulphur dioxide per million Btu by 2000.

The market for uranium is currently weak due to the high level of CIS exports. However this is now subject to regulation in the EC and the U.S.

#### 15.2.2 Market Position

Kennecott Energy's coal mines are in the Powder River Basin in Montana and Wyoming, and, in the case of Colowyo, in Colorado. This area represents the U.S.'s most abundant supply of compliance coal. As of

December 31, 1994 Kennecott Energy estimated RTZ's share of proven and probable reserves as 1,020 million tonnes. In addition to these high reserves Kennecott Energy's mines have low mining costs reflecting their nature as surface mines utilising large draglines for overburden removal and truck/shovel fleets for prestripping and coal production. Kennecott Energy's mines are, with the exception of Decker, non-unionised.

The main customers for coal mined by Kennecott Energy are the mid-Western, Southern and Pacific Coast utility companies, with industry and exports accounting for less than 5% of total sales. Coal from RTZ's U.S. mines was sold to 18 domestic utilities, three foreign customers and 14 industrial customers in 1994. Coal sales are made under multi-year contracts and on a spot basis for terms of one year or less. Multi-year sales contracts contain various price adjustment provisions which are based on published price indices and, in some cases, actual mine production costs. RTZ's share of sales in 1994 under multi-year contracts represented 65% of total sales. Although contract expiration dates vary greatly – some still have twenty years to run – on average they expire in three to five years.

Between 1993 and 1994 total production at Kennecott Energy rose by 16%. Production is expected to continue to increase over the next two to three years reflecting growth in demand for compliance coal and equipment upgrades at Colowyo which are expected to increase capacity to 4.5 million tonnes by 1997.

Kennecott Energy's principal competitors include Peabody, Cyprus Amax, Consol, ARCO and Kerr McGee.

At Rössing Uranium Limited uranium ore is extracted from an open pit mine and processed on site into uranium oxide. Rössing Uranium Limited has responded to weak market conditions by reducing production and lowering its costs – headcount has fallen from over 2,500 in 1990 to 1,243 at the end of 1994.

### **15.3 Valuation Analysis**

#### **15.3.1 Methodology Assumed**

Morgan Stanley has valued RTZ's coal and uranium operations using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

#### **Overview of Coal and Uranium Cash Flow Models**

Morgan Stanley's coal and uranium cash flow models were based on information provided by RTZ, in the form of RTZ's latest available financial projections models. Such models were constructed from the underlying life of mine plans. Individual models were built for each of Kennecott Energy's mines (Decker, Cordero, Spring Creek, Antelope and Colowyo) as well as for Rössing Uranium. The models comprise a projected life of mine analysis of unlevered free cash flow expressed in U.S. dollars. Prices and costs of production were adjusted to reflect inflation of 3% p.a.

#### **Key Assumptions in the Cash Flow Models**

We have discussed the key assumptions underlying the coal and uranium models with the appropriate RTZ personnel and A&S, and have used third-party sources, as we deemed appropriate, to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow models are:

- *Life of Mine:* The models have taken account of financial projections over the lives of the various mines as projected by the latest mine plans. For all the Kennecott Energy coal mines and for Rössing Uranium these mine lives fall within the 20-30 years range.
- *Commodity Prices:* Due to the commercial sensitivity of prices for these commodities, they are not included in this section. However, Morgan Stanley has had access to the information necessary to make its price projections for the purpose of the cash flow model.
- *Production:* Annual production figures are those currently forecast by RTZ in accordance with current mine plans. Production is expected to increase over the next two to three years reflecting factors outlined above under Section 15.2, Business Description.

- *Operating Cash Costs:* The operating cash costs per tonne have been estimated based on RTZ's projections and an inflation rate of 3%.
- *Capital Expenditure:* Capital expenditure over and above maintenance capital expenditure is expected at Colowyo and Spring Creek reflecting certain new equipment purchases leading to increased production. From 1997 onwards capital expenditure principally represents maintenance capital expenditure.
- *Terminal Value:* No terminal values have been applied to the coal and uranium cash flow models reflecting their nature as full life of mine models.

Based on our analysis set out in Appendix 20.5 we consider the appropriate discount range to use in valuing RTZ coal and uranium operations to be 10.0% to 11.0% for the coal operations and 12.0% to 13.0% for the uranium operations.

Applying the ranges to the cash flows provides the DCF valuation set out below:

DCF Valuation – Coal and Uranium	Low (\$MM)	High (\$MM)
Discount Rates		
— Coal	11.0%	10.0%
— Uranium	13.0%	12.0%
DCF Valuation – Coal and Uranium	\$1,345	\$1,455

#### *Sensitivity Analysis – Coal and Uranium*

Set out below is an analysis of the extent to which changes in certain key economic and operating variables will affect the value of the coal and uranium operations of RTZ based on our cash flow models. This analysis has been done using a discount rate of 10.5% for the coal operations and 12.5% for the uranium operations.

#### **Sensitivity Analysis – Coal and Uranium**

Variable/change	Base Case	Impact on Value (\$MM)
Inflation Rate (+/- 1%)	3.0%	\$117/(105)
Commodity Prices (+/- 5%)		\$208 /(208)

#### *Alternative Valuation Methodologies*

As a check on our DCF valuation, we have compared our valuation of RTZ's coal and uranium operations with that derived from the application of EBDIT and net income multiples to the EBDIT and net income of the coal operations as appropriate and net income multiples to the net income of the uranium operations. We have derived our multiples from a review of comparable publicly traded companies.

Using the multiples laid out below, this analysis produces the following range of values:

#### **Comparable Companies Valuation Analysis – Coal and Uranium**

	Low (\$MM)	High (\$MM)
Coal		
— 1997 EBDIT Multiple	4.5x	5.5x
— 1996 Net Income Multiple	10.0	12.0
Uranium		
— 1996 Net Income Multiple	10.0	12.0
Valuation	\$1,231	\$1,493



Morgan Stanley obtained its multiples for the coal sector from a review of comparable publicly traded companies. In valuing the coal operation Morgan Stanley has applied an EBDIT multiple range to the 1997 EBDIT figures which are viewed as being more representative of the long-term earnings trend for these assets. In deriving the 1997 EBDIT multiple for the coal operations, Morgan Stanley reviewed the LTM EBDIT multiples for the comparable companies and applied its judgement to arrive at the appropriate 1997 multiples as used above. This analysis produced a range of multiples as follows:

#### Comparable Companies Analysis – Coal

Company	LTM EBDIT Multiple	1996 Net Income Multiple
Ashland Coal	4.5x	8.3x
Ziegler	4.8	5.8
Coal & Allied	17.7	9.9
QCT Resources	17.1	10.4

It is important to note that Morgan Stanley considers the use of comparable trading multiples to be unsatisfactory in the valuation of RTZ's coal assets. This is on account of the limited number of publicly listed coal companies, typically smaller size of those publicly listed, and generally lower quality of their asset portfolios compared to those held by international diversified mining companies.

Morgan Stanley obtained multiples for uranium from a review of Cameco (Canada) and ERA (Australia). It must be noted, however, that Cameco's increasing exposure to gold, and the effect of North Ltd's majority interest combined with the impact of the Australian Federal Government 3-Mine Policy on ERA, reduce the comparability of their multiples to Rössing Uranium. Morgan Stanley took such factors into consideration in deriving the net income multiple for RTZ's uranium operations.

Whilst it is Morgan Stanley's view that there are no comparable precedent acquisition transactions in the uranium industry, we have taken account of comparable precedent acquisition transactions in the coal industry. This analysis produced a range of \$17.40 – \$20.10 per tonne of annual production (US\$13.00 – US\$15.00 per tonne of annual production).

We have derived our multiple range from a review of comparable precedent transactions. This analysis produced the following multiple:

#### Precedent Transactions Multiple Analysis – Coal

Acquiror	Acquiree	Date	Annual Production Multiple
			(\$/tonne)
Hanson Plc (Peabody)	Carter Mining (Exxon)	November 1994	\$19.30

It is Morgan Stanley's view that the Exxon Coal/Peabody transaction represents the most comparable precedent transaction on account of the location of Carter Mining in the Powder River Basin, and its recent timing. We compared the results of this analysis with our other analysis of the coal operations in arriving at our valuation range for the coal and uranium operations as a whole.

#### 15.3.2 Summary Valuation Table

In view of our DCF valuation of RTZ's coal and uranium operations supported by valuations based on the capitalization of 1996 net income and 1997 EBDIT, the appropriate range of values for these operations is as follows:

Business Unit	Low (\$MM)	High (\$MM)
Coal and Uranium	\$1,200	\$1,500

## 16. RTZ INDUSTRIAL MINERALS

### 16.1 Introduction

RTZ's principal industrial minerals operations are the RTZ Borax group ("Borax"), the world's principal producer of boron products, and RTZ Iron and Titanium which comprises QIT-Fer et Titane and Richards Bay Minerals, which is 50% owned by RTZ and is the world's largest producer of titanium dioxide feedstock. Industrial minerals contributed approximately 27% of RTZ's 1994 Group sales and as at December 31, 1994, accounted for 23% of the Group's assets. In 1994 industrial minerals contributed approximately \$331 million of RTZ's net earnings which compares with \$298 million in 1993 and \$300 million in 1992.

Borax, through US Borax Inc., owns and operates the world's largest borate mine at Boron in the Californian Mojave Desert. The borates are processed near the site into a variety of boron products some of which are further refined at the group's refineries at Wilmington (Los Angeles) and Coudekerque (France).

QIT-Fer et Titane operates an open pit operation and associated beneficiation plant in Quebec, Canada, which currently produces titanium dioxide feedstock (80% titanium dioxide suitable for the sulphate pigment process), high purity iron, steel billets and metal powders.

Richards Bay Minerals ("RBM"), an equal joint venture arrangement with Gencor, mines mineral bearing sands on the Natal coast of South Africa, to produce ilmenite, zircon and rutile. The low alkali ilmenite is processed at RBM to produce 85% titanium dioxide, for use either in the chloride or the sulphate pigment process, and pig iron.

RTZ's other industrial mineral operations include a 99.9% interest in Talc de Luzenac which operates the world's largest talc mine near Luzenac in France and has extensive operations in Montana and Vermont in the U.S. as well as other operations in Austria, Italy, Spain, Canada, Japan and Belgium.

### Industrial Minerals

	1994 (\$MM)	1993 (\$MM)
Group sales	2,196	2,213
Group assets	2,404	2,559
TiO <sub>2</sub> feedstock production ('000 tonnes)	1,537	1,545
RTZ share ('000 tonnes)	1,151	1,099
Borates production ('000 tonnes)	493	467
RTZ share ('000 tonnes)	493	467
Talc production ('000 tonnes)	1,022	958
RTZ share ('000 tonnes)	1,021	957

### 16.2 Business Description

#### 16.2.1 Industry Profile

In general, the market for industrial minerals is driven by the quality of product, focus on customers needs, proximity to market and availability of close substitutes.

The borate products are sold to a wide range of end-users including manufacturers of fibreglass, glass wool, high temperature glasses and enamels. In Europe its most significant use is as a bleaching component in detergent powders. Given this broad base of end-users of borates both geographically and by product type and the difficulty of replicating its properties, the recession of the early 1990's had a relatively mild impact on the market for borates. Similarly, recent growth in this sector has not kept pace with the growth in global GDP. There remains significant spare capacity within the industry.

The market for titanium dioxide feedstock has in recent years paralleled the growth in global GDP. Within the industry, however, the demand for chlorinatable feedstock has grown significantly relative to

that for sulphatable feedstock due to its higher quality properties and lower environmental impact. Consequently, whilst the sulphatable feedstock sector is still recovering from the recent recession, the demand for chlorinatable feedstocks which remained robust throughout the down-turn, continues to grow ahead of global GDP. Approximately 95% of the western production of titanium feedstock is used in the production of titanium dioxide pigment which is in turn used primarily in the manufacture of paints, paper and plastics.

The market for titanium feedstock has recently benefited from the closure of Sierra Rutile, the World's largest producer of natural rutile (approximately 95% titanium dioxide content), following political unrest in Sierra Leone.

### *16.2.2 Market Position*

There are two major borax facilities in the world – RTZ's US operation at Boron, California and Etibank's operation in Turkey.

The mine at Boron has been in operation since 1927 and the unit is entirely self-sufficient with both a refinery and boric acid plant close to the mine site.

Over the last 10 years, US Borax's attempts to extract continual efficiency improvement has led to a significant reduction of labour costs whilst continuing to expand productivity. Recent initiatives include the establishment of new marketing offices in Brazil and Singapore to nurture the relatively stronger growth for borate products in the Latin American and Asian markets.

Published sources indicate that RTZ Iron & Titanium beneficially owns around one-third of world titanium dioxide feedstock production. The majority of its competitors are based in Australia, the most significant of which is Renison Goldfields.

Historically, the high alkali ore at QIT has limited the feedstock production process to the sulphate method. However, QIT has been developing a proprietary process to convert sulphatable feedstock into an upgraded product which is similar in quality to rutile and which is used as a high grade chlorinatable feedstock. The new upgraded slag process facility will enable QIT to expand its output of higher margin chloride feedstock initially by approximately 200,000 tonnes a year and is anticipated to start production by 1998.

RBM is the largest single producer of titanium feedstock in the world and is able to produce both chlorinatable and sulphatable slag. Like QIT, RBM produces high purity iron as a by-product but in addition, Richards Bay also produces valuable rutile and zircon by-products (used by ceramic producers and as a component in steel refractory manufacture). Crediting these by-products to total cash costs ensures that RBM is the lowest cost titanium slag operation in the world.

RTZ's talc division accounts for much of the North American/European market for talc and a significant portion of the world market. With over 40 varieties of talc, RTZ obtains a competitive edge by developing applications in partnership with customers.

## **16.3 Valuation Analysis**

### *16.3.1 Methodology Assumed*

Morgan Stanley has valued US Borax, QIT/RBM and RTZ's talc operations using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology. RTZ's US Silica operations, following their recently announced sale to D. George Harris & Associates, have been included as a cash item at the agreed sale price – refer to Section 18, RTZ Liabilities and Corporate Overhead.

### **Overview of Industrial Minerals Cash Flow Models**

Morgan Stanley's US Borax and Luzenac cash flow models were based on information provided by RTZ, in the form of RTZ's latest available financial projection models. Such models were constructed from the

underlying life of mine plans. For Luzenac, individual models were built for members of the Luzenac group including Luzenac Europe, Luzenac Canada and Luzenac America. The models comprise a projected life of mine analysis of unlevered free cash flow expressed in US dollars. Commodity prices and costs of production were adjusted to reflect US expected inflation of 3% p.a.

In accordance with the terms of a Confidentiality Agreement between RTZ and Gencor concerning the release of non-public information regarding their joint venture at Richards Bay, Morgan Stanley was limited to public information only for the valuation of RBM. Further, given the potential to deduce sensitive information on RBM from financial information concerning QIT, Morgan Stanley also had to rely on public information for the valuation of QIT. Thus the DCF valuation of RTZ's titanium dioxide operations was based on a single model for both QIT and RBM, developed through the use of public information and discussions with RTZ personnel.

**Key Assumptions in the Cash Flow Models**

We have discussed the key assumptions underlying the industrial mineral models with the appropriate RTZ personnel and A&S, and have also used third-party sources, as we deemed appropriate, to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow models are:

- *Life of Mine:* The models for US Borax and Luzenac have taken account of financial projections over the lives of the various mines as projected by the latest mine plans. For US Borax, the projected mine life is 30 years (although reserves would permit a much longer life) and for Luzenac 28 years.

*Financial projections were not provided for QIT/RBM. Morgan Stanley developed its own projections which were the result of an analysis of publicly available historical financial and operating trends and discussions with RTZ personnel regarding the broad operating environment for QIT/RBM.*

- *Commodity Prices:* On account of their commercial sensitivity, projected prices for borates, talc and mineral sands were not provided by RTZ management. Instead, with the exception of mineral sands, the internal revenue projections were provided. These revenue projections imply growth rates on average slightly above inflation over the next five years. These were discussed with the appropriate RTZ personnel and sensitivity analyses were carried out on such projections.
- *Operating Cash Costs:* The operating cash costs to US Borax and Luzenac per tonne have been estimated based on RTZ's projections and an inflation expectation of 3%.
- *Capital Expenditure:* Major capital expenditure is expected at QIT over the next two to three years as part of the investment programme to bring the new UGS facility on-line. No major new capital investments are expected at US Borax or Luzenac.
- *Terminal Value:* No terminal values have been applied to the US Borax and Luzenac cash flow models reflecting their nature as full life of mine models.

The terminal value for RBM was based on the capitalisation of earnings at a multiple consistent with trading multiples for comparable publicly traded companies.

Based on our analysis set out in Appendix 20.5 we consider the appropriate discount range to use in valuing RTZ's industrial mineral operations to be 12.0% to 13.0%

Applying the ranges to the cash flows provides the DCF valuation set out below:

DCF Valuation – Industrial Minerals	Low (\$MM)	High (\$MM)
Discount Rate	13.0%	12.0%
DCF Valuation – Industrial Minerals	\$4,039	\$4,420

It must be noted that in deriving a valuation of RTZ's industrial mineral operations by this method, the value of the Argentinian and French borates operations have not been included. Morgan Stanley has taken this into consideration in deriving its final value range for industrial minerals.

### **Sensitivity Analysis – Industrial Minerals**

Set out below is an analysis of the extent to which changes in certain key economic and operating variables will affect the value of the industrial minerals operations of RTZ based on our cash flow models. This analysis has been done using a discount rate of 12.5%.

### **Sensitivity Analysis – Industrial Minerals**

Variable/change	Base Case	Impact on Value (\$MM)
Inflation Rate (+/-1%)	3.0%	\$442/(389)
Revenue (+/-5%)		\$393/(393)

### **Alternative Valuation Methodologies**

As a check on our DCF valuation, we have compared our valuation of RTZ's industrial mineral operations with that derived from the application of EBDIT and net income multiples to the EBDIT and net income of the industrial mineral operations as appropriate. This analysis produced the following range of values for industrial minerals:

### **Comparable Companies Valuation Analysis – Industrial Minerals**

	Low (\$MM)	High (\$MM)
US Borax		
– 1994 EBDIT Multiple	6.5x	7.5x
– 1996 Net Income Multiple	11.0	13.0
Luzenac		
– 1994 EBDIT Multiple	6.5	7.5
– 1996 Net Income Multiple	11.0	13.0
QIT/RBM		
– 1994 EBDIT Multiple	7.0	9.0
– 1996 Net Income Multiple	9.0	11.0
Valuation	\$3,603	\$5,230

Morgan Stanley obtained its multiples for the valuation of the borates and talc operations from a review of comparable publicly traded specialty chemical companies and for the valuation of the titanium dioxide operations from a review of comparable publicly traded mineral sands companies. Morgan Stanley reviewed the following LTM multiples and applied its judgement to arrive at the appropriate 1994 multiples as applied above. This analysis produced a range of multiples as follows:

### **Comparable Companies Analysis – Specialty Chemicals**

	LTM EBDIT Multiple	1996E Net Income Multiple
Morton International	8.0x	11.6x
Great Lakes Chemical	8.6	13.3
Nalco Chemical	10.3	13.1
Lubrizol	7.1	10.8
Loctite	11.2	15.3
Ethyl Corporation	9.1	11.7
Betz Laboratories	7.2	14.7
H.B. Fuller	5.8	11.0
Petrolite	6.0	13.6

## Comparable Companies Analysis – Mineral Sands

Company	LTM EBDIT Multiple	1996E Net Income Multiple
Consolidated Rutile	6.1x	6.7x
Renison Goldfields	10.3	8.4
Westralian Sands	8.1	14.9

Whilst it is Morgan Stanley's view that there are no comparable precedent acquisition transactions in either the borates or the talc industry we have taken account of comparable precedent acquisition transactions in the mineral sands industry. This analysis produced a multiple range of 12.0 – 14.0x 1995 net income.

We have derived our multiple range from a review of comparable precedent transactions. This analysis produced the following multiple:

### Precedent Transactions Multiple Analysis – Mineral Sands

Acquiror	Acquiree	Date	Prospective Net Income Multiple
Gencor	RBM (25% stake)	April 1993	12.9x

We compared the results of this analysis with our other analysis of the industrial minerals operations in arriving at our valuation range for the industrial minerals operations as a whole.

### 16.3.2 Summary Valuation Table

In view of our DCF valuation of RTZ's industrial minerals operations supported by valuations based on the capitalization of 1996 net income and 1994 EBDIT, the appropriate range of values for these operations is as follows:

Business Unit	Low (\$MM)	High (\$MM)
Industrial Minerals	\$3,900	\$4,450

## 17. RTZ OTHER PRODUCING PROPERTIES, DEVELOPMENT AND EXPLORATION

### 17.1 Introduction - Other Producing Properties

We have aggregated into Other Producing Properties RTZ's aluminium, zinc and lead, and iron ore operations. RTZ's aluminium, zinc and lead, and iron ore operations as a whole, that is including its operations in CRA, contributed approximately 13%, 3% and 7% of RTZ's Group sales respectively in 1994 and as at December 31, 1994, accounted for 17% of the Group's assets. In the year to December 31, 1994, aluminium, zinc and lead and iron ore accounted for approximately \$88 million, \$15 million and \$159 million of RTZ's net earnings respectively.

RTZ's principal aluminium operations at Comalco in Australia, and principal iron ore operations at Hamersley in Australia are held through CRA and have been valued separately as part of the CRA group (refer to Sections 8, and 6).

In Other Producing Properties Morgan Stanley has included RTZ's aluminium operations at Anglesey Aluminium; RTZ's zinc and lead operations at Greens Creek in Alaska, zinc refinery at Norzink in Norway, and interests in Minera SA in Bolivia and Argentina; and RTZ's iron ore operations at Miner acao Corumbaense Reunida in Brazil.

### Other Producing Properties

000 tonnes	1994	1993
Anglesey Production	127	125
RTZ share	65	64
Norzink Production	137	134
RTZ share	68	67
Greens Creek Lead Production	—	4
RTZ share	—	2
Greens Creek Zinc Production	—	10
RTZ share	—	5
Greens Creek Silver Production (000 oz)	—	1,722
RTZ share	—	940

### 17.2 Business Description - Other Producing Properties

#### 17.2.1 Industry Profile

##### **Iron Ore**

Refer to Section 6.2.1 for a profile on the iron ore industry

##### **Aluminium**

Refer to Section 8.2.1 for a profile on the aluminium industry

##### **Zinc**

Zinc supply and demand was in favourable balance in the early 1990s when a sharp increase in exports to the western bloc from Russia resulted in massive inventory building. Zinc inventories have declined sharply over the last year due to the prolonged recovery, but still remain quite high, and zinc is the only base metal not to have participated in the bull market for commodities. It could take several additional years for zinc inventories to decline enough for the zinc price to strengthen meaningfully.

#### 17.2.2 Market Position

Refer also to Sections 6.2.2 and 8.2.2

Anglesey Aluminium is 51% owned by RTZ and 49% by Kaiser Aluminum & Chemical Corporation. It produces aluminium in various forms suitable for extruding, rolling and re-melting. RTZ sells its share of the aluminium produced principally to manufacturers in Europe.

The Greens Creek underground mine in Alaska, managed by Kennecott, commenced production of concentrate containing zinc and lead, silver and gold, in 1989. However, operations at Greens Creek were suspended indefinitely in April 1993 in response to depressed metal prices. In 1994, a feasibility study to support re-opening the mine was completed and a decision has been taken to recommence operations which are expected to start in 1997.

Norzink, in which RTZ and Trelleborg each have a 50% interest, operates an electrolytic zinc refinery at Eitrheim, Norway. Raw material in the form of zinc concentrate is purchased from mines worldwide and refined zinc metal and alloys are sold to customers in both Europe and North America.

RTZ holds a 33.3% interest in Minera SA, whose assets include 100% interests in Comsur in Bolivia and Minera Aguilar in Argentina and a 100% interest in the Sulfacid zinc refinery in Argentina. Comsur owns and operates five small underground zinc mines with by-product lead and silver, and a silver leach site in Bolivia. Minera Aguilar owns and operates the Aguilar underground zinc mine with by-product lead and silver in Argentina.

Mineracão Corumbaense Reunida ("Corumba") (49%) is a Brazilian company producing iron ore from a mine located in the State of Mato Grosso do Sul, Brazil.

### **17.3 Valuation Analysis – Other Producing Properties**

#### *17.3.1 Methodology Assumed*

Morgan Stanley has valued aluminium and iron ore using the Discounted Cash Flow methodology. For the lead and zinc operations, Greens Creek has been valued according to the Discounted Cash Flow methodology whilst Minera and Norzink have been valued by applying net income multiples obtained from a review of comparable publicly traded companies to the relevant Minera and Norzink income statistics. Refer to Section 3.1, Valuation Methodology, for a discussion of these methodologies.

#### ***Overview of Other Producing Properties Cash Flow Models***

Morgan Stanley's aluminium, iron ore and Greens Creek cash flow models were based on information provided by RTZ, in the form of RTZ's latest available financial projections models. Such models were constructed from the underlying life of mine plans. Individual models were built for AAM and RTZA for the aluminium operations, Corumba for the iron ore operations and Greens Creek. The models comprise a projected life of mine analysis of unlevered free cash flow expressed in U.S. dollars. Commodity prices and costs of production were adjusted to reflect U.S. expected inflation of 3% p.a.

#### ***Key Assumptions in the Cash Flow Models***

We have discussed the key assumptions underlying the models with the appropriate RTZ personnel and A&S, and have used third-party sources, as we deemed appropriate, to substantiate the reasonableness of these assumptions. (Refer to Appendix 20.1, Sources of Information, below). Key assumptions in the cash flow models are:

- *Life of Mine:* The models have taken account of financial projections over the lives of the various operations as projected by the latest mine plans. For example, for Corumba the projected life is 20 years, and for Greens Creek 21 years.
- *Commodity Prices:* Prices for aluminium, lead, zinc, gold and silver are identical to those used in the CRA cash flow models. Due to the commercial sensitivity of prices for iron ore, they are not included in this section. However, Morgan Stanley has had access to the information necessary to make its price projections for the purpose of the cash flow model.
- *Production:* Annual production figures are those currently forecast by RTZ in accordance with current operation plans. Production for Greens Creek is not expected to come on line until 1997.
- *Operating Cash Costs:* The operating cash costs per tonne have been estimated based on RTZ's projections and an inflation expectation of 3%.



- *Capital Expenditure:* Major capital expenditure is expected at Greens Creek in 1996 as investment is made to re-start the operations and develop the new southwestern ore zone. Substantial new capital expenditure is also required over the next three years at Corumba to upgrade the newly acquired barge operation. No further new capital expenditure projects are projected in the models.
- *Terminal Value:* No terminal values have been applied to the cash flow models for Corumba and Greens Creek reflecting their nature as full life of mine models. Given the relatively low level of capital expenditure projected for the RTZ Aluminium smelter, Morgan Stanley has assumed no terminal value in the AAM and RTZA models.

Based on our analysis set out in Appendix 20.5 we consider the appropriate discount range to use in valuing RTZ's Other Producing Properties to be 12.0% to 13.0%.

### **Alternative Valuation Methodologies**

As a check on our DCF valuation, we have compared our valuation of RTZ's Other Producing Properties with that derived from the application of net income multiples to the net income of aluminium and iron ore as appropriate.

A comparable companies valuation methodology has been the preferred valuation approach for Norzink and Minera on account of the relatively small size of their operations and/or lack of availability of detailed financial projections. It must be noted that the comparable companies valuation analysis for the lead and zinc operations excludes the value of Greens Creek which is not expected to be operational until 1997.

This analysis produced the following range of values:

### **Comparable Companies Valuation Analysis – Other Producing Properties**

	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
<b>Aluminium</b>		
– 1996 Net Income Multiple	6.5x	7.5x
<b>Iron Ore</b>		
– 1996 Net Income Multiple	9.0	10.0
<b>Lead and Zinc</b>		
– 1996 Net Income Multiple	6.0	8.0

Morgan Stanley derived its multiples from a review of comparable publicly traded companies. This analysis produced the following range of multiples:

### **Comparable Companies Analysis – Aluminium**

<b>Company</b>	<b>1996E Net Income Multiple</b>
Alumax	5.9x
Alcoa	8.4
Alcan Aluminium	7.5
Reynolds Metals	6.6
Kaiser Aluminum	4.6

In determining the net income multiple valuation range for aluminium, consideration has been given to the downstream nature and location of RTZ's aluminium operations and the multiple valuation range has been adjusted accordingly. Similarly, consideration has been given to the nature and location of RTZ's iron ore operations and the multiple valuation has been adjusted accordingly.

## Comparable Companies Analysis – Lead & Zinc

<u>Company</u>	<u>1996E Net Income Multiple</u>
Pasminco	5.2x
Cominco	10.5
Trelleborg	5.4

Morgan Stanley obtained multiples for the iron ore sector from a review of international publicly traded companies whose earnings from iron ore are considered to be a significant part of their total business. Morgan Stanley considered Caemi, CVRD, North Ltd and Cleveland Cliffs in order to derive a 1996 net income multiple. Accordingly, we have applied a net income multiple of 9.0 – 10.0x to value RTZ's iron ore operations.

Whilst it is Morgan Stanley's view that there are no comparable precedent acquisition transactions in the iron ore sector and the lead and zinc sector, we have taken account of comparable precedent acquisition transactions in the aluminium sector. Based on Morgan Stanley's understanding of the global aluminium industry and involvement with key industry participants on a wide range of assignments we believe that an accepted benchmark is the multiple paid of annual production. Morgan Stanley considered the appropriate range for RTZ Aluminium to be \$4,027 – \$5,369/tonne (US\$3,000 – US\$4,000/tonne). We compared the results of this analysis with our other analyses of the aluminium operations in arriving at our valuation of Other Producing Properties.

### 17.4 Introduction – Development and Exploration

RTZ conducts development and exploration worldwide through a team of professionals based in the UK who conduct exploration in coordination and co-operation with teams operating within its various subsidiaries. This enterprise is based on the belief that exploration is a cost-effective way of adding new mineral resources to RTZ's portfolio of operations. A successful exploration programme can provide local and specialist knowledge which can assist in identifying suitable acquisitions, as well as leading to the discovery of new ore bodies.

The exploration activities of RTZ have identified a number of projects for future development, the principal ones of which are discussed below. RTZ has not made any commitment to proceed with these projects and any future decision will depend upon further exploration work, market conditions, anticipated returns and other factors.

The principal properties within RTZ's current exploration portfolio are: the exploration in Irian Jaya in Indonesia where RTZ, with Freeport-McMoRan Copper and Gold, is exploring the large, first class copper and gold resources in and around Grasberg; and the diamond prospect in the Lac de Gras area in the NorthWest Territories of Canada where Kennecott is working on several joint ventures.

### 17.5 Description – Development and Exploration

RTZ has an extensive portfolio of exploration properties covering the U.S., Canada, South America, South East Asia, Europe and Africa.

In March 1995 RTZ announced a transaction with Freeport-McMoRan Copper and Gold, as outlined in Section 14 of this report, RTZ Copper and Gold. The transaction provides RTZ with a 40% interest in exploration discoveries in Irian Jaya in Indonesia. Exploration is focussed on Block A including Kucing Liar, Lembah Tembaga and Big Gossan. Exploration is also under way in other areas including Wabu Ridge and Etna Bay.

In 1994 eleven new kimberlites were discovered including three diamond bearing pipes on the Diavik property, which is 60% owned by Kennecott. A delineation drilling and mini-bulk sampling programme has been undertaken on the A-154S pipe, which will undergo an underground bulk sampling programme

in early 1996. Further definition drilling and mini-bulk sampling is proposed for A-154N, A-21 and A-418. Exploration on ground held as part of these and other joint ventures held by Kennecott are continuing. These diamond pipes, including A-154 pipe, owned by Kennecott joint ventures are under lakes and can only be accessed by substantial engineering projects.

Through Kennecott, RTZ also has interests in various gold exploration projects in the U.S.

In Brazil RTZ has exploration properties relating to diamonds, gold and other minerals. Extensive exploration properties are also owned in other parts of South America including Chile, Bolivia, Ecuador, Argentina and Peru.

In Europe, RTZ owns exploration properties in Spain, Portugal, Finland and other countries. RTZ is also undertaking exploration in Southern Africa for diamonds, base and precious metals.

RTZ's historical exploration and development expenditure is set out below:

#### Development and Exploration<sup>(1)</sup>

	1990 (\$MM)	1991 (\$MM)	1992 (\$MM)	1993 (\$MM)	1994 (\$MM)
Annual Expenditure	112	134	130	170	199

Note:

(1) Annual expenditure has been restated for 1990-1992 to take account of the sale of Rio Algom.

Morgan Stanley received information from RTZ as to its development and exploration properties but we have not disclosed such details in response to RTZ's commercial sensitivity.

## 17.6 Valuation Analysis – Development and Exploration

### 17.6.1 Methodology Used

Morgan Stanley applied the same methodology to the RTZ exploration properties as it applied to those of CRA. Refer to Section 11.5, Valuation Analysis – Development and Exploration, for a full description of this approach.

For this purpose, Morgan Stanley and A&S conducted interviews with the relevant RTZ exploration executives and reviewed certain documents containing valuation estimates and other information relating to the development and exploration properties. Financial and operating projections for certain of those properties were also made available. In relation to properties for which this information was available, Morgan Stanley undertook a DFC analysis (including sensitivity analysis) of those properties.

In relation to the remaining development and exploration properties, neither Morgan Stanley nor A&S had full access to all relevant supporting information for these documents. A&S has reported to Morgan Stanley and states in its report (refer to Section 7.8 of Appendix 20.8) that RTZ conducts its exploration activities in a very professional manner and the methodologies and valuation estimates seem reasonable.

Accordingly, Morgan Stanley's valuation range is based on the interviews and information, the DCF analysis, RTZ's valuation estimates, and A&S' review of such estimates, all as described above.

It should be noted that there is a grey area between exploration on the one hand and projects on the other. The Morgan Stanley estimated valuation of RTZ's development and exploration properties includes some items which could be regarded as projects rather than exploration and excludes certain well-advanced projects such as the Cortez Pipeline, a 40% owned gold discovery in Nevada which has been included in the valuation of RTZ's copper and gold operations.

## 17.7 Summary Valuation Table – Other Producing Properties, Development and Exploration

Morgan Stanley has aggregated the valuation of RTZ's Other Producing Properties and RTZ's Development and Exploration due to the commercial sensitivity of the value of the latter.

In view of our DCF valuation of RTZ's Other Producing Properties, supported by valuation based on the capitalization of earnings, and our valuation estimate for RTZ's Development and Exploration, we believe the appropriate range of values for Other Producing Properties, Development and Exploration is as follows:

<b>Business Unit</b>	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
Other Producing Properties, Development and Exploration	\$2,350	\$2,650

## 18. RTZ LIABILITIES, CORPORATE OVERHEAD AND OTHER ASSETS

### 18.1 Debt

Morgan Stanley's valuation takes account of RTZ's net debt position as of June 30, 1995, including a number of adjustments to take account of cash payments and receipts to which there is attached a high degree of certainty. Such adjustments included the proceeds expected from the sale of US Silica, proceeds from the sale of part of RTZ's interest in Lihir to the Papua New Guinea government, and proceeds from an asset sale by RTZ Zimbabwe. An adjustment has also been made for the value of RTZ's real estate properties which are considered to be surplus to the on-going operations.

	30 June 1995 (\$MM)	31 December 1994 (\$MM)
Cash and short term investments less short term debt	1,644	2,067
Adjustments	427	—
Commercial paper	(1,711)	(1,797)
Long term debt	(782)	(819)
Minorities	(309)	(258)
3.325% 'A' cumulative preference shares	(18)	(16)
3.5% 'B' cumulative preference shares	(7)	(6)
Total net debt	<u>(756)</u>	<u>(829)</u>

### 18.2 Tax Liability

Morgan Stanley has considered the valuation impact of any outstanding or projected tax liabilities at the individual asset level. The overall tax position of the Group was discussed with the appropriate RTZ personnel.

### 18.3 Corporate Provisions

Corporate provisions comprise amounts set aside for post retirement healthcare, future close down, environmental and restoration costs and other deferred costs. Morgan Stanley has taken account of the valuation impact of any outstanding or projected corporate provisions at the individual asset valuation level.

### 18.4 Contingent Liabilities

Morgan Stanley has considered the valuation impact of contingent liabilities and has discussed their materiality with the appropriate RTZ personnel. No material loss is expected in respect of any contingent liabilities and other guarantees and undertakings. Outstanding legal actions involving Group companies are not expected to result in material loss to the RTZ Group.

### 18.5 Corporate Overhead

Corporate overhead has been allowed for in the valuation of each of the business units except for the corporate overhead at Kennecott (including the separate costs at Kennecott Metals and Kennecott Energy), and RTZ's headquarters in London.

Following discussions with the appropriate RTZ personnel, we have made an estimate as to the required level of corporate overhead required to manage the existing operations of RTZ. We have excluded such costs as exploration and development costs from our analysis as these costs are not necessarily incurred in running RTZ's existing business units.

Morgan Stanley has valued these central costs using the Discounted Cash Flow methodology. Refer to Section 3.1, Valuation Methodology, for a discussion of this methodology.

**Overview of Corporate Overhead Cash Flow Model**

Morgan Stanley's Corporate Overhead cash flow model was based on information provided by RTZ in their 1994 Group accounts and in discussions with the appropriate RTZ personnel. The model comprises a 20 year analysis of Corporate Overhead's unlevered free cash flows expressed in US dollars. Cash flows have been adjusted to reflect U.S. expected inflation of 3% p.a.

Based on our analysis set out in Appendix 20.5 we consider the appropriate discount range in valuing RTZ's corporate overhead to be 12.0% to 13.0%. Applying this range to Corporate Overhead's cash flows provides the DCF valuation set out below:

**DCF Valuation – Corporate**

	<b>Low (\$MM)</b>	<b>High (\$MM)</b>
Discount Rate	13.0%	12.0%
DCF Valuation – Corporate	\$(750)	\$(800)

## 19. GENERAL

### 19.1 Qualifications

Morgan Stanley is wholly owned by Morgan Stanley & Co. Incorporated ("MS & Co."), a global investment bank. The principal activity of MS&Co. and its associates ("the Morgan Stanley Group") internationally, and of Morgan Stanley in Australia, is the provision of advice in relation to, among other things, mergers and acquisitions, divestments, capital raisings, financings and valuations, including the provision of reports of this kind.

The individuals principally responsible for the preparation of this report were Mr. William McCombe MBA (Columbia) B Comm LLB (Hons) (Melbourne), Mr. Philip Maxwell BA LLB (Hons) (Melbourne), Mr. Andrew Bell BA MA Law (Cambridge) MBA (Insead), Mr. John Calvert LLB (Hons) (Sydney), Mr. Clive Holmes BCA (Victoria) MBA (Harvard) ECSP (IEP-Paris) CA (New Zealand) ACA (Australia) ACIS (Canada), Mr. Peter Launders BEc (Hons) LLB (Hons) (Sydney), Mr. Jonathan Grundy BA MA Economics (Cambridge), Mr. Bradley Peters BS MS EECS (Berkeley), and Mr. Antoine de Spoelberch Ingenieur Commercial (Solvay).

Each of the above persons has a number of years experience in relevant corporate advisory matters and company, business and security valuations and each is an authorized representative of Morgan Stanley under its dealer's licence issued under the Corporations Law.

### 19.2 Declaration

Morgan Stanley is entitled to receive a fee for the preparation of this report. The fee is not contingent upon the DLC Proposal being approved by CRA and RTZ shareholders nor otherwise upon the success of the DLC Proposal. Morgan Stanley will receive no other benefit from the preparation of this report and neither it nor any other member of the Morgan Stanley Group has any pecuniary or other interest in the outcome of the DLC Proposal.

The Morgan Stanley Group does not have, at the date of this report, and has not had in the previous two years, any shareholding in, or business or other relationship with, CRA or RTZ other than as follows:

- in November 1993, MS & Co. was lead underwriter for a debt issue for CRA in the United States;
- in November 1994, the Morgan Stanley Group acted as co-manager on the initial public offering of Commonwealth Aluminum Corporation, which was formerly a subsidiary of Comalco Limited; and
- in June and October 1993, the Morgan Stanley Group advised RTZ in relation to the purchase of Nerco, Inc. and the subsequent disposal of Nerco's oil and gas assets.

No member of the Morgan Stanley Group has provided CRA or RTZ with advice in relation to the DLC Proposal.

The terms of Morgan Stanley's engagement by CRA include an indemnity in favour of all members of the Morgan Stanley Group and their respective officers and agents against any losses, claims, damages or liabilities which may arise out of or in connection with its engagement to provide this Report. The indemnity does not apply in the case of proven bad faith or gross negligence on the part of an indemnified person.

### 19.3 Disclaimer

Morgan Stanley has considered and relied upon information provided by CRA and RTZ in forming its opinion on the DLC Proposal. Information provided by CRA and RTZ has been evaluated through analysis, enquiry and review and Morgan Stanley has no reason to believe that the information is unreliable, incomplete or misleading. However, Morgan Stanley has not conducted any independent audit or verification of that information (including management accounts) and does not warrant that its enquiries have identified or verified all of the matters which an audit, more extensive examination or "due diligence" investigation might disclose.

**19.4 Consent**

Morgan Stanley consents to the inclusion of this Report in the form and context in which it appears in the documentation to be sent to CRA shareholders. Neither the whole nor any part of this Report nor any reference thereto may be included in or with or attached to any other document, circular, resolution, letter or statement without the prior written consent of Morgan Stanley to the form and context in which it appears.

**MORGAN STANLEY AUSTRALIA LIMITED**



Philip M. Maxwell  
Authorized Representative



William D. McCombe  
Authorized Representative

Date: November 16, 1995



## 20. APPENDICES

### 20.1 Sources of Information

Morgan Stanley has used the following information sources in preparing this report:

1. Annual and Interim Reports of CRA and RTZ.
2. CRA and RTZ 20-F and 6-K Filings with the US Securities and Exchange Commission.
3. CRA Form F-2 Registration Statement.
4. Memorandum of Understanding between CRA Limited and the RTZ Corporation PLC dated 9 October 1995.
5. Copy of Implementation Agreement in the form signed on 3 November 1995 and annexed drafts of:
  - a. CRA Deed Poll Guarantee;
  - b. proposed revised CRA memorandum and articles of association;
  - c. CRA Shareholder SVC memorandum and articles of association;
  - d. CRA Shareholder Voting Agreement in relation to RTZ;
  - e. RTZ Deed Poll Guarantee;
  - f. proposed revised memorandum and articles of association of RTZ;
  - g. RTZ Shareholder SVC memorandum and articles of association;
  - h. RTZ Shareholder SVC Trust Deed;
  - i. RTZ Shareholder Voting Agreement in relation to CRA;
  - j. DLC Merger Sharing Agreement.
6. CRA Explanatory memorandum
7. Correspondence in relation to waivers of, and consents under, the ASX Listing Rules between solicitors for CRA and the ASX.
8. Budgets/forecasts – historical and current year.
9. Business plans; strategy papers.
10. Management Reports; Appropriations Committee papers; Management Accounts; and consolidating balance sheet, profit and loss and cash flow accounts.
11. Detailed discussions with CRA and RTZ Directors, senior management and executives.
12. Discussions with CRA and RTZ's respective financial advisers.
13. Discussions with CRA and RTZ executives, Arthur Robinson & Hedderwicks and Linklaters & Paines, regarding:
  - a. Validity of title relating to both current mining operations and all exploration and development areas;
  - b. Significant contracts relating to material assets;
  - c. Financing documentation;
  - d. Government concessions and permits;
  - e. Environmental matters;

- f. Litigation;
  - g. Regulatory matters;
  - h. Accounting information;
  - i. Pensions;
  - j. Treasury operations;
  - k. Insurance; and
  - l. Tax.
- 14. News Releases; Stock Exchange Reports; media reports.
  - 15. S&P and Moody's Reports.
  - 16. Share market statistics.
  - 17. Financial reports of other companies operating in the natural resources sector.
  - 18. Equity research analyst reports relating to CRA, RTZ and comparable companies for individual business units and industry sectors.
  - 19. Industry journals; papers; surveys.
  - 20. Beta data from Barra.
  - 21. Report by Anderson & Schwab Inc. (Appendix 20.8)
  - 22. Industry and other economic studies undertaken by:
    - a. AME Mineral Economics
    - b. Australian Coal Report (Barlow Jonker)
    - c. Resource Data International.
    - d. ABARE
    - e. Australian Bureau of Statistics

## 20.2 Overview of Commodity and Foreign Exchange Markets

Morgan Stanley wishes to highlight that commodity, metal price and exchange rate assumptions depend on the economic circumstances and market characteristics of the underlying commodities and countries and can be highly variable over time. Users of this Report should review the assumptions made by Morgan Stanley and should form their own views as to the reliability or otherwise of the assumptions made.

Due to the commercial sensitivity of prices for some commodities, they are not included in this section. Prices for these commodities are typically negotiated rather than traded. However Morgan Stanley has had access to the information necessary to make its price projections for the purpose of the cash flow models.

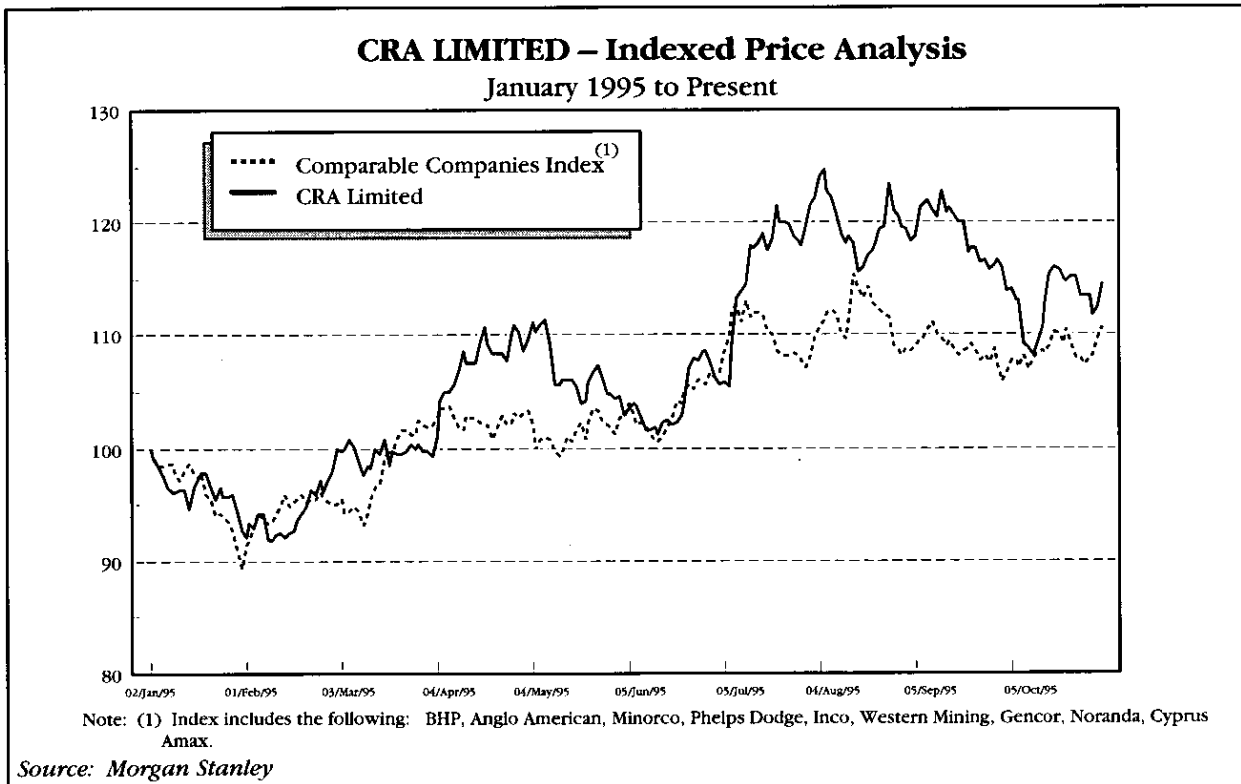
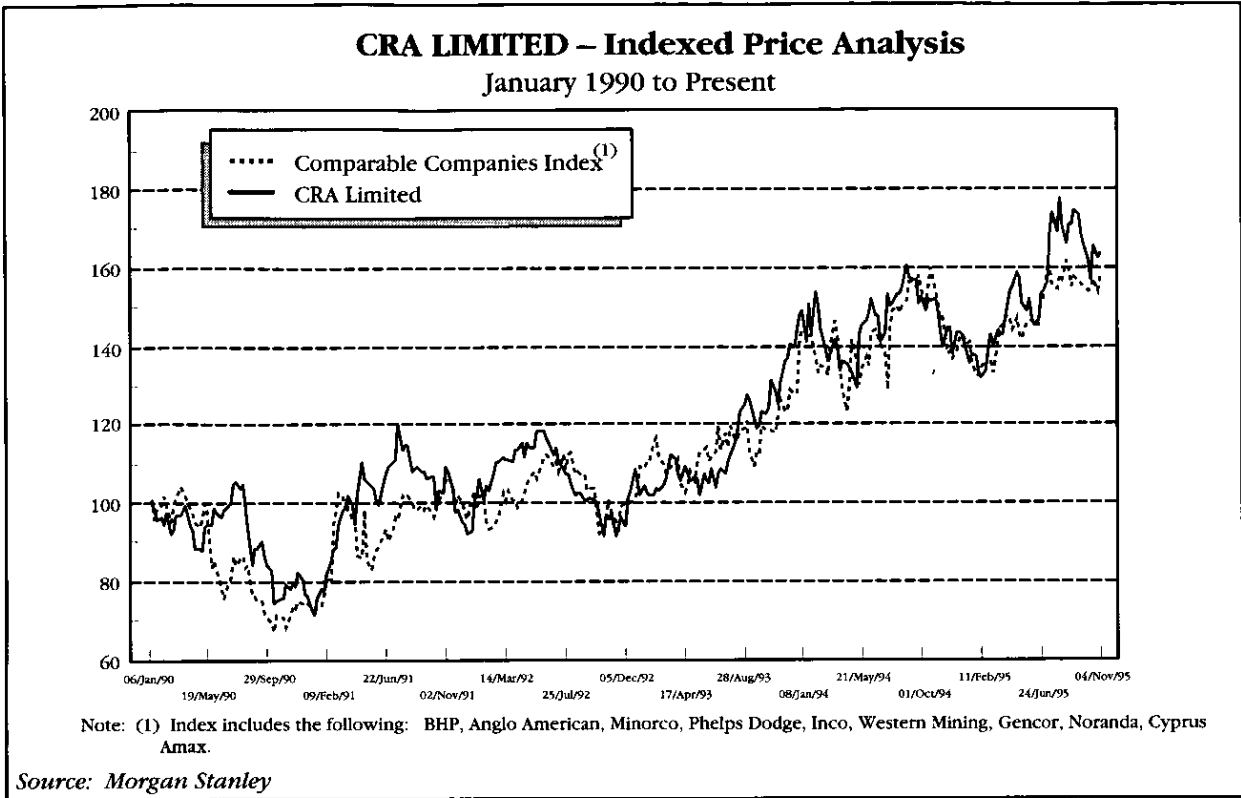
### Commodity Prices

	Units	1995	1996	Projected 1997	1998	1999
Gold	US\$/ounce	385.00	396.55	408.45	420.70	433.32
<i>% Growth</i>			3.0%	3.0%	3.0%	3.0%
Silver	US\$/ounce	5.18	5.20	5.40	5.40	5.66
<i>% Growth</i>			0.4%	3.8%	0.0%	4.8%
Copper	US\$/lb	1.27	1.15	1.00	0.95	0.98
<i>% Growth</i>			-9.1%	-13.0%	-5.0%	3.0%
Lead	US\$/lb	0.28	0.32	0.29	0.30	0.30
<i>% Growth</i>			16.4%	-9.4%	1.7%	3.0%
Zinc	US\$/lb	0.47	0.52	0.50	0.52	0.55
<i>% Growth</i>			10.7%	-3.4%	4.0%	5.8%
Aluminium	US\$/lb	0.86	0.90	0.95	0.90	0.93
<i>% Growth</i>			4.7%	5.6%	-5.3%	3.0%
Molybdenum	US\$/lb	12.0	5.0	3.3	3.4	3.5
<i>% Growth</i>			-58.6%	-34.3%	3.5%	3.1%
Acid	US\$/tonne	31.4	27.6	27.3	27.5	30.8
<i>% Growth</i>			-12.4%	-1.1%	1.0%	11.9%
Nickel	US\$/lb				3.83	3.94
<i>% Growth</i>						3.0%
Tin	US\$/lb	2.50	3.09	3.45	3.55	3.66
<i>% Growth</i>			23.6%	11.6%	3.0%	3.0%

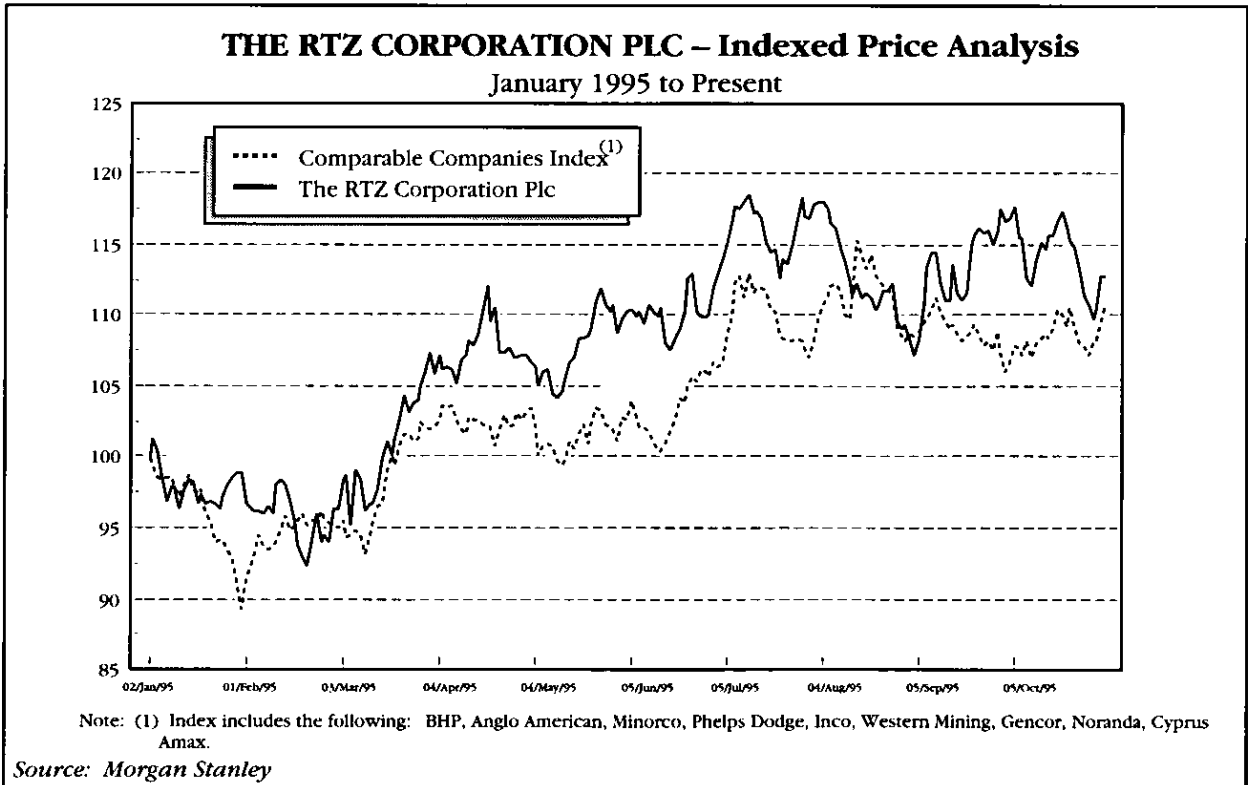
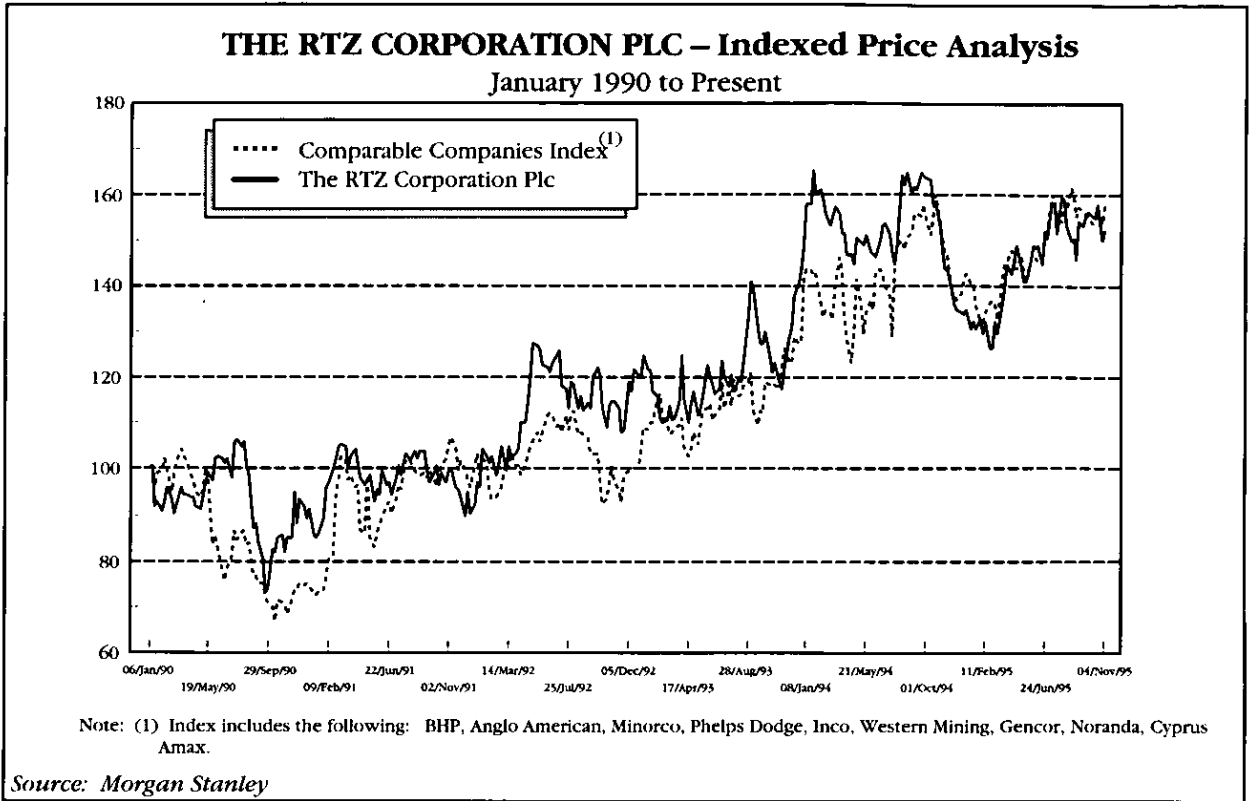
### Exchange Rates

	Ratio	1995	1996	Projected 1997	1998	1999
Exchange Rate	US\$/A\$	0.740	0.750	0.740	0.730	0.730

20.3 CRA Share Trading Data



20.4 RTZ Share Trading Data



## 20.5 Selection of Discount Rates

### 1. Overview

Discount rates are applied to the ungeared after-tax cash flows of the assets.

Selection of the appropriate discount rate to apply to the forecast cash flows of any business enterprise is fundamentally a matter of judgement. The valuation of a business involves judgements about the discount rates that may be utilized by potential acquirers of that business. There is a body of theory which can be used to support that judgement. However, a mechanistic application of formulae derived from that theory can obscure the reality that there is no "correct" discount rate.

Despite the growing acceptance and application of models such as the Capital Asset Pricing Model ("CAPM"), many companies rely on less sophisticated approaches. For example, many businesses use relatively arbitrary "hurdle rates" which do not vary from investment to investment or change significantly over time despite interest rate changes.

Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice even if they are not theoretically correct.

The cost of equity capital is typically derived from application of the CAPM methodology. CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. However, while the theory underlying CAPM is rigorous, the practical application is subject to shortcomings and the results of applying the CAPM model should only be regarded as providing a general guide. There is a tendency to regard the calculated cost of capital using CAPM as definitive. To do so is to misunderstand the limitations of the model. For example:

- the estimation of relevant variables (such as the risk premium and beta) is subject to significant statistical error
- the model is typically based on expectations and merely uses historic data as a proxy for expectations
- there is no unanimous agreement as to how the model should adjust for factors such as taxation.

A weighted average cost of capital ("WACC") is calculated based on a weighted average of the cost of debt and the cost of equity capital. The relevant proportions of debt and equity are determined having regard to the entity's own gearing and gearing targets as well as that of comparable companies.

### 2. Cost of Equity Capital

#### *The CAPM Model and its Limitations*

The CAPM provides a theoretical basis for determining a discount rate that reflects the risk of a particular investment or business operation. The discount rate appropriate for an investment which involves zero risk would be equal to the risk-free rate.

The discount rate for investments which are not risk-free is equal to the risk-free rate plus a risk premium. The risk premium will be specific to each investment or business operation. The CAPM uses a measure of risk described as the beta factor. The beta for an investment is the measure of the sensitivity of the return from that investment relative to the return from the market as a whole. Beta is a measure of relative risk. It is not a measure of the total risk of a particular investment. An investment with a beta of more than one is more risky than the market as a whole and an investment with a beta less than one is less risky.

The formula for deriving the discount rate using CAPM is as follows:

$$K_c = R_f + \beta(R_m - R_f)$$

where:

$K_c$  = discount rate

$R_f$  = risk free rate

$R_m$  = expected market return

$\beta$  = beta factor

The model, while simple, is based on a rigorous theoretical analysis. However, the application of the theory is not straight forward and the discount rate calculated should only be treated as a general guide. The reliability of the estimates are limited by the following practical problems:

**(i) Risk-free Rate**

Theoretically, the rate used should be an estimate of the risk free rate for each future period, but in practice, the same risk free rate is used for each future period. In Australia and the United States the proxy used for the risk free rate is the Government 10-year treasury bond yield. The yield to maturity for 10-year Commonwealth Treasury Bonds was 8.5% as at October 27, 1995 while the 10-year U.S. Treasury Bonds had a yield to maturity of 6.1% at the same date.

**(ii) Market Risk Premium ("MRP")**

The risk premium ( $R_m - R_f$ ) represents the "extra" return that investors require to invest in equity securities as a whole. It is the expected premium and as such it is not an observable phenomenon. The historical premium is therefore used as a proxy measure. The premium earned historically by equity investments is calculated over a time period of several years. In Australia, Morgan Stanley believes that the premium is in the 6.6–7.0% range. In the United States, Morgan Stanley believes that the premium is 7.4%.

**(iii) Beta Factor**

The beta factor is a measure of the expected volatility of an investment relative to the market as a whole. The expected future beta factor cannot be observed. The conventional practice is to calculate a historical beta from past share price data and use it as a proxy for the future. If available, betas for a particular company can be utilized. However, it is also appropriate (and may be necessary where the particular assets are not listed) to utilize betas for comparable companies and sector averages.

The determination of beta by this method is difficult due to the lack of similar publicly traded entities and the fact that the risk associated with these comparable companies varies from the risk associated with CRA or RTZ in significant areas including:

- (1) Financial Leverage
- (2) Country Risk
- (3) Different Operations

In choosing an appropriate beta to calculate an entity's cost of equity, it is important to understand the effect of debt, or financial leverage, on a beta. As a firm takes on debt, it acquires fixed financing costs in addition to fixed operating costs. The additional fixed costs due to debt financing make a company's financial results more volatile. This, in turn, is likely to make the firm's stock price more volatile. That is, as a firm takes on greater amounts of debt, the company's beta will increase. As beta increases, the cost of the firm's equity rises as well.

The beta for CRA or RTZ or individual business units which is ascertained indirectly from comparable companies will be obtained by delevering the predicted average beta of comparable companies and relevering it at the particular entities' desired debt/market capitalization levels. We have adjusted the beta calculated in this way to incorporate the effect of leverage using the following formula:

$$\text{Unlevered Beta} = \frac{\text{Levered Beta}}{1 + \left(\frac{\text{Debt}}{\text{Equity}}\right)(1 - \text{Corporate Tax Rate}) + \left(\frac{\text{Preferred}}{\text{Equity}}\right)}$$

where:

- Levered Beta = beta of the firm with debt
- Unlevered Beta = beta of the firm with no debt
- Debt = market value of company debt
- Equity = market value of company equity
- Preferred = market value of company preferred

This formula allows us to use the beta of companies in the same business as a proxy if we adjust the beta of the “comparable” companies for differences in debt levels.

### 3. Cost of Debt

The cost of debt is the expected future borrowing cost of the enterprise for 10 year floating rate debt in the enterprise’s functional currency, having regard to the expected credit rating of the enterprise and the capitalisation structure of comparable companies in that industry.

### 4. Weighted Average Cost of Capital (“WACC”)

The formula conventionally used to calculate a WACC is:

$$\text{WACC} = K_e \left( \frac{\text{Equity}}{\text{Market Value}} \right) + K_d \left( \frac{\text{Debt}}{\text{Market Value}} \right) (1 - \text{Corporate Tax Rate}) + K_p \left( \frac{\text{Preferred}}{\text{Market Value}} \right)$$

where:

- Market Value = Equity + Debt + Preferred
- Equity = market value of equity
- Debt = market value of debt
- Preferred = market value of preferred
- $K_e$  = cost of equity capital
- $K_d$  = cost of debt capital before tax
- $K_p$  = cost of preferred stock capital

The selection of the optimum debt/equity ratio is a subjective assessment. We conducted a review of comparable listed companies to estimate an appropriate, long-term capital structure for the particular operations being considered.

### 5. Dividend Imputation

The methodology for calculating the appropriate WACC set out above assumes a “classical” tax system whereby returns to equity investors are after corporate taxes but before investors’ personal taxes. Australia currently has a dividend imputation system whereby domestic equity investors receive a franking credit for tax paid at the company level. The franking credit attaches to any franked dividend paid by a company and can be used to offset personal tax to the extent possible. It can, therefore, be argued that there is a benefit to domestic equity investors relative to the situation that existed under the classical tax system, and that this benefit should be added into an analysis of value. Such a benefit exists as the return required by investors is lower given the favourable tax status from the franked dividends.

Dividend imputation was introduced in Australia in 1987 and, to date, there is little evidence that the value effects of dividend imputation are being included in valuations being undertaken by companies and investors or the broader market. There is also debate within the academic and business community as to the appropriate adjustment required to reflect this value or whether an adjustment is necessary at all.

Our analysis excludes any value effect from dividend imputation.



## 20.6 Definitions and Glossary of Terms

**ADS.** Argyle Diamond Sales.

**Alluvial Deposit.** All alluvial deposit is rock detritus, including (occasionally) valuable minerals, removed from parent rock by the action of weathering agents and transported and deposited by water, often at a distance from the source.

**ASC.** Australian Securities Commission.

**ASX.** Australian Stock Exchange.

**A&S.** Anderson & Schwab Inc.

**Base Metal.** A commercial metal, such as copper, lead or zinc, is termed base metal. The term was coined to describe a metal inferior to precious metals such as gold and silver.

**BCL.** Bougainville Copper Limited.

**Bedrock.** This is solid rock, often covered by overburden or surficial rock, soil or water.

**Beneficiated Bauxite.** Bauxite ore that has been treated to remove waste material in order to improve its physical or chemical characteristics.

**Beneficiation.** Treatment of ore so that the resulting product is richer or more concentrated with mineral(s) is termed beneficiation. The term is often applied to a preliminary mill treatment of bauxite and iron ore.

**Biological Leaching.** This is a process for recovering metals from low-grade ores by dissolving them in solution, the dissolution being aided by bacterial action.

**Bleg (or BLEG) Sampling ("Bulk Leach Extractable Gold").** This is a technique to assess the presence of gold in large volumes of sediment.

**Blister.** Unrefined copper produced from smelting copper ores is termed blister copper.

**Borax.** RTZ Borax Group.

**Brown Coal.** The first stage of the formation of rock-like material from peat results in the formation of brown coal. It is used as a thermal fuel (for electricity generation) and in some gasification and liquefaction procedures.

**BTU (British Thermal Unit).** This is the unit of heat required to raise a pound of water through 1°F (i.e., it takes 1 BTU to raise 1 pound of water 1°F). One BTU is equivalent to 1,055.06 joules.

**Bullion.** Gold or precious metal in bars or similar form, prior to being formed into other shapes (coins, etc.), is termed bullion. The term is also applied to silver-bearing lead from a blast furnace.

**By-product.** This is a secondary or additional mineral or mineral product.

**CAPM.** Capital Asset Pricing Model.

**Calorific Value.** The amount of heat released in MJ/kg (i.e., Megajoules/kilogram) when burning a unit volume of gas or liquid, or a unit weight (i.e., one kilogram of solid), is referred to as the material's calorific value.

**Carat.** (1) Carat is a measure used to distinguish the fineness (purity) of a gold alloy, meaning one twenty-fourth pure gold. Fine gold is "24 carat". The balance of the alloy is usually silver or copper. (2) In weighing gems, one international metric carat is 0.200 gram (200 milligrams), whereas a carat is 205mg.

**Cash Flow.** Net income plus depreciation and amortization.

**Claim.** A claim is an area of land or water claimed by a prospector or mining organization for the purposes of exploring the claim for a certain length of time and subject to certain conditions. Claims are first staked out and then recorded in the appropriate State Department of Mines.

**Class Rights Decisions.** Significant decisions affecting the rights of shareholders in one of the companies differently from those of shareholders in the other company taken by the shareholders of each company separately.

**Coking Coal or Metallurgical Coal.** By virtue of its carbonization properties, it is used in the manufacture of coke, which is used in the steel making process.

**Combination Ratio.** Relative value of one ordinary CRA share to 1.075 RTZ ordinary shares.

**Combined Enterprise.** The combination of CRA and RTZ in a DLC structure.

**Concentrate.** To concentrate is to treat ore so that the result – a “concentrate” – will contain less waste and a higher amount of the valuable mineral. In many mining operations ore is concentrated in a concentrator or mill on the surface, then shipped to a smelter, whose product is then sent on to a refinery for the recovery of the metal or mineral content by eliminating impurities.

**CRA.** CRA Limited.

**CRA Coal.** CRA's coal business unit.

**CRA Explanatory Memorandum.** Memorandum by CRA to its shareholders which accompanies this Report.

**CRA Gold.** CRA's gold & copper business unit.

**CRA Iron Ore.** CRA's Iron Ore business unit.

**CRA Other Producing Properties.** CRA's Other Producing Properties.

**CRA Public Shareholders.** CRA shareholders other than Tinto Holdings Australia Pty Ltd.

**CRA Shares.** CRA ordinary shares.

**CSO.** Central Selling Organization.

**DCF.** Discounted Cash Flow.

**Development.** This is the bringing of a mining property to the production stage. Technically, it is the overall carrying out of works to plan and gain access to the orebody.

**Dilution.** Dilution is the lowering of the grade of ore being mined when waste rock or low-grade ore is included in the mined ore.

**DLC.** Dual listed companies.

**DLC Proposal.** The proposal to combine CRA and RTZ in a DLC structure.

**Dollar (\$).** Refers to Australian currency.

**Doré.** A precious metal alloy which is produced by smelting. Doré is an intermediate product which is subsequently refined to produce pure gold and silver.

**Drillhole.** This is a hole drilled to recover cuttings or core to obtain subsurface samples for study or analysis (or for rock-bolting, emplacement of explosive, etc.). There are many types of drilling procedures: diamond, rotary, rotary air blast (RAB), percussion, etc.

**DSL.** Dampier Salt Limited.

**DWT.** Dead weight ton, which is the combined weight in long tons of cargo, fuel and fresh water that a ship can carry.

**EAFs.** Electric Arc Furnaces.

**EBIT.** Earnings Before Interest and Taxes.

**EBITDA.** Earnings Before Interest, Taxes, Depreciation and Amortization.

**EPS.** Earnings Per Share.

**Escondida.** Minera Escondida Limitada.

**Fault.** A fault is a discontinuity or fracture in the Earth's crust caused by forces which have moved the rock on one side with respect to the other. Ore deposits are commonly associated with faults, as the fault zone frequently provides a channel for the passage of ore-bearing solutions. However, a fault may cut-off and displace an orebody – which may affect the economic viability of mining that orebody.

**FCX.** Freeport-McMoRan Copper and Gold.

**Feasibility Study.** This is a definitive estimate, generally based on economics and engineering, or calculation of all costs, revenues, equipment needs and production likely to be achieved should a mine be developed from a project. The study is used to define the economic viability of a project and to support the search for project financing.

**Fine Assay.** This is an analytical method used to measure gold content of a sample.

**Fine Gold.** This term can mean pure (24 carat) gold, pure refined gold, or almost pure gold.

**FIRB.** Foreign Investment Review Board.

**FOB.** Free on board.

**GPS.** Gladstone Power Station.

**g/t or gm/t (sometimes expressed gpt).** Grams per tonne - same as parts per million (ppm).

**Grade.** The proportion of metal or mineral present in ore or any other host material, expressed in this document as percent, grams per tonne, or ounces per ton.

**HBI.** Hot-briquetted iron.

**Head Grade.** The average grade of ore fed into a mill is termed the head grade. During mining the ore is often contaminated (diluted) by wall rock, etc.

**Hematite.** A common iron oxide mineral.

**HI.** Hamersley Iron.

**In situ.** In place.

**Joint Decisions.** Significant decisions affecting the combined operations of CRA and RTZ taken by the shareholders of both companies voting together as a joint electorate.

**KCC.** Kembla Coal and Coke.

**Kelian.** Kelian Equatorial Mining.

**Kennecott.** Kennecott Corporation.

**Kennecott Energy.** Kennecott Energy and Coal Company.

**Leaching.** This is a chemical process used for the extraction of valuable minerals from ore. It is also the natural process by which groundwaters dissolve minerals.

**LME.** This is the common abbreviation for the London Metal Exchange.

**Lode.** A mineral deposit in solid rock, a lode is often planar (sometimes curved).

**London Price (or Fixing).** This is the twice-daily fixing of the ruling gold price determined by London bullion dealers.

**Metallurgical Coal.** See Coking Coal.

**Methane.** This is a hydrocarbon consisting of about 75 per cent carbon and 25 per cent hydrogen. It is the main constituent of natural gas. Methane has an energy content of about 1.055MJ (Megajoules) or about 1,000 BTUs per cubic foot. It is commonly found associated with coal in addition to its occurrence in petroleum.

**Morgan Stanley.** Morgan Stanley Australia Limited.

**Morgan Stanley Group.** MS&Co. and its associates.

**MRP.** Market risk premium.

**MS&Co.** Morgan Stanley & Co. Incorporated.

**NPV.** Net Present Value.

**Open Cut or Open Pit (occasionally Open Cast).** This is a surface working or mine open to daylight.

**Ore.** Ore is a mixture of minerals and gangue from which at least one of the minerals (or materials) and/or its constituent(s) can be extracted at a profit.

**Ore Reserves.** See section beginning Ore Reserve Terminology below for extensive discussion.

**Overburden.** This is waste rock overlying an ore body.

**Peak.** The Peak Gold Mines.

**Pig Iron.** Pig iron is the crude cast iron from a blast furnace.

**Pilot Plant.** Equipment set up on a small scale to duplicate a practical production plant is described as a pilot plant. Its purpose is to test a process prior to the commitment to build a full-scale plant.

**Pound (£).** Refers to United Kingdom currency.

**Precious Metals.** These are metals, such as gold and silver, which are valued for other than ordinary industry uses. (cf. Base Metals).

**Proacer.** Productos Chilenos de Acero Limitada.

**Prospect.** A mining property, the value of which has not been proved by exploration, is termed a prospect.

**QIT.** QIT-Fer et Titane.

**RBM.** Richards Bay Minerals.

**Recovery.** This a measure of the amount of material or mineral that is separated and recovered in a treatment stream, expressed as a percentage of that calculated to be in the original ore. Recovered grade is generally different from (lower than) head grade (q.v.).

**Refining.** This is the final purification process of a metal or mineral (cf. Electrolytic).

**Refractory Ore.** This is a term which refers, usually, to ore which cannot be concentrated by crushing, grinding and gravity separation (i.e., physical techniques) alone. It is the converse of free milling.

**Report.** This independent expert's report on the DLC Proposal, prepared by Morgan Stanley.

**Royalty.** A royalty is the payment by a company operating a mining property to the owner of the mineral rights of that property. The royalty may be based on units of material produced, on the revenue or on profits obtained from sale of the material. A royalty may be paid to an individual, company or government, and more than one royalty may be payable.

**RTZ.** The RTZ Corporation PLC.

**RTZ Shares.** RTZ ordinary shares.

**Saleable Ore.** The amount of ore that is available after all mining and processing losses.

**Sharing Agreement.** Agreement to be entered into by CRA and RTZ setting out principles regarding unification of management and operations.

**Sinter.** Sinter is the product from the roasting of a concentrate, or of iron ore. The term may also be applied to deposits from natural (hot) springs.

**Slag.** Blast furnace (or sometimes smelter) waste product(s) are termed slag.

**Smelting.** This is the partial recovery of metal from processed ore. The latter may have been treated and concentrated at a mill, but smelting is required to actually recover the metal content and convert it to a form that is ready for refining.

**Steaming Coal or Thermal Coal.** Used as a fuel source in electrical power generation, cement manufacture, and various industrial applications.

**Stock Pile.** Broken ore, coal, etc. accumulated in a heap, generally on the surface, pending treatment or shipment is termed stockpile or stock pile.

**Strip.** To remove an overburden covering an ore body is to strip that overburden.

**Strip, or Stripping Ratio.** The tonnage or volume (e.g., in cubic meters) of waste material which must be removed to allow the mining of one tonne or one cubic meter of ore – generally in an open pit mine – is termed the stripping ratio.

**Tailings.** This term refers to waste material from a mineral-processing mill.

**Tax Free Assets.** Assets of the CRA Group which were acquired prior to 20 September 1985.

**Thermal Coal.** See Steaming Coal.

**UK GAAP.** United Kingdom Generally Accepted Accounting Principles.

**Unit.** One hundredth. A metric tonne unit (or mtu) is 10kg or 22.04lbs (i.e., one hundredth of a tonne). For a mineral concentrate containing, say 20% copper, one tonne of concentrate contains 200kg, or 20 units, of copper metal. Ore buyers purchase mineral concentrate by paying for the number of units of contained metal, or in some cases the units of a contained mineral – e.g. tungsten concentrates are purchased on the basis of the number of units of contained pure  $WO_3$  (i.e., one tonne of 65%  $WO_3$  concentrate contains 65 units of 100%  $WO_3$ ).

**U.S. Dollars (US\$).** Refers to United States currency.

**WACC.** Weighted Average Cost of Capital. Refer Appendix 20.5.

**Waste.** Waste, in relation to extraction of material during mining, is that material that is too low in grade to be of economic value.

## ORE RESERVE TERMINOLOGY

The term “**Ore Reserve**” means that part of a Measured or Indicated Resource which could be mined, including dilution, and from which valuable or useful minerals could be recovered economically under conditions realistically assumed at the time of reporting. Ore Reserves should be reported as

Probable Ore Reserves; or  
Proved Ore Reserves.

The term “**Probable Ore Reserves**” means Ore Reserves stated in terms of minable tonnes/volumes and grades where conditions are such that ore will probably be confirmed but where the in situ identified Resource has been categorized as “Indicated” and has not been defined with the precision necessary for the “Measured” category. Probable Ore Reserves includes ore that has been sampled on a pattern too widely spaced to ensure continuity.

The term “**Proved Ore Reserves**” means Ore Reserves stated in terms of minable tonnes/volumes and grades in which the identified in situ Resource has been defined in three dimensions by excavation or drilling, and should include additional minor extensions beyond actual openings and drill holes where the geological factors that limit the ore body are known with sufficient confidence that it is categorized as a “Measured Resource”.

## Coal Resources

Coal Resources are all of the potentially usable coal in a defined area, and are based on points of observation and extrapolations from those points.

Potentially usable coal is defined as coal which has, or could be beneficiated to give, a quality acceptable for commercial usage in the foreseeable future and excludes minor coal occurrences. The estimator should state both the quality and thickness limits to define potentially usable coal in any resource evaluation.

## Coal Reserves

Coal Reserves are those parts of the Coal Resources for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken.

## CATEGORIES OF RESOURCES

**Measured Resources** are those for which the density and quality of points of observation are sufficient to allow a reliable estimate of the thickness, quality, depth, and in situ tonnage.

Points of observation should provide a level of confidence sufficient to allow detailed planning, costing of extraction, and specification of a marketable product.

The points of observation generally should be not more than 1km apart. Where geological conditions are favorable it may be possible to extrapolate known trends a maximum distance of 0.5km from points of observation.

**Indicated Resources** are those for which the density and quality of points of observation are sufficient to allow a realistic estimate of the thickness, quality, depth, and in situ tonnage and for which there is reasonable expectation that the estimate of resources will not vary significantly with more detailed exploration.

Points of observation should provide a level of confidence sufficient to enable conceptual planning of extraction and to determine the likely quality of the product coal.

Where geological conditions are favorable, it may be possible to extrapolate known trends a maximum distance of 1km from points of observation.

**Inferred Resources** are those for which the points of observation are widely spaced and, as a result, assessment of this type of resource may be unreliable.

Points of observation should allow the presence of ore to be unambiguously determined.

**Inferred Resources Class 1** are those resources for which the points of observation allow an estimate of the thickness and general quality to be made, and the geological conditions indicate continuity of seams between the points of observations.

Points of observation generally should be not more than 4km apart. Extrapolations of trends should extend not more than 2 km from points of observation.

**Inferred Resources Class 2** are those for which there is limited information and as a result the assessment of the type of resource may be unreliable.

Provided the thickness can be determined, the order of magnitude of Inferred Resources Class 2 may be expressed within the following ranges:

1 to 10 million tonnes; 10 to 100 million tonnes; 100 to 500 million tonnes; 500 to 1,000 million tonnes; over 1,000 million tonnes.

If a more specific quantitative estimate is made to determine exploration priorities etc., it should not be quoted in public reports or in any prospectus.

## **TYPES OF RESERVES**

**Minable In Situ Reserves** are the tonnages of in situ reserves contained in seams or sections of seams for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken.

Minable In Situ Reserves may be calculated only from Measured and Indicated Resources. Measured Resources are required for detailed mine planning, and are the preferred basis of Minable In Situ Reserves. Indicated Resources may be used for conceptual mine planning. In general, further exploration will be required prior to commencement of mining operations.

**Recoverable Reserves** are the tonnages of Minable In Situ Reserves that are expected to be recovered, i.e., that proportion of the seam(s) which will be extracted. If dilution is added to the Recoverable Reserves tonnage, the total equates to the "run-of-mine" tonnage. If allowance is made for dilution it should be stated.

In calculating Recoverable Reserves a Mining Recovery Factor must be applied to the Mineable In Situ Reserves. This factor will depend on the mining method to be used. Unless a specific factor has been determined for conceptual studies, the historically proven Mining Recovery Factor should be used. If such information is not available, a Mining Recovery Factor of 50% for underground reserves and 90% for surface reserves may be applied. An outline of the proposed mining method should accompany any statement of Recoverable Reserves.

**Marketable Reserves** are the tonnages that will be available for sale.

## 20.7 Common Discount Rate Analysis

### Relative Valuation Summary

	DCF Value <sup>(1)</sup>						
	(\$/share)				Ratio of DCF Values		
	CRA Shares	RTZ Shares					
	Low	High	Low	High	Low <sup>(3)</sup>	Mid-Point	High <sup>(4)</sup>
Discounted Cash Flow Method <i>DCF Implied Ownership</i> <sup>(2)</sup>	\$18.05	\$18.51	\$17.82	\$17.98	1.011 22.4%	1.021 22.6%	1.031 22.8%
DLC Proposal Combination Ratio <i>DLC Proposal Ownership</i>					1.075 23.5%	1.075 23.5%	1.075 23.5%
Excess above DCF Implied Ownership					1.1%	0.9%	0.7%

*Notes:*

- (1) Assumes a common discount rate of 12.5% to estimate the value of CRA Shares and RTZ Shares.
- (2) The ownership interest of the CRA Public Shareholders in the Combined Enterprise which would result if the exchange of interests was based on the DCF values shown.
- (3) Based on the low end of the range of DCF values for CRA Shares and a value of \$17.86 per share for RTZ Shares. This value for RTZ Shares represents the high end of the range of fair market values for all assets of RTZ except its holding in CRA which is valued at the low end of such range consistent with the value used in the numerator.
- (4) Based on the high end of the range of fair market values for CRA Shares and a value of \$17.94 per share for RTZ Shares. This value for RTZ Shares represents the low end of the range of fair market values for all assets of RTZ except its holding in CRA which is valued at the high end of such range consistent with the value used in the numerator.



**SPECIALIST TECHNICAL REVIEW AND ASSESSMENT  
PREPARED BY  
ANDERSON & SCHWAB, INC.  
FOR  
MORGAN STANLEY AUSTRALIA LIMITED  
IN RELATION TO THE  
DUAL LISTED COMPANIES PROPOSAL  
BETWEEN  
CRA LIMITED AND THE RTZ CORPORATION PLC**

This report has been prepared as part of the Independent Expert's report to be provided to CRA Limited shareholders in accordance with the terms and conditions described herein and set forth in our agreement with Morgan Stanley & Co., Inc. dated October 24, 1995.

November 16, 1995

**Anderson & Schwab Inc.**  
Management Consultants

444 Madison Avenue  
New York N.Y. 10022-6903  
Telephone: 212-758-6800  
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November 16, 1995

Mr. Philip Maxwell  
Executive Director  
Morgan Stanley  
Australia Ltd.  
Level 53, 101 Collins Street  
Melbourne, Victoria

**SUBJECT:** Specialist's Technical Assessment Report Prepared By Anderson & Schwab, Inc. For Morgan Stanley Australia Limited In Relation To The Dual Listed Companies Proposal Between CRA Limited And The RTZ Corporation PLC

Dear Mr. Maxwell:

CRA Limited ("CRA") has appointed Morgan Stanley Australia Limited ("Morgan Stanley") to provide an independent expert report ("IER") assessing the fairness and reasonableness of the proposed combination by CRA and The RTZ Corporation PLC ("RTZ") of their respective worldwide interests. Morgan Stanley has appointed Anderson & Schwab, Inc. ("A&S") to prepare a specialist's independent technical assessment report for use and reference by it in the preparation of its IER. This independent report will be appended to the IER that will be circulated to CRA and RTZ shareholders. This report was prepared having regard to the relevant Australia regulatory requirements, which are described more fully in the discussion on methodology.

The sole and restricted purpose of this report is for use and reference by Morgan Stanley and CRA's and RTZ's directors, shareholders and advisors, in the context of the present proposal, and it should not be relied upon for any other purpose.

The report that follows, which is presented in letter form, provides a description of the investigation process, details of the investigation, observations made and conclusions reached, and A&S' qualifications. It is organized into 14 sections and one Attachment as follows:

- 1. Executive Summary**
  - 1.1 Background
  - 1.2 Role
  - 1.3 Approach
  - 1.4 Conclusions
- 2. Scope Of Work**
- 3. Issues Affecting Verification Approach**
  - 3.1 Scope of the Verification Task
  - 3.2 Confidentiality
  - 3.3 Limits on Access to Certain Physical Sites
- 4. Factors Aiding The Verification Process**
  - 4.1 Access to Management
  - 4.2 Sources of Information
  - 4.3 Business and Management Maturity

## **5. Methodology**

- 5.1 Reviewing the Assets
- 5.2 Reviewing Plans
- 5.3 Interviewing Corporate Management
- 5.4 Visiting Operations
- 5.5 Reviewing Reserve Calculations, Processes and Controls
- 5.6 Reviewing Exploration Interests with Vice President of Exploration
- 5.7 Reviewing Control Over Environmental Protection and Accrual Policy for Reclamation Costs
- 5.8 Cross Checking Projected Mine Production and Costs
- 5.9 Reviewing Formal and Informal Management Control Processes

## **6. Review of CRA's Assets And Plans**

- 6.1 Iron Ore
- 6.2 Coal
- 6.3 Aluminium
- 6.4 Diamonds
- 6.5 Gold and Copper
- 6.6 The Century Zinc Project
- 6.7 Other Businesses
- 6.8 Exploration Interests

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- 7.1 Kennecott Copper
- 7.2 Copper other than Kennecott
  - 7.2.1 Escondida
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  - 7.2.4 Freeport
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- 7.8 Exploration Interests
  - 7.8.1 The Pipeline Project
  - 7.8.2 Northwest Territory Diamond Program
  - 7.8.3 Freeport Copper and Gold Exploration Program
  - 7.8.4 Other Exploration Programs
  - 7.8.5 Valuation of Exploration Interests

## **8. Corporate Controls**

- 8.1 Reserve Estimation
- 8.2 Environmental Management
- 8.3 Capital Expenditure Planning

## **9. A&S' Qualifications**

## **10. Fees**

## **11. Indemnification**

## **12. Consent**

## **13. Limitation**

## **14. Factual and Confidentiality Review**

### **Attachment A A&S Staff**

#### **1. EXECUTIVE SUMMARY**

##### **1.1 Background**

Anderson & Schwab, Inc. (A&S) (whose predecessor F.R. Schwab & Associates, Inc., was formed in 1965), has specialized in providing technical and business consulting services to the mining industry for most of its existence. Much of A&S practice has been in support of financial institutions and others on matters dealing with the valuation of mining assets and businesses. The firm's professionals are management consultants, who have spent most of their professional lives on mining industry matters, and senior mining executive consultants, who have previously held high-level technical and operating positions in the mining industry. Many of the consultants on this particular assignment have spent 40 or more years in the mining industry.

CRA and RTZ own a wide range of assets, including coal, aluminium, iron ore, copper, gold, diamonds and industrial minerals. Consequently the depth of experience across this broad range of commodities that A&S consultants could contribute was particularly important. In total, sixteen senior consultants, each with a high degree of understanding of a specific mining arena, were heavily involved in this assignment. A&S qualifications, the qualifications of individual consultants as technical specialists, and the specific role each played, are described in more detail at the end of this report.

##### **1.2 Role**

Morgan Stanley gave A&S, as technical specialists, four objectives in its analysis of each company:

1. Verify that production, operating cost and capital cost schedules over the most likely mine lives are reasonable and attainable on the basis of present and planned reserves, operating assets and technology
2. Identify any material risks (including environmentally related risks) or opportunities that are not recognized in the production, operating cost and capital cost schedules
3. Identify any differences between CRA and RTZ policies or practices that could have a material influence on value. Examples include methods of reserve calculation, capital expenditure policies and environmental protection policies
4. Assess the value of CRA's and RTZ's respective exploration interests.

A&S charter was to focus on issues that are material in relation to the size and structure of the proposed transaction. Both CRA and RTZ are among the world's largest mining companies. An unrecognized risk – or opportunity – needs to be very large by usual standards to be material.

##### **1.3 Approach**

To fulfill the objectives set out by Morgan Stanley, A&S sought to answer four questions:

1. What are the relevant assets – including reserves, facilities, infrastructure, support services, people?

2. What are the risks – defined as anything that could reduce production or increase costs?
3. Do the companies' plans adequately reflect the capabilities of the assets and the risks relating to them?
4. Do the companies have the financial and management resources to carry out the plans?

For its analysis of each company's assets, A&S undertook the following:

1. Reviewed company confidential and publicly available financial reports, analysts reports, business plans, mine plans, feasibility studies, economic models and budgets
2. Interviewed appropriate senior and operating management
3. Carried out site visits
4. Cross-checked mine production and cost projections against past performance and independent estimates
5. Reviewed management policies, processes and controls, including reserve calculation methodologies, environmental protection and accrual policies, capital expenditure planning, and operational risk identification, quantification and management
6. Reviewed exploration interests.

It is important to note that the degree of disclosure by CRA and RTZ varied, depending on the particular assets under review. In some cases the company could not make available information sought by A&S, either because of the competitive nature of the industry in question or because disclosure was precluded by joint venture agreements with third parties. Given that RTZ participates in some businesses that depend heavily upon intangible assets, it would appear reasonable that these restrictions applied more to RTZ's assets than to those of CRA. Where appropriate, such restrictions are referred to in the body of this report.

#### **1.4 Conclusions**

Based on the methodology described in Section 5 of this letter, and subject to the limitations expressed herein, A&S has reached three main conclusions about CRA's and RTZ's mining operations, plans and management systems:

1. CRA's and RTZ's production, operating costs and capital cost schedules over their most likely mine lives are generally reasonable and achievable. Such exceptions as exist, which are noted in this report, are not material to the terms of the proposed transaction.
2. Neither CRA nor RTZ appears to be facing material risks that are not recognized in the production, operating cost and capital cost schedules.
3. CRA's and RTZ's policies and practices for reserve estimates, accruals for environmental expenditures, capital expenditure policies and controls, and business planning processes are sufficiently similar that any differences should not have a material effect on the relative value of the two companies.

A&S estimates of value of CRA's exploration interests have been incorporated into Morgan Stanley's valuation. In relation to RTZ, A&S did not have access to the relevant supporting documentation that would have enabled it to reach a firm conclusion on value. However, based on interviews with relevant RTZ exploration executives and A&S' extensive knowledge of the international mining business, A&S believes that RTZ conducts its exploration activities in a very professional manner, and the methodologies and valuation estimates discussed with them seem reasonable. RTZ's valuation estimates have been taken into account in Morgan Stanley's analysis of RTZ.

Despite the restrictions that were imposed on A&S by RTZ, A&S is satisfied that it had sufficient information to reach the conclusions stated above.

## **2 SCOPE OF WORK**

Morgan Stanley engaged A&S to provide its opinion as to whether the production, operating cost and capital cost schedules over the most likely mine lives that underlie Morgan Stanley's estimates of value are reasonable and achievable. The objectives given to A&S by Morgan Stanley were to:

- Verify that production, operating cost and capital cost schedules over the most likely mine lives are reasonable and attainable on the basis of present and planned reserves, operating assets and technology
- Identify any material risks (including environmentally related risks) or opportunities that are not recognized in the production, operating cost and capital cost schedules
- Identify any differences between CRA and RTZ policies or practices that could have a material influence on value. (Examples include methods of reserve calculation, capital expenditure policies and environmental protection policies)
- Assess the value of CRA's and RTZ's respective exploration interests.

A&S charter was to focus on issues that are material in relation to the size and structure of the proposed transaction. Given the size of the transaction, an unrecognized risk (or opportunity) needs to be very large by usual standards to be material.

As part of their due diligence enquiries, Arthur Robinson & Hedderwicks and Linklaters & Paines (solicitors respectively) have reported on title issues. The report of Arthur Robinson & Hedderwicks is based on information provided by CRA and does not involve any independent verification of titles (except on a spot check basis). Linklaters & Paines instructed the local legal advisers retained by it to confirm the RTZ group's title to mining and exploration properties.

A&S scope did not include pricing, political or accounting issues.

### **3. ISSUES AFFECTING VERIFICATION APPROACH**

In verifying the reasonableness of CRA's and RTZ's projections, A&S adopted an approach that reflected a number of significant issues. Principal among these were:

#### **3.1 Immense (by Mining Standards) Scope of Verification Task**

Both CRA and RTZ are among the world's largest mining companies. Combined, they will be the world's largest mining entity as measured by market capitalization. The operations are worldwide and involve the mining and marketing of many different minerals. The size of their individual operations ranges from modest to among the world's largest.

#### **3.2 Confidentiality**

Both CRA and RTZ have emphasized the need for confidentiality and quite properly maintained strict control over A&S's use of confidential information. RTZ, in particular, put limits on A&S's access to information that would normally be used by the consultant in such a verification exercise. This was especially true with respect to information about: RTZ's industrial minerals businesses in relation to which A&S relied upon public information; and joint ventures where partnership agreements limit disclosure.

A&S believes that RTZ's policy of strict confidentiality regarding its industrial minerals businesses has merit. The principal basis of profits in these businesses is not so much the asset base as it is proprietary technology and customer relationships. Any dissemination of knowledge about these factors could lead to a material reduction in the value of the businesses – an event that would be to the detriment of shareholders.

Nevertheless, while there may be good reasons for such confidentiality, the lack of information available to A&S regarding the industrial minerals businesses limited A&S's ability to form a reliable opinion regarding projected production, operating and capital costs.

A&S generally had appropriate access to information in relation to RTZ's wholly owned businesses and activities. However, A&S' conclusions should be considered in light of the fact that RTZ confined the use of much of this information to RTZ's offices.

#### **3.3 Limits on A&S's Access to Physical Sites**

A&S considers a site visit to be a highly desirable step in the assessment of an operation's capability to meet projected production volumes and operating costs. A site visit also enables verification of corporate

management's views of the capabilities of site equipment and management, and of the local effectiveness of corporate policies (e.g., capital planning and environmental control).

A&S had full access to CRA sites. Access to RTZ sites was limited due to RTZ's concern for both confidentiality and sensitivity to joint venture relationships. Although A&S was not permitted to make site visits to RTZ's joint venture operations or to industrial mineral's operations, A&S did select and visit a sample of wholly owned RTZ metal and coal mining operations.

#### **4. FACTORS AIDING THE VERIFICATION PROCESS**

A number of factors, in A&S's opinion, facilitated A&S's assessment.

##### **4.1 A&S had ample access to CRA and RTZ Senior Management**

A&S had ample access to CRA management at all levels. While within RTZ, A&S did not get all the access to site management that A&S would have desired, RTZ gave A&S full access to RTZ's senior management and within the confidentiality ground rules, A&S received full cooperation from RTZ.

##### **4.2 A&S had several sources of information about CRA and RTZ assets**

###### *4.2.1 Most CRA and RTZ Assets Are Large and Well Known*

Most of CRA's and RTZ's value is concentrated in large world class, well known assets and businesses. The activities, opportunities and risks in these businesses are generally well known to the international mining community, as are production capacities and, in a general sense, costs. Such assets are also followed closely by the world mining and financial press.

###### *4.2.2 A&S's Consultants Had Going-in Knowledge about Many of the Assets*

A&S's consultants as a group possessed prior knowledge about many of CRA's and RTZ's assets and have personally visited a number of these properties. This knowledge came from a variety of sources, including prior employment, consulting assignments, valuation exercises, competitive analyses, courtesy visits and acquisition intelligence.

###### *4.2.3 Production and Cost Data Produced by Independent Consultants Provide a Useful Check on Company Projections*

A number of independent consultants specialize in providing their clients with competitive analyses of international mining companies by commodity. Their reports provide data on the production tonnages and unit costs for the world's principal mines that produce the particular commodity in question. These reports provided a useful source of independent verification of CRA's and RTZ's own projections of production and unit costs.

##### **4.3 CRA and RTZ are established, well-managed companies**

###### *4.3.1 Much published information in the CRA and RTZ financial reports has been subjected to verification mandated by law and regulation*

Examples are the reporting of reserve estimates, operating data and financial information to company shareholders.

###### *4.3.2 Most CRA and RTZ Assets and Businesses Have Demonstrated Track Records*

The bulk of both CRA's and RTZ's assets have many years of production and profits behind them. In the mining business, longevity of performance improves confidence in future performance.

Many of the operations assessed are low-cost producers. If a mine is a low-cost producer, particularly if it is in the lowest cost quartile, it can reasonably be counted on to operate at predicted tonnages and costs throughout the commodity price cycle.

#### *4.3.3 Both CRA and RTZ Have Effective Management Systems*

Both RTZ and CRA have management processes that are designed to effectively manage risk. The more effective these systems, the more reassurance one has that RTZ and CRA projections are realistically based and recognize and manage potential risks. For example, RTZ expends considerable management time and resources to continually assure itself that its investment in Escondida (which is operated by BHP) is effectively managed.

#### *4.3.4 Both Companies Have Extensive, Well Resourced Business and Technical Planning Systems*

The principal source of reliability in future projections is the quality of technical and business planning that goes into developing the projections themselves. In A&S's opinion both CRA and RTZ have excellent technical and business planning resources and processes.

### **5. METHODOLOGY**

To verify production plans as reasonable, four questions must be answered:

- What are the relevant assets – including reserves, facilities, infrastructure, support services, people?
- What are the risks – defined as anything that could reduce production or increase costs?
- Do the companies' plans realistically reflect the capabilities of the assets and the risks relating to them?
- Do the companies have the financial and management resources to carry out the plans?

Thus, A&S' basic analytical approach was to:

- Understand in as much detail as possible from the information provided, CRA's and RTZ's businesses and operating plans and forecasts
- Cross check the reliability of our understanding of the assets and the plans themselves, using a variety of techniques.

The techniques that were used by A&S to understand and verify the nature of the assets and the validity and reliability of the plans were:

- Review of published data about the assets and past performance, particularly the published data that is subject to rigorous scrutiny before publication, such as mandated annual financial reports
- Interviews with senior CRA and RTZ management
- Site visits, facilities tours and interviews with on-site management (conducted extensively with CRA and to a lesser degree with RTZ)
- Comparison of production and cost projections with past performance for principal mines and upgrading facilities
- Comparison of production and cost projections with competitive analyses developed by independent outside consultants
- Assessment of the management planning and control processes used by the companies themselves to assure that plans are reasonable and attainable
- Extensive use of the consultants' own knowledge and experience of specific assets and what performance can be reasonably expected of assets in the mining industry.

A&S means of verification of data and plans were limited to the above. The A&S team was organized to generally parallel CRA's and RTZ's financial reporting business unit structure. For each company, A&S employed a nine-step analytical process described below.



### **5.1 Reviewing Assets**

The primary initial sources of data were financial reports, including Form 20-F filings.

### **5.2 Reviewing Plans**

The plans reviewed were the same documents as those used by Morgan Stanley for data input to Morgan Stanley's valuation models. Both CRA and RTZ provided the latest available financial projections.

### **5.3 Interviewing Corporate Management**

The interviews in each business were conducted by A&S consultants knowledgeable and experienced in the technology, operations and business practices of the businesses under their review.

### **5.4 Visiting Operations**

During site visits, A&S reviewed the physical assets, discussed plans with on-site management, and formed a general opinion as to the capabilities of the assets to meet the projections:

- For CRA, representative sites for all businesses were visited
- For RTZ, selected operations (selected by A&S) in RTZ's wholly owned copper and coal mining operations were visited. RTZ's U.S. gold mines are relatively small and their capabilities are well known. They were not visited.

For confidentiality reasons, RTZ refused A&S permission to visit any industrial minerals properties and for partnership relationship reasons did not allow A&S to visit any joint venture properties.

### **5.5 Reviewing CRA's and RTZ's Reserve Calculations, Processes and Controls**

A&S did not conduct a detailed review of CRA and RTZ's reserves estimates. This would have entailed expensive duplication of a step that both companies already undertake for financial reporting purposes.

Rather, A&S' geoscientists met separately with appropriate CRA and RTZ geological management to review the reserve calculation methodology used by both companies for their reserve reporting, and to review the control processes by means of which both companies assure that the reserves reported to them by their business units are calculated according to corporate standards and legal requirements. A&S' geoscientists then coordinated their efforts to verify that the reserve reporting procedures used by both companies are sufficiently similar that any differences would not have a material impact on value.

### **5.6 Reviewing Exploration Interests with Each Company's Vice President of Exploration**

The purpose was to assess the value of such interests off the base of information provided by CRA and RTZ. Such information was not independently verified. The A&S geoscientists coordinated their efforts to ensure that comparable valuation approaches were used for both CRA and RTZ.

### **5.7 Reviewing Control over Environmental Protection and Accrual Policy for Reclamation Costs**

A&S reviewed these corporate-wide policies and accounting to identify any potential impact on relative values.

### **5.8 Cross Checking Projected Mine Production and Costs**

Cross-checks for the significant mines included comparisons of production and cost plans with:

- Past production and cost performance
- Independent estimates of production capacity and unit costs made by outside consultants other than A&S.

## **5.9 Reviewing Formal and Informal Management Control Processes, as they relate to the Management and Quantification of Risk**

Both CRA and RTZ have management systems that focus on assuring that their operations will provide consistent, reliable production and earnings. A&S reviewed these management systems to assure that they are appropriate to that task.

At the end of this nine-step process, each A&S consultant submitted a report on his area of analysis. A&S then compiled this summary report, which was reviewed by CRA and RTZ in relation to factual and confidential matters, and submitted, in final form, to Morgan Stanley.

Except where noted, all references to dollars in this report are to Australian dollars. Tons have been converted to tonnes. In relation to CRA, all references to mineral resources and ore reserves are in keeping with recommendations contained in The Australian Code for Reporting of Identified Mineral Resources and Ore Reserves as recommended by the Joint Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Australian Mining Industry Council on Ore Reserves (September 1992).

A&S prepared this report having regard to the various regulatory requirements relating to independent expert reports and in particular to: the Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports ("The Valmin Code"), as adopted by the AusIMM, 17 February 1995; and the Australian Securities Commission Practice Notes 42, 43, 74 and 75.

A&S prepared this report in the light of the principles set out in the Valmin Code. A&S has been advised that the report generally complies with ASC Policy Statements and Practice Notes.

By assigning 16 qualified consultants to the project, A&S was able to formulate the conclusions stated in this report within the timetable allotted.

A&S describes in the following sections of this report estimates of production, operating costs and capital costs for each of the major business units of both companies that A&S believes to be reasonable, where public disclosure of that data is not considered commercially sensitive, restricted by joint venture arrangements, or in the case of subsidiaries with public participation, restricted by regulatory requirements.

## **6. REVIEW OF CRA'S ASSETS AND PLANS**

A&S' principal findings by individual CRA assets are set forth below.

### **6.1 Iron Ore**

CRA's iron ore business is operated by its subsidiary Hamersley Iron. Hamersley Iron produces an export-grade iron ore from mines in the Pilbara region of northwestern Australia.

The principal assets of Hamersley Iron are:

- Mount Tom Price Mine
- Paraburdoo Mine
- Marandoo Mine
- Brockman Mine
- 60 percent of Channar Mine
- Rail lines between mines and port
- Dampier port facilities
- Research Center and HIs melt Project.

All mines owned or operated by Hamersley Iron produce two types of high grade iron ore: lump ore and fine ore. Both of these ores are used in the production of steel. Lump ore has the physical strength to be charged directly into the blast furnaces used in producing hot metal for steel-making. Fine ore requires agglomeration by means of sintering or other processes before being suitable as a blast furnace charge. Hamersley Iron is one of the few producers in the world supplying large quantities of sized high grade lump ore suitable for direct charging to blast furnaces.

Conventional open pit mining methods are used at all the Hamersley Iron mines. Material is drilled and blasted in benches, loaded into trucks by shovels, hydraulic excavators or front end loaders, and then transported to crushers or dumps. High grade ore crushing and screening operations are conducted at Mount Tom Price, Paraburdoo, and Marandoo where the ore is separated into lump and fine ore. The ore produced is blended and stockpiled at each mine. Thereafter, lump or fine ore is reclaimed from stockpiles and loaded into ore wagons for transportation by rail to Dampier.

In addition to producing high grade ore at Mount Tom Price, a significant quantity of low grade ore is also mined. After being crushed and screened, the low grade ore is upgraded in a concentrator at Mount Tom Price to produce high grade lump and fine ore products that are blended with run of mine high grade products on the stockpiles.

To improve the quality of Hamersley Iron's product, a fine ore processing plant has been constructed at Paraburdoo which will significantly reduce alumina levels within the Hamersley blend.

### 6.1.1 Iron Ore Overview

Table 6.1.1 shows production of iron ore in 1992, 1993 and 1994. All historical data contained in this report have been derived from company documents.

**Table 6.1.1. Iron Ore Production**

	1992		1993		1994					
	Mine production	CRA equity share of mine production	Mine production	CRA equity share of mine production	Mine production	CRA equity share of mine production				
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
<b>IRON ORE (tonnes)</b>										
Hamersley Iron's										
Mines	44,953	100.0	44,953	100.0	44,139	100.0	45,456	100.0	45,456	
Channar	5,489	60.0	3,293	60.0	6,130	60.0	3,678	60.0	3,523	
CRA Total			48,246				47,817		48,979	

Table 6.1.2 shows proved and probable ore reserves of iron ore at December 31, 1994.

**Table 6.1.2 Estimated Reserves of Iron Ore  
(net of dilution and mining losses)**

	Proved Ore Reserves & Probable Ore Reserves	CRA Interest	CRA equity share of recoverable ore <sup>(2)</sup>
	Ore tonnage <sup>(1)</sup> (MM tonnes)	(%)	(MM tonnes)
<b>IRON ORE from Hamersley Iron's Mines – all Open Pit</b>			
Mt. Tom Price/ Paraburdoo	545	100.0	545
Channar	180	60.0	108
Marandoo <sup>(3)</sup>	170	100.0	170
Brockman No. 2 (detritals)	10	100.0	10
<b>CRA Total</b>	<b>905</b>		<b>833</b>

*Notes:*

- (1) Figures quoted in the Ore Tonnage column are recoverable reserves of saleable products, i.e., after all mining and processing losses. Grades and recoveries are therefore not shown in this table.
- (2) CRA's equity share of reserves is expressed as recoverable reserves of saleable ore.
- (3) Marandoo commenced production in the third quarter of 1994.

### 6.1.2 Iron Ore Information Sources

A&S' principal sources of information were:

- Site visits to the mines, rail, port and research center
- Interviews of company executives and site operating personnel, including Malcolm Richmond, Joint Managing Director, and General Managers for the Paraburdoo Mine, Mount Tom Price Mine and the research facility
- Current 1996 Budget and Action Plan
- Operating plans, reserve cross-sections and operating information at all visited facilities.

CRA provided full access to all information requested.

### 6.1.3 Iron Ore Observations

Primary observations from site visits and associated interviews were:

- Plant and equipment appear to be well maintained
- Latest technology is employed in mining operations
- The capacity of current operations is 55 million tonnes per annum without major infrastructure modifications
- The port loading facility is a potential bottleneck to future significant expansion
- Strip ratios will be close to current levels (1:1) for at least the next ten years
- Labor relations appear good.

### 6.1.4 Iron Ore Conclusions

A&S believes that the costs and production forecasts by CRA are reasonable and that the current product mix and grade will be maintained:

- Total reserves are stated to be 905 million tonnes (CRA's share 833 million tonnes) – approximately 15 years at current production rates; in addition, Hamersley controls other resources of 7 billion tonnes of iron ore

- Grade of lump ore should remain near current levels of 64.7 percent
- The percentage of lump product to fines should be maintained near 48 percent
- Production, operating costs and capital costs are conservative and reasonable
- There is a significant upside potential by upgrading the iron ore to iron through direct reduction iron (DRI) processing or (potentially) the HIs melt research project. Capital investment will probably exceed A\$1 billion. It should be noted that an adjacent competitor, BHP, has recently committed to a major HBI project.

Table 6.1.3 below provides an estimate of Hamersley's future production and capital expenditures that A&S believes to be reasonable. Costs, which are extremely sensitive in the iron ore industry, are withheld.

**Table 6.1.3. Estimate of Iron Ore Business – Future Production and Costs**

<b>Hamersley Iron</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Production (MMt) <sup>(1)</sup>	53.5	57.0	58.0	59.0	57.0
Grade (%)	65.4	65.2	64.7	64.7	64.7
Capital Expenditure (A\$MM)	112	153	166	134	143
Starting Reserves (MMt)	945				
CRA Share	873				

Notes:

- (1) Salable production in metric tonnes.

## 6.2 Coal

CRA's coal business is comprised of eight mines in Australia and one in Indonesia. CRA produces a broad spectrum of thermal and coking coals for domestic Australian utilities and export.

CRA's coal operations and resources are divided into five business units based on geographic location and ownership. Principal assets by business unit are as follows:

**Table 6.2.1. Coal Assets by Business Unit**

<b>Business Unit</b>	<b>Mine</b>	<b>CRA Ownership</b>
Kembla Coal and Coke	Tahmoor	100.0%
Novacoal	West Cliff	100.0
	Howick	60.0
	Vickery	100.0
Coal & Allied Industries	(70.7% CRA)	
	Hunter Valley (100% CAIL)	70.7
	Mount Thorley (80% CAIL)	56.6
Pacific Coal	Blair Athol	57.2
	Tarong	100.0
Kaltim Prima Coal	Kaltim Prima	50.0

In addition to the operating mines, CRA controls positions for future mine projects. The significant undeveloped reserve positions include:

- Novacoal's Maules Creek property
- Coal & Allied's Mt. Pleasant property
- Pacific Coal's Clermont, Hail Creek and Kunioon properties
- Kaltim Prima's Bengalon property.

## 6.2.1 Coal Overview

The following table shows coal production at major CRA Group operations for 1992, 1993 and 1994.

**Table 6.2.2. Coal Mine Production (Tonnes)**

		1992			1993			1994		
		Production	CRA equity share of mine production		Production	CRA equity share of mine production		Production	CRA equity share of mine production	
		('000)	(%)	('000)	('000)	(%)	('000)	('000)	(%)	('000)
<b>PACIFIC COAL</b>										
Tarong	(a)	5,355	100.0	5,355	5,310	100.0	5,310	5,228	100.0	5,228
Blair Athol	(a)	8,286	57.2	4,739	9,329	57.2	5,336	9,725	57.2	5,562
<b>KALTIM PRIMA COAL</b>										
	(a)(c)	6,887	43.25	2,798	8,871	43.25	3,837	9,932	43.25	4,296
<b>KEMBLA COAL &amp; COKE</b>										
	(b)	3,152	100.0	3,152	3,108	100.0	3,108	1,998	100.0	1,998
	(a)	259	100.0	259	111	100.0	111	110	100.0	110
<b>NOVACOAL</b>										
Howick	(a)	2,563	60.0	1,538	2,512	60.0	1,507	2,683	60.0	1,610
	(b)	853	60.0	512	857	60.0	514	919	60.0	551
Western Main	(a)(d)	675	100.0	675	498	100.0	498	484	100.0	484
Vickery	(a)	307	100.0	307	700	100.0	700	674	100.0	674
<b>COAL &amp; ALLIED</b>										
Hunter Valley	(a)	1,822	37.5	683	2,638	58.6	1,573	2,392	70.7	1,691
	(b)	3,064	37.5	1,149	3,014	58.6	1,797	3,052	70.7	2,158
Mount Thorley	(a)	1,986	30.0	596	1,694	46.9	959	1,879	56.6	1,063
	(b)	2,201	30.0	660	2,948	46.9	1,669	2,162	56.6	1,224
Lake Macquarie	(a)(f)	2,023	37.5	759	1,362	58.6	812	295	70.7	209
		<u>39,433</u>		<u>23,182</u>	<u>43,188</u>		<u>27,731</u>	<u>41,775</u>		<u>26,858</u>

- Notes:*
- (a) Steaming Coal.
  - (b) Metallurgical Coal.
  - (c) The Indonesian State coal company P.T. (Persero) Tambang Batubara Bukit Asam is entitled to a 13.5% share of coal under the terms of the mining agreement with Kaltim Prima. CRA's share of mine production reflects this agreement. Commercial operation commenced in September 1991 following a 3-year development program.
  - (d) This mine was closed in late 1994.
  - (e) CRA acquired 37.2% of Coal & Allied in May 1991 and increased the ownership to 70.7% in April 1993.
  - (f) The Lake Macquarie mines were sold in April 1994.

CRA has excellent reserve and resource positions. CRA reports reserves and resources based on the Australian Code For Reporting of Identified Mineral Resources and Ore Reserves. In reviewing the potential mine life of the CRA coal operations, two reserve classifications are reported by CRA: marketable reserves; and measured and indicated resources. Marketable reserves are defined by a detailed mine plan that allows recovery and process yield factors to be applied to the in-situ resource. Measured and indicated resources are an in-situ figure.

In A&S' site visits A&S discussed marketable reserves and measured and indicated resources. Mine plans were reviewed to verify the approximate magnitude of the reported reserves and resources. No drill hole logs or data were reviewed.

Reported reserves appear to be reasonable and are summarized in Table 6.2.3.

**Table 6.2.3. Estimated Recoverable Coal Reserves  
(at December 31, 1994)**

	Type of Reserve <sup>(1)</sup>	Coal Type <sup>(2)</sup>	Calorific Value	Sulfur Content	Mine Reserves <sup>(3)</sup>	CRA Interest	CRA equity share of Recoverable Reserves
			BTU/pound	(%)	(MM tonnes)	(%)	(MM tonnes)
<b>PACIFIC COAL</b>							
Tarong	O/C	SC	9,050	0.30	252.0	100.0	250.0
Blair Athol	O/C	SC	11,900	0.30	174.0	57.2	100.0
<b>KALTIM PRIMA<sup>(4)</sup></b>							
Pinang Grade	O/C	SC	10,936	0.57	86.8	43.25	37.5
Prima Grade	O/C	SC	12,332	0.64	182.5	43.25	78.9
<b>KEMBLA COAL &amp; COKE</b>							
	U/G	MC	N.A.	0.35	74.2	100.0	74.2
<b>NOVACOAL</b>							
Howick	O/C	SC&MC	12,510	0.65	96.0	60.0	57.6
Vickery	O/C	SC	12,640	0.40	4.0	100.0	4.0
<b>COAL &amp; ALLIED</b>							
Hunter Valley	O/C	SC	12,240	0.50	98.1	70.73	69.4
		MC	13,140	0.60	60.9	70.73	43.1
Mount Thorley	O/C	SC	11,970	0.50	44.2	56.58	25.0
		MC	13,140	0.55	47.7	56.58	27.0
					1,118.4		766.7

*Notes:*

- (1) O/C— Open cut; U/G — Underground.
- (2) SC — Steaming Coal; MC — Metallurgical Coal.
- (3) Mine Reserves are net of mining and beneficiation losses.
- (4) Excludes Prima underground.

Two mines have reported reserve and resource bases that will not support mines for more than twenty years – Mount Thorley and Blair Athol. However, the mine planning personnel at the Mount Thorley Mine stated that the operation had 140 million tonnes of run-of-mine reserves, which would support a mine life of about twenty years. The mine plan was reviewed and a twenty-year mine life at currently projected production levels appears reasonable.

The Blair Athol deposit will be depleted in 13 years at forecast production rates. However, the infrastructure may continue to be used beyond the 13-year life if equipment is moved to the nearby Clermont deposit.

### 6.2.2 Coal Information Sources

A&S' principal sources of information were:

- Site visits to the Tahmoor Mine, Hunter Valley Mine, Mount Thorley Mine and Blair Athol Mine
- On-site interviews with operating people at West Cliff Mine, Howick Mine and Tarong Mine
- Interviews with CRA strategy and planning personnel provided information relating to Kaltim Prima
- Current 1996 Budget and Business Plans for all business units
- Reviews of mine plans and recent performance reports at all visited operations

CRA provided full access to all information requested.

### 6.2.3 Coal Observations

A summary of the key observations based on the site visits, interviews and information review is as follows:

- There is strong, decentralized mine management at all operations
- High capacity, modern equipment is installed at all mines
- Coal reserves and mining conditions are excellent with the exception of the Kembla Coal and Coke mines, which are deep with many geological risks
- The focus is on increasing production at all operations
- Major emphasis is placed on developing innovative agreements with the workforce at all operations.

### 6.2.4 Coal Conclusions

A&S concludes that the cost and production forecasts for each of CRA's coal businesses (except Kembla Coal and Coke) are reasonable and achievable:

- Production volumes at the Kembla Coal and Coke operations will always be uncertain based on the geologic conditions; consequently, production may be lower than estimated and operating costs 10 to 15 percent higher. The higher operating costs for the Kembla Coal and Coke production will be near market prices.
- Production volume expectations at the other operations are reasonable. Hunter Valley, Howick and Kaltim Prima have opportunities for higher volumes than forecast. Forecast operating costs are also reasonable.
- Annual capital cost forecasts appear to be overstated for some mines.
- Rail rates in Queensland and New South Wales may drop within five years as a result of the National Competition Policy initiatives. Rail cost reductions of up to A\$6 per tonne in Queensland and A\$2 per tonne in New South Wales in the medium term seem reasonable.
- Table 6.2.4 provides an estimate of future coal production and costs that A&S believes to be reasonable. In some cases, cost and/or capital expenditure projections have been withheld for reasons of confidentiality, partner sensitivity, or A&S' reluctance to disclose projections for a publicly held company (Coal & Allied) whose projections have not been given to all of the company's shareholders.



**Table 6.2.4. Estimate of Coal Business Future Production and Costs**

	1995	1996	1997	1998	1999
<b>TAHMOOR &amp; WEST CLIFF MINES</b>					
Production (MMt) <sup>(1)</sup>	2.2	3.0	2.8	3.0	3.0
Capital Expenditure (A\$MM)	25.8	10.0	20.0	31.0	9.0
Starting Reserves (MMt)	74.2				
<b>HOWICK MINE</b>					
Production (MMt) <sup>(1)</sup>					
Coking Coal	0.4	0.4	0.4	0.4	0.6
Steam Coal	1.9	2.1	2.2	2.3	2.8
Capital Expenditure (A\$MM)	3.5	5.4	5.7	4.1	5.2
Starting Reserves (MMt)	57.6				
<b>VICKERY MINE</b>					
Production (MMt) <sup>(1)</sup>	0.3	0.6	0.7	0.8	0.8
Cash Operating Cost (A\$MM) <sup>(2)</sup>	12.1	21.4	25.5	31.1	33.3
Unit Operating Cost (A\$/t)	37.49	35.81	36.47	40.21	41.62
Capital Expenditure (A\$MM)	0.9	2.0	1.0	1.1	1.1
Starting Reserves (MMt)	4.0				
<b>HUNTER VALLEY MINE</b>					
Production (MMt) <sup>(1)</sup>					
Coking Coal	2.1	2.6	2.8	3.0	3.0
Steam Coal	3.1	3.9	4.2	4.5	4.5
Starting Reserves (MMt)	112.5				
<b>MOUNT THORLEY</b>					
Production (MMt) <sup>(1)</sup>					
Coking Coal	2.1	2.1	2.1	2.2	2.2
Steam Coal	3.2	3.1	3.1	3.2	3.2
Starting Reserves (MMt)	52.0				
<b>BLAIR ATHOL MINE</b>					
Production (MMt) <sup>(1)</sup>	6.2	6.3	7.1	7.4	6.9
Starting Reserves (MMt)	100.0				
<b>TARONG</b>					
Production (MMt) <sup>(1)</sup>	5.4	5.4	5.4	5.4	5.5
Cash Operating Cost (A\$MM) <sup>(2)</sup>	52.9	59.7	59.7	60.3	63.2
Unit Operating Cost (A\$/t)	9.74	11.0	11.0	11.1	11.5
Capital Expenditure (A\$MM)	28.8	28.8	21.9	17.0	12.1
Starting Reserves (MMt)	250.0				
<b>KALTIM PRIMA</b>					
Production (MMt) <sup>(1)</sup>					
Prima	3.0	3.5	3.9	4.5	4.5
Penang	1.3	1.5	1.7	1.9	1.9
Starting Reserves (MMt)	132.5				

*Notes:*

- (1) Salable production in metric tonnes.  
(2) FOB minesite.

### 6.3 Aluminium

CRA's aluminium business consists of a 67 per cent shareholding of Comalco. Comalco is a fully integrated producer of aluminium, engaged in the mining of bauxite, the production of calcined bauxite and kaolin, refining bauxite into alumina, smelting alumina into aluminium, processing aluminium by rolling or extruding, and producing finished aluminium products.

The principal assets of Comalco include the following:

- Weipa bauxite mine in northeast Queensland, Australia
- 30.3 per cent interest in the QAL Refinery in Queensland, Australia
- 26.9 per cent interest in Eurallumina's Refinery in Sardinia, Italy
- 50 per cent of the Boyne Island Smelter (59% of the new Boyne third potline) and 42.1 per cent of the Gladstone Power Plant in Queensland, Australia
- 100 per cent of the Bell Bay Smelter in Tasmania, Australia

- 79.4 per cent of the New Zealand Aluminium Smelter (NZAS) in New Zealand
- The Research and Development Center in Victoria, Australia.

Comalco has strategically focused its efforts on becoming a world-best, low-cost producer of aluminium. To achieve this goal Comalco's plans include the following:

- A new, state-of-the-art alumina refinery is being considered. It would process bauxite from the Weipa mine.
- The Boyne Island Primary Aluminium Smelter is adding a third potline using world-best, proven technology
- The QAL alumina refinery capacity has the potential to be expanded from 3.3 million tonnes per annum to 4.4 million tonnes per annum
- A major upgrade and expansion is presently underway at NZAS; further expansion could use Comalco's new reduction cell technology
- Sale of the downstream businesses

### 6.3.1 Aluminium Overview

The following tables show mine production of bauxite and refinery and smelter production of CRA Group operations for 1992, 1993 and 1994.

**Table 6.3.1 Mine Production (Expressed as Saleable Ore)**

	1992		1993			1994			
	Mine production ( 000)	CRA equity share of mine production (%)	Mine production ( 000)	CRA equity share of mine production (%)	( 000)	Mine production ( 000)	CRA equity share of mine production (%)	( 000)	
<b>BAUXITE</b> (Beneficiated tonnes)									
Weipa	8,702	67.0	5,830	8,469	67.0	5,674	8,907	67.0	5,968

**Table 6.3.2. Refinery and Smelter Production<sup>(1)</sup>**

	1992		1993			1994			
	Total production ( 000)	CRA equity share of production (%)	Total production ( 000)	CRA equity share of production (%)	( 000)	Total production ( 000)	CRA equity share of production (%)	( 000)	
<b>ALUMINA (tonnes)</b>									
Comalco <sup>(2)</sup>	1,171	67.0	784.6	1,168	67.0	782.6	1,389	67.0	930
<b>ALUMINIUM (tonnes)</b>									
Comalco <sup>(3)</sup>	383.6	67.0	257.0	421.7	67.0	282.5	432.8	67.0	289.9

*Notes:*

- (1) Figures represent refined metal except for aluminium production data which refers to smelter production of primary aluminium.
- (2) Includes Comalco's equity share of alumina production from consortia refineries.
- (3) Includes Comalco's equity share of primary aluminium production from consortia smelters.

Table 6.3.3 shows estimates of Proved Ore Reserves of bauxite at Weipa as of December 31, 1994.

**Table 6.3.3. Estimated Reserves of Bauxite  
(Net of Dilution and Mining Losses)**

	Proved Ore Reserves	CRA interest	CRA equity share of recoverable bauxite <sup>(1)</sup>
	Ore tonnage (MM tonnes)	(%)	(MM tonnes)
BAUXITE (beneficiated) Weipa	230	67.0	154

*Notes:*

- (1) CRA's equity share of reserves is expressed as recoverable reserves of saleable ore.  
 (2) The figures for bauxite ore shown in the ore tonnage column are recoverable reserves of saleable product, i.e., after mining and processing losses. Grades and recoveries are therefore not shown in this table.

### 6.3.2 Aluminium Information Sources

A&S' principal sources of information were:

- Site visits to the QAL Refinery, Boyne Island Smelter and Gladstone Power Plant, and the Research and Development Center
- Interviews with CRA planning personnel, and with operating personnel at the sites visited
- Current 1996 Budget and Business Plan for Comalco
- Detailed operating information
- The A&S consultant's previous visit to the Weipa bauxite mine, and his extensive personal knowledge of the international aluminium business.

A&S was provided unrestricted access to information, which included production forecasts, operating and capital cost forecasts and project plans.

### 6.3.3 Aluminium Observations

Primary observations from site visits and associated interviews were:

- Plant and equipment appear to be well maintained
- Clear management goals, objectives and improvement plans exist and are effectively communicated to operating personnel
- Plans appear to be based on sound engineering and/or technological development work
- Management is focused, knowledgeable and dedicated.

### 6.3.4 Aluminium Conclusions

A&S concludes that CRA's plans for its aluminium interests are, in general, attainable. The following conclusions relate to production and costs:

- The total reported bauxite reserve base was 230 million tonnes (CRA's share is 154 million tonnes). However, it seems reasonable that Comalco should prove out more reserves in the future to support the expansion to 20 million tonnes per annum. (It should be noted that the Weipa resource is known to contain 3,600 million tonnes.)
- The cost to produce beneficiated bauxite at Weipa is projected to decline, although perhaps more gradually than forecast.

- Production projections are reasonable.
- Capital forecasts for the new projects appear to be lean but within the an achievable range. A 5 per cent increase would be more realistic.

Table 6.3.4 provides an estimate of future aluminium production and capital expenditures that A&S believes to be reasonable. Costs are withheld for competitive reasons.

**Table 6.3.4. Estimate of Comalco's Aluminium Business Future Production & Costs  
(CRA Interest is 67%)**

	1995	1996	1997	1998	1999
<b>WEIPA Mine</b>					
Production (MMt)					
Weipa Bauxite	9.300	9.600	9.800	10.000	10.000
Calcined Bauxite	0.154	0.160	0.165	0.165	0.165
Kaolin	0.130	0.183	0.202	0.202	0.248
Capital Expenditure (A\$MM)	37.6	26.6	30.2	25.0	25.2
Starting Reserves (MMt)					
Bauxite	230.0				
Kaolin	11.5				
<b>Refineries</b>					
Production (MMt)					
QAL	1.026	1.044	1.104	1.112	1.008
Eurallumina	0.230	0.230	0.237	0.237	0.237
Capital Expenditure (A\$MM)					
QAL	6	14	15	12	12
Eurallumina	2	7	4	2	1
<b>Smelters</b>					
Production ('000 t)					
Bell Bay	96.0	99.0	100.0	100.0	100.0 <sup>(1)</sup>
Boyne Island 1 & 2	128.0	131.0	137.0	137.0	137.0
Boyne Island 3	0.0	0.0	0.0	114.0	114.0
NZAS	216.0	234.0	250.0	254.0	254.0
Capital Expenditure (A\$MM)					
Bell Bay	7	7	17	6	4
Boyne Island 1 & 2	18	19	7	4	5
Boyne Island 3	58	166	340	55	4
Tiwai Point	14	14	34	48	24

Note:

(1) Reopening a closed potline would increase production to 120 kt.

## 6.4 Diamonds

CRA's diamond interests consists of a 59.7 percent share of the Argyle Diamond Mines Joint Venture. Argyle is a significant producer of industrial-grade and, to a lesser extent, gem-quality diamonds.

Argyle's principal assets are the AK1 open-pit and processing plant and the nearby alluvial mine and processing plant.

### 6.4.1 Diamonds Overview

Table 6.4.1 shows production of diamonds at Argyle for 1992, 1993 and 1994.

**Table 6.4.1. Diamond Production**

	1992		1993			1994			
	Total production	CRA equity share of production	Total production	CRA equity share of production		Total production	CRA equity share of production		
	('000)	(%)	('000)	('000)	(%)	('000)	(%)	('000)	
<b>DIAMONDS (carats)</b>									
Argyle	39,002	59.7	23,271	40,883	59.7	24,394	42,805	59.7	25,541

Table 6.4.2 shows Proved Ore Reserves and Probable Ore Reserves of diamonds at Argyle at December 31, 1994.

**Table 6.4.2. Estimated Diamond Reserves**

	Proved Ore Reserves and Probable Ore Reserves (1)	CRA interest	CRA equity share of Proved & Probable Reserves (2)
	(MM carats)	(%)	(MM carats)
<b>Diamonds (carats)</b>			
Argyle (Open Pit)	257.5	59.7%	153.7

*Notes:*

- (1) Reserves are expressed in terms of the recoverable quantities of saleable product, i.e., after all mining and processing losses.
- (2) Reserves include both hard rock and alluvial reserves.

### 6.4.2 Diamonds Information Sources

A&S' principal sources of information were:

- Site visits to the mines and processing facility
- Interviews with operating personnel at site and Argyle management in the Perth head office
- Access to the 1996 Budget and Business Plan
- General information at the site visit
- The A&S consultants previous visit to Argyle's Perth facilities.

CRA provided full access to all relevant information.

### 6.4.3 Diamonds Observations

Primary observations from site visits and associated interviews were as follows:

- Equipment and facilities are modern; the operation utilizes sophisticated process and business monitoring and analysis techniques.
- Management is capable.
- The contract with the Central Sales Organization of DeBeers (CSO) for diamond sales expires next year. A major issue for Argyle is negotiating satisfactory terms for contract renewal with the CSO or switching to direct marketing of its diamond production. Argyle's revenues have recently suffered from lower world prices and deferred CSO purchases.
- Cost containment is the focus of the operation.
- A recent change in screening practice was initiated to optimize processing plant operations. Ore throughput has increased to 9 million tonnes annually with a resultant reduction in unit operating costs and a marginal increase in the average value of diamonds recovered.

- Plant availability has been running at 82%. The current objective is to achieve further improvement in throughput and costs by improving availability and by continued plant optimization.
- Geotechnical steps are being taken to minimize risks (e.g., of pit slope and tailings dam failures).
- Argyle appears to have a significant intangible asset in its technical proficiency in high volume processing for recovery of diamonds.
- Limited reserves with declining grades are the biggest issue for Argyle. The 1994 CRA Annual Report reported the AK1 open pit operation had total reserves at 31 December 1994 of 74.8m tonnes at an average recoverable grade of 3.30 carats per tonne. The alluvial operation had total reserves of 20.9m tonnes at average recoverable grade of 0.50 carats per tonne. The mine life of both operations is about six to seven years.
- Although additional resources are being studied for a potential underground block caving operation, the feasibility study is at an early stage and the economic viability of the resource is uncertain.

#### *6.4.4 Diamonds Conclusions*

A&S concludes that the projected production, operating costs and capital costs are reasonable, with the following considerations:

- The mining costs are reasonable and should be low risk. Processing unit cost targets are less certain of achievement because they rely on attaining higher throughput. Mass flows in the plant are now finely balanced.
- Due to uncertainty of attaining higher processing plant throughput and the current low availability factor, a slightly lower production figure may be more reasonable.
- Capital forecast is consistent with the short life and appears reasonable.
- A&S believes that CRA's estimates of future diamond production, costs and capital expenditures are reasonable, presuming market targets are attainable. Data have not been provided herein because of partnership concerns.

### **6.5 Gold and Copper**

CRA's gold and copper business is comprised of a 90 percent interest in P.T. Kelian Equatorial Mining (Indonesia), Peak Gold Mines and Southern Copper (Australia) and a 53.6% interest in Bougainville Copper (Papua New Guinea). Neither Southern Copper nor Bougainville Copper are operating.

The principal assets of the gold and copper business are as follows:

- Kelian's large open pit gold mine and processing facility
- Peak Gold Mine's underground Cobar Mine and processing facility.

### 6.5.1 Gold and Copper Overview

Table 6.5.1 shows mine production of gold for 1992, 1993, and 1994.

**Table 6.5.1. Mine Production<sup>(1)</sup>**

	1992		1993			1994		
	Mine production ( <sup>'000</sup> )	CRA equity share of mine production (%)	Mine production ( <sup>'000</sup> )	CRA equity share of mine production (%)	Mine production ( <sup>'000</sup> )	CRA equity share of mine production (%)	Mine production ( <sup>'000</sup> )	CRA equity share of mine production (%)
<b>GOLD (oz.)</b>								
Peak <sup>(2)</sup>	15	100.0	15	122	100.0	122	120	100.0
Kelian <sup>(3)(4)</sup>	467	90.0	421	464	90.0	418	433	90.0
<b>CRA Total</b>	<b>482</b>		<b>436</b>	<b>584</b>		<b>540</b>	<b>537</b>	<b>494</b>

*Notes:*

- (1) Production figures represent metals in concentrates or metals in doré.
- (2) Commercial production commenced during the third quarter of 1992 and the mine officially opened on October 1, 1992.
- (3) Commissioning of Kelian was completed in April 1992. The mine reached design capacity during the second quarter of 1992.
- (4) Figures for the twelve months ended December 31, 1992 include production during the Kelian commissioning phase.

Table 6.5.2 shows estimates of Proved Ore Reserves and Probable Ore Reserves of gold as at December 31, 1994.

**Table 6.5.2. Estimated Reserves of Gold (net of dilution and mining losses)**

	Type of mine	Proved Ore Reserves & Probable Ore Reserves		Approximate mill recovery	CRA Interest	CRA equity share of recoverable metal
		Ore tonnage (MM tonnes)	Grade	(%)	(%)	(MM ounces)
<b>GOLD</b>						
Kelian <sup>(1)</sup>	O/P	27.7	1.49g/t	100	90.0	1.2 <sup>(3)</sup>
Peak <sup>(2)</sup>	U/G	3.5	7.10g/t	96	100.0	0.791

*Notes:*

- (1) Kelian quotes its grade as recoverable gold.
- (2) Although principally a gold deposit, Peak also contains recoverable reserves of copper, zinc, lead and silver. The full reserve is 3.5 million tonnes of ore at 7.10 grams/tonne gold, 0.6% copper, 0.8% lead, 0.9% zinc and 5 grams/tonne silver.
- (3) This figure is based on the pre-production ore body model from which the project's original ore reserve statement dated January 22, 1990, was derived. The ore body model is scheduled to be revised in 1995 following an in fill drilling program begun in 1994.

### 6.5.2 Gold and Copper Information Sources

A&S review was focused on Kelian. The principal source of information concerning Kelian was Michael Noakes, CRA Managing Director, and the 1996 Budgets and Business Plans. No site visits were undertaken.

Peak Gold Mines was reviewed on the basis of public information and internal plans.

CRA provided full access to all information requested.

### 6.5.3 Gold and Copper Observations

The interview and business plans highlighted the following key points:

- The Kelian ore grade is difficult to predict
- The potential for additional reserves at Kelian is low
- Legal action is pending against CRA concerning the Kelian property by five former shareholders in Kelian
- The Cobar mining district is well known and appears to have potential for nearby additional reserves.

### 6.5.4 Gold and Copper Conclusions

A&S concludes that the production, operating costs and capital costs appear reasonable:

- The Kelian reserve is difficult to verify; A&S believes there could be a 10–20 per cent downside due to the difficulties in predicting grade
- Peak Gold Mines has the opportunity for additional reserves to be identified
- Peak Gold Mines reserve life of six years at forecast production rates appears reasonable.

Table 6.5.3 provides an estimate of future gold production and costs that A&S believes to be reasonable. Kelian production should decline to 210,000 ounces per annum after 1999 until early 2004 from low grade stockpiles; the projected mine life assumes mining the additional measured and indicated resources – 51.3 million tonnes at an average grade of 1.5 g/t of recoverable gold.

Kelian operating costs are not disclosed for confidentiality reasons.

**Table 6.5.3. Estimate of Future Production and Costs**

	1995	1996	1997	1998	1999
<b>Peak Mine</b>					
<b>Production</b>					
Gold ('000 oz.)	134	137	152	145	128
Copper Concentrate (t)	17,247	10,848	8,789	8,123	9,512
Lead Concentrate (t)	6,607	7,200	7,400	8,000	10,000
Zinc Concentrate (t)	3,226	6,533	8,800	11,071	7,407
Cash Operating Cost (A\$MM)	31.7	31.0	33.4	34.1	35.3
Cash Cost (A\$/oz.)	237	226	219	235	275
Capital Expenditure (A\$MM)	7.4	8.0	8.6	6.5	4.0
Starting Reserves (MMoz.)	0.791				
<b>Kelian Mine</b>					
<b>Production</b>					
Gold ('000 oz.)	363	429	458	452	291
Silver ('000 oz.)	418	493	527	519	247
Capital Expenditure (A\$MM)	32.4	76.3	54.3	11.6	6.8
Starting Reserves (MMoz.)	1.2				



## 6.6 Century zinc project

Century is a zinc, lead, and silver deposit discovered in north west Queensland in 1990.

### 6.6.1 Century Zinc Project Overview

During 1991 and 1992, detailed drilling defined the geometry of the two predominantly flat lying mineralized layers of the deposit. The deposit is currently estimated to be 118 million tonnes averaging 10.2 percent zinc, 1.5 percent lead and 35 grams per tonne silver.

In 1993, metallurgical test work was carried out on a sample of ore mined from a trial shaft sunk in the deposit. The success of that trial initiated further metallurgical test work; this and more detailed commercial studies led to a decision by CRA to proceed to final feasibility.

This resulted in construction of a bulk sample plant designed to produce around 5,000 tonnes of zinc concentrate for comprehensive testing in 1994 and 1995; and the development of a Draft Impact Assessment Study as an initial step in achieving government approval for the project.

During this evaluation, Century Zinc Limited, a CRA subsidiary, recommended to CRA Limited the development of the Century Zinc Project at a cost of about A\$1.2 billion. The proposed Century Zinc Mine would become a major world producer of zinc (estimated production of up to 450,000 tonnes of zinc metal contained in concentrate per year) with lesser production of lead and silver. The major assets at present are the exploration lease (Authority to Prospect), and the exploration and study information.

CRA management indicated that three major issues need to be resolved before the project can move ahead:

- Satisfaction of native title claims
- Issuance of a mining lease by the Queensland government
- Finalization of a marketing agreement for the concentrate.

### 6.6.2 Century Zinc Information Sources

The principal sources of information were:

- Interviews with Ian Wood, General Manager for Mining, and Ian Williams, Managing Director
- Site visit and interview with Alan Roberts, General Manager for Metallurgy
- Feasibility Study extracts and the Draft Impact Assessment Study Report.

CRA provided full access to all information requested.

### 6.6.3 Century Zinc Observations

Principal relevant observations by A&S based on the site visit and interviews are:

- Mining by open cut methods should be technically straightforward
- Processing will be complex due to the ultrafine grinding required to liberate economic minerals
- Smelter trials with Budelco proved successful
- Reserve and grade computations appear reasonable and to conform with Australian reporting standards
- Operating and capital cost estimates appear reasonable based on the extensive exploration and study work
- The timetable for construction appears ambitious but should be attainable given no serious disruptions. A&S expects a slightly longer period of time from approval to the production stage than is provided in the construction timetable.

#### 6.6.4 Century Zinc Conclusions

A&S concludes that the Century Zinc Project is a reasonable investment for CRA once the three outstanding issues (Section 6.6.1) are resolved:

- Production, operating cost and capital cost estimates appear reasonable
- The ore body appears to be world class and project management appears to have firm control and a proven track record
- No abnormal risks are currently evident.

#### 6.7 Other businesses

CRA's other business units, such as Dampier Salt, Conzinc Asia and Minenco, were not considered material and consequently were not reviewed by A&S.

#### 6.8 Exploration interests

A&S met with Mr. Ian Gould of CRA Exploration to review the CRA exploration portfolio and its estimated valuations. A&S values are based on data supplied by CRA Exploration, which provided full access to files available in Melbourne. This information was not independently verified.

CRA's exploration activities are divided into four main groups:

- Eastern Region (Northern Territory, Queensland, New South Wales & Victoria)
- Western Region (Western Australia and South Australia)
- South East Asia (Indonesia, Laos, Vietnam, Cambodia, Thailand, Myanmar and Malaysia)
- International Region (Balance of the eastern hemisphere with a present focus on Papua New Guinea; Philippines; Continental Asia – India, China and Argentina).

Many exploration projects are located in each of the regions, all at differing stages. While some projects are considered to be at a major exploration stage, all are still described as "prospective".

CRA has an active exploration program both in areas of existing operations and at greenfield locations. This exploration is conducted either by CRA Exploration or directly by mine site exploration personnel. CRA's total exploration expenditure by major commodity group and region from 1990 to 1995 is set out in Table 6.8.1. Its significant exploration interests are outlined in Table 6.8.2. CRA's exploration activities currently employ 645 people.

A&S estimated the value of CRA's present exploration holdings that Morgan Stanley has taken into account in its analysis. The estimate is not presented herein for confidentiality reasons.

**Table 6.8.1 CRA – Exploration Expenditures**

##### By Commodity<sup>(1)</sup>

	1990	1991	1992	1993	1994	1995 <sup>(2)</sup>
Gold	15.6	11.9	9.8	11.5	17.3	16.5
Copper/Gold	—	—	9.4	15.1	16.5	24.9
Diamonds	9.8	9.7	8.8	9.0	8.9	10.8
Lead/Zinc	17.0	26.6	5.9	5.1	4.3	8.3
Copper, Zinc	—	—	15.7	14.6	15.2	4.6
Other	25.0	31.6	32.8	27.3	19.4	24.9
	67.4	79.8	82.4	82.6	81.6	90.0

**By Region<sup>(1)</sup>**

	1990	1991	1992	1993	1994	1995 <sup>(3)</sup>
Western	22.4	26.9	26.2	24.9	22.4	21.0
Eastern	15.6	21.4	22.6	24.5	26.1	26.3
Overseas	9.6	12.6	13.9	14.5	21.6	27.0
ET&I Group	17.0	18.5	17.2	18.1	10.5	13.1
GE Contingency	2.8	0.4	2.5	0.6	1.0	4.0
	67.4	79.8	82.4	82.6	81.6	91.4

*Notes:*

- (1) These figures are for expenditure on exploration by CRAE. They do not include:  
 - evaluation expenditure  
 - exploration expenditure incurred on behalf of other CRA business units or joint venture partners  
 - tenement acquisitions
- (2) 1990-94 figures are full year actual. 1995 figures are full year plan.
- (3) 1990-94 figures are full year actual. 1995 figures are full year forecast. 1990-93 figures restated to align with current Regional "boundaries".

**Table 6.8.2. CRA – Significant Exploration Interests**

Project Name	Location	Tenements		CRA Interest	Status <sup>(1)</sup>	Targets
		Size km <sup>2</sup>				
				(%)		
1. Burunga	Qld	325		80%	RD	Gas
2. Curara Well/Yilgarn	W.A.	263		75%	RD	Gold
3. Dugald River/Mt. Roseby	Qld	195		60-100/0-85%	RD	Zinc/Copper
4. Famatina	Argentina	38		Option to 100%	RD	Gold
5. HI Detritals	W.A.	Various				Iron Ore
6. Hidden Valley	PNG	241		100%	RD	Gold
7. Honeymoon Well/Yilgarn Nickel	W.A.	38		65%	PF	Nickel
8. Indonesia (various Contracts of Work)	Indonesia	Not yet granted				Gold
9. Kintyre	W.A.	237		100%	PD	Uranium
10. Klondyke	W.A.	64		Option to 100%	RD	Gold
11. PRC	Argentina	380		Option to 80%	RE/PF	Potash
12. Rhodes Ridge	W.A.	1142		50%	F	Iron Ore
13. Sepon	Laos	5000		90%	RD/RC	Gold
14. S.W. Kaolin	W.A.	8000		100%	PF	Kaolin
15. Stanton	N.T.	62		85%	RD	Copper/Cobalt
16. Wafi	PNG	96		100%	RD	Gold/Copper
17. WIM	Vic.	43338		100%	PD	Titanium
18. Westmoreland	Qld	33		N.M. <sup>(1)</sup>	RC	Uranium

**\* Key to Status:**

- P – Preliminary target delineation  
 GS – Geochemical sampling/testing  
 GM – Geological mapping  
 RC – Reconnaissance drilling  
 RD – Resource evaluation drilling

- RE – Reserve estimates and calculation  
 PF – Pre-feasibility  
 F – Feasibility  
 PD – Pre-development  
 D – Development

*Note:*

- (1) Ownership interest is dependent on drilling results.

## 7. REVIEW OF RTZ'S ASSETS AND PLANS

RTZ's principal mining and metals interests are in copper, gold, iron ore, aluminium, coal, zinc, silver and uranium. Table 7.1 sets out mine production of contained metals at RTZ's non-CRA operations for 1992, 1993 and 1994.

**Table 7.1. RTZ Metal Mine Production (excluding CRA)<sup>(1)</sup>**  
(in thousands)

	1992		1993		1994		Mine production	RTZ share of mine production	
	Mine production	RTZ share of mine production	Mine production	RTZ share of mine production	Mine production	RTZ share of mine production			
<b>COPPER (tonnes)</b>									
Bingham Canyon (US)	288.7	100.0%	288.7	307.0	100.0%	307.0	310.1	100.0%	310.1
Escondida (Chile)	336.6	30.0	101.0	388.8	30.0	116.6	481.3	30.0	144.4
Neves Corvo (Portugal)	148.6	49.0	72.8	149.9	49.0	73.4	130.3	49.0	63.8
Palabora (S. Africa)	128.8	38.9	50.1	126.4	38.9	49.2	127.6	38.9	49.6
Flambeau (US)	nil	100.0	nil	24.1	100.0	24.1	42.0	100.0	42.0
Discontinued/others <sup>(2)</sup>	116.8		30.5	nil	nil	nil	nil	nil	nil
<b>RTZ Total</b>			<b>543.2</b>			<b>570.4</b>			<b>609.9</b>
<b>GOLD (ounces)</b>									
Bingham Canyon (US)	515	100.0%	515	516	100.0%	516	510	100.0%	510
Ridgeway (US)	161	100.0	161	137	100.0	137	120	100.0	120
Barneys Canyon (US)	116	100.0	116	107	100.0	107	93	100.0	93
Morro do Ouro (Brazil)	167	51.0	85	174	51.0	89	169	51.0	86
Flambeau (US)	nil	100.0	nil	88	100.0	88	63	100.0	63
Rawhide (US)	92	51.0	47	102	51.0	52	121	51.0	62
Rio Tinto Zimbabwe (Zimbabwe)	82	56.1	46	84	56.1	47	80	56.1	45
Others	193	(3)	75	165	(3)	59	201	(3)	70
<b>RTZ Total</b>			<b>1,045</b>			<b>1,095</b>			<b>1,049</b>
<b>MOLYBDENUM (tonnes)</b>									
Bingham Canyon (US)	8.6	100.0%	8.6	8.2	100.0%	8.2	8.7	100.0%	8.7
Discontinued operations <sup>(2)</sup>	0.8	(3)	0.1	nil	nil	nil	nil	nil	nil
<b>RTZ Total</b>			<b>8.7</b>			<b>8.2</b>			<b>8.7</b>
<b>ZINC (tonnes)</b>									
Greens Creek (US) <sup>(4)</sup>	36.8	54.5%	20.0	9.5	54.5%	5.2	—	70.3%	—
Others	108.2	(3)	36.5	104.9	(3)	35.0	90.3	(3)	30.1
<b>RTZ Total</b>			<b>56.5</b>			<b>40.2</b>			<b>30.1</b>
<b>LEAD (tonnes)</b>									
Greens Creek (US) <sup>(4)</sup>	15.1	54.5%	8.2	3.5	54.5%	1.9	—	70.3%	—
Others	34.1	(3)	11.9	27.6	(3)	9.2	26.1	(3)	8.7
<b>RTZ Total</b>			<b>20.1</b>			<b>11.1</b>			<b>8.7</b>
<b>SILVER (ounces)</b>									
Bingham Canyon (US)	4,317	100.0%	4,317	4,411	100.0%	4,411	4,358	100.0%	4,358
Greens Creek (US) <sup>(4)</sup>	6,979	54.5	3,804	1,722	54.5	940	—	70.3	—
Others	11,041	(3)	4,068	10,958	(3)	4,123	11,122	(3)	4,485
<b>RTZ Total</b>			<b>12,189</b>			<b>9,474</b>			<b>8,843</b>
<b>TIN (tonnes)</b>									
Various	3.0	(3)	1.5	5.3	(3)	2.6	4.3	(3)	2.1

- Notes:
- (1) Mine production figures represent metals in concentrates or metal in doré, except for Flambeau copper and gold which are metals contained in ore mined for direct sale.
  - (2) Copper and molybdenum production from discontinued operations represents output from mines in which RTZ had an indirect interest via its 51.5% holding in Rio Algom. RTZ's shareholding in Rio Algom was sold in June 1992. The production data shown for 1992 are only for the period of RTZ's interest.
  - (3) RTZ's share of other mines varies from mine to mine.
  - (4) Production at Greens Creek was suspended in April 1993, due to low metal prices.

Table 7.2 sets out estimates of proved and probable reserves at metal mines within RTZ (excluding CRA) at December 31, 1994.

**Table 7.2. Estimated Proved and Probable Reserves at Metal Mines (excluding CRA)<sup>(1)(2)</sup>**

	Type of Mine <sup>(3)</sup>	Proved and Probable Reserves		Average Mill Recovery	RTZ Interest	RTZ Share of Recoverable Metal <sup>(4)</sup>
		Ore Tonnage	Grade			
		(MM tonnes)				
<b>COPPER</b>						
Escondida (Chile)	O/P	2,107.0	1.30%	92%	30.0%	7.560
Bingham Canyon (US) <sup>(5)</sup>	O/P	1,021.0	0.59	90	100.0	5.413
Neves Corvo (Portugal) <sup>(5)(6)</sup> : (copper ore)	U/G	26.4	6.29	89	49.0	0.726
(tin-copper ore)	U/G	2.2	11.38	97	49.0	0.118
Palabora (S. Africa) <sup>(7)</sup>	O/P	160	0.60	85	38.9	0.319
Flambeau (US) <sup>(5)</sup>	O/P	1.0	8.71	<sup>(8)</sup>	100.0	0.087
RTZ Total						14.223
<b>GOLD<sup>(5)</sup></b>						
Bingham Canyon (US) <sup>(5)</sup>	O/P	1,021.0	0.38g/t	69%	100.0%	(MM Oz) 8.678
Barneys Canyon (US)	O/P	11.3	2.26g/t	86	100.0	0.708
Ridgeway (US)	O/P	25.1	0.99g/t	79	100.0	0.630
Morro do Ouro (Brazil)	O/P	92.8	0.47g/t	78	51.0	0.565
Rawhide (US)	O/P	33.3	0.96g/t	70	51.0	0.369
Flambeau (US) <sup>(5)</sup>	O/P	1.0	3.94g/t	<sup>(8)</sup>	100.0	0.127
Others	—	—	—	—	—	0.006
RTZ Total						11.083
<b>MOLYBDENUM</b>						
Bingham Canyon (US) <sup>(5)</sup>	O/P	1,021	0.028%	39%	100.0%	(MM tonnes) 0.112
<b>ZINC</b>						
Various <sup>(5)</sup>	U/G	—	—	—	Various	0.353
<b>LEAD</b>						
Various <sup>(5)</sup>	U/G	—	—	—	Various	0.085
<b>SILVER</b>						
Bingham Canyon (US) <sup>(5)</sup>	O/P	1,021	2.92g/t	80%	100.0%	(MM Oz) 76.203
Neves Corvo (Portugal) <sup>(5)(6)</sup> : (copper ore)	U/G	26.4	50.0g/t	38%	49.0%	7.891
(tin-copper ore)	U/G	2.2	39.6g/t	76%	49.0%	1.029
Flambeau (US) <sup>(5)</sup>	O/P	1.0	65.7g/t	<sup>(8)</sup>	100.0%	2.113
Others	—	—	—	—	—	15.958
RTZ Total						103.194
<b>TIN</b>						
Neves Corvo (Portugal) <sup>(5)(6)</sup> : (tin-copper ore)	U/G	2.2	2.76%	66%	49.0%	(MM tonnes) 0.020

**Notes:**

- (1) Reserves are net of dilution and mining losses.
- (2) Excludes RTZ's interest in Freeport Copper & Gold which was acquired in early 1995.
- (3) O/P – Open pit; U/G – Underground.
- (4) RTZ share of reserves are expressed as share of recoverable metal except for Flambeau reserves which are expressed as contained metal in ore for direct sale (see note (7) below). The figures used to calculate RTZ's share of recoverable metal, i.e., ore tonnage, grade, approximate recovery and RTZ interest, are sometimes more precise than the rounded numbers shown in the table, hence small differences in RTZ share of recoverable metal may result if the same calculation is repeated with such rounded figures.
- (5) Mine has quoted reserves for more than one metal from the same ore tonnage.
- (6) Neves Corvo contains two principal economic ore types: copper ore and tin-copper ore. The copper ore is treated to produce copper and by-product silver; the tin-copper ore is treated in a separate plant to produce tin, copper and minor quantities of silver.
- (7) Palabora also has 73.5 million tonnes of low grade stockpiled copper mineralization which it plans to use to augment the open pit ore reserves. This material will be blended with the open pit ore during the years 1998-2001. After the open pit reserves have been exhausted in 2001, the remainder of the low grade stockpile will be processed in 2002.
- (8) The Flambeau mine sells high grade ore directly. Mill recovery is therefore inappropriate.

## 7.1 Kennecott Copper

Located near Salt Lake City, Utah, the Bingham Canyon operations of the Kennecott Copper Corporation, wholly owned by RTZ, comprise one of the world's largest and oldest copper mining complexes.

### 7.1.1 Kennecott Overview

The Bingham Canyon Pit's Stated Reserves are 1.02 billion tonnes (1.1 billion tons), with a copper content of 0.59 percent, molybdenum content of 0.028 percent, and a gold content of 0.38 grammes of gold per tonne.

The operations consist of:

- The Bingham Canyon mine – which hauls approximately 400,000 tonnes per day of ore and waste
- A new \$A1.2 billion smelter
- Associated infrastructure.

While RTZ's financial statements do not separate Kennecott's copper profits from gold and coal profits, the great bulk of Kennecott's reported A\$425 million profits in 1994 presumably came from Bingham Canyon metals production.

A summary of the principal operating statistics at Bingham Canyon for the last three years is given in Table 7.1.1.

**Table 7.1.1. Bingham Canyon Operating Statistics**

	1992	1993	1994
Rock Mined ('000 tonnes)	90,873	90,423	103,678
Ore Milled ('000 tonnes)	49,465	51,493	53,769
Headgrades:			
Copper %	0.62	0.63	0.62
Gold (grammes/tonne)	0.49	0.44	0.42
Silver (grammes/tonne)	3.50	3.29	3.12
Molybdenum %	0.044	0.040	0.044
Copper Concentrates Produced ('000 tonnes)	982.0	1,067.2	1,020.7
Production of Metals in Concentrates:			
Copper ('000 tonnes) <sup>(1)</sup>	288.7	307.0	310.1
Gold ('000 ounces)	515	516	510
Silver ('000 ounces)	4,317	4,411	4,358
Molybdenum Concentrates Produced ('000 tonnes)	15.9	15.2	16.0
Containing: Molybdenum ('000 tonnes)	8.6	8.2	8.7
Concentrate smelted on-site ('000 tonnes)	473.7	556.8	471.3
Production of Refined Metals:			
Copper ('000 tonnes)	137.7	144.3	119.7
Gold ('000 tonnes)	250	277	228
Silver ('000 tonnes)	2001	2,005	1,885

Note:

(1) Includes a small amount of copper in precipitates.

### 7.1.2 Kennecott Information Sources

A&S used the following information sources:

- Reviewed Kennecott's plans
- Discussed the plans with RTZ corporate management
- Visited the site and interviewed local management

- Reviewed the study of an independent consultant that provided independent verification of Bingham Canyon's mining costs and tonnage
- Reviewed projected performance against past actual results.

The information provided was sufficient to enable A&S to reach the conclusions expressed.

### 7.1.3 *Kennecott Observations*

A&S' observations on Kennecott are as follows:

- Kennecott's copper reserves are very well known.
- Although the long range plan calls for more production than indicated by published reserve figures, A&S believes this to be reasonable; most mining companies do not prove out their reserves in sufficient detail to satisfy legal reporting standards more than 15-20 years in the future
- The production history of the operation is very well known
- The mine equipment is relatively modern
- The long range plan includes capital to continue to replace major equipment on a regular basis
- The plans and costs reflect the increasing haulage distances as the pit is deepened
- The copper concentrator is relatively new (late 1980s) and is operating at/or above the expected capacity
- Capital has been provided and the permits obtained to increase tailings capacity sufficiently to last the life of the mine and beyond
- The basic Outokumpu process in the smelter is of proven technology; in A&S' view the present start-up problems should be overcome as management and the work force gain familiarity with the equipment and process
- In September 1995 the EPA announced that Kennecott would not be classified as a Superfund site
- Kennecott is studying several plans to optimize mining and concentrating operations and increase concentrate production if the smelter demonstrates that it can exceed design capacity.

### 7.1.4 *Kennecott Conclusions*

A&S concludes Kennecott's production and cost estimates are reasonable and achievable. However, it should be noted that:

- Problems have been encountered in the start-up of the new anode caster (a part of the new smelter complex). The anode caster will probably require additional capital to operate effectively. However, the level of additional capital required should not be material.
- Slope stability problems could be encountered on the north wall of the pit seven years hence. Kennecott management appears to be addressing this issue effectively.
- The principal reason that Bingham Canyon is the world's lowest cost copper mine is the substantial benefit it receives from the sale of by-product gold and molybdenum. In accordance with normal mining practice, sales of these by-products are credited to mining costs and are thus used to reduce copper costs. By applying current market prices to Bingham Canyon metals production as reported in RTZ's 1994 Form 20-F, it can be seen that by-product revenues are approximately one-half of copper revenues. Thus, any material change in by-product prices will have a substantial effect on Kennecott's cost position.
- Table 7.1.2 provides an estimate of future Kennecott production and capital expenditures that A&S believes to be reasonable. Costs are excluded for confidentiality reasons.

**Table 7.1.2. Estimate of Bingham Canyon Future Production and Capital Costs**

	1995	1996	1997	1998	1999
Production <sup>(1)</sup>					
Copper ('000t)	305.0	279.6	332.9	308.4	259.8
Gold ('000 oz.)	566.1	576.0	577.1	439.7	387.1
Silver ('000 oz.)	4,418	4,741	4,570	4,321	3,853
Molybdenum ('000t)	10.4	10.6	7.2	7.8	5.8
Capital Expenditure (A\$MM)	499.3	417.4	361.1	265.8	60.4
Starting Reserves (MMt)					
Copper (MMt)	5.413				
Gold (MM oz.)	8.678				
Silver (MM oz.)	76.2				
Molybdenum (MMt)	0.112				

Notes:

(1) Salable metal production.

## 7.2 Copper other than Kennecott Copper

RTZ's copper businesses, other than Kennecott, provide a substantial portion of the company's earnings. RTZ's principal copper assets excluding Kennecott are summarized in Table 7.2.1.

**Table 7.2.1. RTZ Copper Holdings (Excluding Kennecott)**

Mine	Country	Total Mine				
		12/31/94 Reserves	1994 Cu Production	RTZ Reserves	RTZ Production	RTZ Ownership
		('000t)	('000t)	('000t)	('000t)	(%)
Escondida	Chile	25,200	481	7,560	144	30.0
Palabora	South Africa	816	128	317	50	38.9
Neves Corvo	Portugal	1,478	130	724 <sup>(3)</sup>	64	49.0
Freeport	Indonesia	12,700 <sup>(1)</sup>	320 <sup>(2)</sup>	1,500	<sup>(4)</sup>	11.8

Notes:

(1) Estimated from Freeport Copper & Gold's 1994 10K. Also contains over 40 million ounces of gold.

(2) Plus 800,000 ounces of gold.

(3) Excluding tin-copper ore.

(4) Acquired in early 1995; agreement provides RTZ with potential 40% interest in incremental production.

### Copper – Ex Kennecott Information Sources

A&S information about these assets was gained principally from:

- RTZ Business Plans (Palabora, Neves Corvo and Freeport)
- RTZ's Form 20-F
- Interviews with key RTZ management, particularly:
  - Leigh Clifford, Mining Director
  - Keith Erlam, Head of Technical Services
- Publicly available information
- A&S own knowledge of the assets, derived from both generally available information throughout the industry and from past visits by A&S personnel to two of the assets (Palabora and Freeport)
- Independent competitive analyses

The information provided was sufficient to enable A&S to reach the conclusions expressed.



### 7.2.1 Escondida

Escondida is on track to becoming the world's largest and perhaps lowest-cost copper mine. This should occur following the successful completion in the first half of 1996 of its Phase III expansion to over 800,000 annual tonnes of copper, mostly in the form of concentrate. Operations are managed by Escondida's majority owner, BHP (57.5 percent interest).

Escondida's stated reserves exceed 2,000 million tonnes grading 1.3 percent copper as of December 31, 1994 – approximately 34 years at planned production rates. However, RTZ believes that the mine has a nominal life of at least 50 years at the same production levels. A&S agrees with this conclusion.

1994 production was approximately 481,000 tonnes of copper in concentrate.

During 1995, significant operating problems have been encountered at Escondida, including:

- A potential pit wall failure that could have threatened the input crusher conveyor system
- Difficulties with clay in some ore types that affected milling performance
- Difficulties in meeting cathode production from the new ammonia leach facility.

A summary of the principal operating statistics at Escondida for the last three years is given below in Table 7.2.2.

**Table 7.2.2. Escondida Operating Statistics**

	1992	1993	1994
Rock Mined ('000 tonnes)	107,647	128,044	144,584
Ore Milled ('000 tonnes)	14,070	15,260	18,428
Head grade: Copper %	2.78	2.80	2.87
Copper Concentrates Produced ('000 tonnes)	762.8	886.5	1,099.0
Production of Metals in Concentrates:			
Copper ('000 tonnes)	336.6	388.8	481.3
Gold ('000 ounces)	65	73	108
Silver ('000 ounces)	2,511	2,564	2,749

#### *Escondida Observations*

The above problems have had a serious impact on 1995 earnings.

A&S received only a summary production plan owing to confidentiality restrictions. A&S was not given permission to visit Escondida.

#### *Escondida Conclusions*

A&S concludes that Escondida should continue to be a major reliable contributor to RTZ for many years to come. This opinion is based on the following factors:

- Copper reserves are substantial – life is estimated to be in excess of 50 years at projected production rates
- The mine is known throughout the international mining industry as one of the world's lowest-cost producers (this was verified by a review of independent data from an independent consulting firm)
- BHP, the operator, is known in the industry to be a well managed mining company
- The 1995 problems, although serious in the short term, are not atypical of growing operations. On-site management should become more adept at managing these risks over time.

A&S has not provided in this report detailed forecasts of Escondida production, costs and capital expenditures because other owners of Escondida (e.g., BHP) might well consider the disclosure of such estimates as contrary to their interests.

In general, however, A&S can say that:

- Unit production costs should remain at present levels over the same period.
- Capital expenditures should be reduced to sustaining levels upon completion of the Phase III expansion. However, sometime after the year 2000 additional capital expenditures can be expected to increase mining and milling capacity in order to maintain copper production tonnages as grades gradually decline.

### 7.2.2 Palabora

Palabora has long been known as one of the world's lowest-cost copper producers. Mining is by open pit and is integrated with an on-site smelter and refinery.

The mine is nearing the end of its life due to depletion of reserves. The reserves, which average 0.52 percent copper, are sufficient to last through the year 2001 at scheduled production rates.

A summary of the principal operating statistics of Palabora for the last three years is given Table 7.2.3 below.

**Table 7.2.3. Palabora Operating Statistics**

	1992	1993	1994
Rock Mined ('000 tonnes)	37,768	37,811	38,224
Ore Milled ('000 tonnes)	28,964	28,544	28,352
Head grade: Copper %	0.53	0.53	0.54
Copper Concentrates Produced ('000 tonnes)	366.2	369.9	380.4
Contained Copper ('000 tonnes)	128.8	126.4	127.6
Concentrates Smelted on Site ('000 tonnes) <sup>(1)</sup>	309.0	343.6	378.1
Refined Copper Produced ('000 tonnes)	104.2	109.7	115.5

Note:

(1) Includes a small amount of purchased (i.e., non-Palabora) concentrates.

### Palabora Information Sources

A&S' information came from:

- Discussions with RTZ senior staff
- Data from RTZ's 1994 Form 20-F
- RTZ's forecasts
- Expertise of the A&S consultant responsible for assessing these operations, who visited Palabora some years ago
- Competitive cost data developed by an independent consultant.

The information provided was sufficient to enable A&S to reach the conclusions expressed.

### Palabora Observations

A possible underground mine is being considered to exploit reserves below the open pit. However, no significant value should be attached to this possible extension of Palabora's life because:

- The capital required for such a development will be significant
- Such a mine will likely be a relatively high-cost producer
- There will be some risk in opening up a block caving mine in an unproven rock type environment; RTZ is doing research on the mining systems that might be employed.

### *Palabora Conclusions*

A&S concludes that RTZ's projections of Palabora as a low-cost open pit mining operation are reasonable and are supported by analyses of its past performance and A&S' review of competitive mining costs developed by an independent mining data firm. A&S considers that RTZ's projections for Palabora are reliable because the reserves are well defined and the operation is well established.

A&S has not provided in this report detailed estimates of future Palabora production, costs and capital expenditures. Palabora is a publicly listed company and A&S believes that it would be inappropriate to include in this report projections that have not been given to Palabora's own shareholders.

In general, however, A&S can say that:

- Production and operating costs should continue at current levels until open pit reserves have been mined out (in approximately 2001).
- Capital expenditures should decline to minimum sustaining levels for the remainder of the open pit mine life.

### *7.2.3 Neves Corvo*

Neves Corvo is a high-grade (6.3 percent average) underground copper mine in southern Portugal operated by Sociedade Minera de Neves Corvo (Somincor).

Neves Corvo's unit costs of production have been reported by an independent consultant (not A&S) to be lower than most copper producers (i.e. in the second quartile).

A summary of the principal operating statistics of Neves Corvo for the last three years is given below:

**Table 7.2.4. Neves Corvo operating statistics**

	1992	1993	1994
Ore Mined and Hoisted (000 tonnes)	1,602	1,716	1,716
Ore Milled (000 tonnes):			
Copper Production Facilities <sup>(1)</sup>	1,524	1,610	1,665
Tin Production Facilities <sup>(1)</sup>	385	412	401
Headgrades:			
Copper %	10.3	9.8	8.5
Tin % (Tin ores only)	1.6	2.2	1.8
Copper Concentrates Produced (000 tonnes)	599.5	612.4	534.5
Contained Copper (000 tonnes)	148.6	149.9	130.3
Tin Concentrates Produced (000 tonnes)	6.5	10.1	7.8
Contained Tin (000 tonnes)	3.0	5.3	4.3

*Note:*

(1) Some ore is treated in both the copper and tin production facilities.

The information provided was sufficient to enable A&S to reach the conclusions expressed.

### *Neves Corvo Conclusions*

A&S concludes that, based on the plans for Somincor and discussions with RTZ management, the present reserves will permit production at the rate of 120,000 to 125,000 tonnes per annum until 1998, after which there will be a gradual decline in both output and grade until the mine is closed in 2011.

A&S has not provided detailed projections of production, costs and capital expenditures because publication of such data might be considered harmful by Neves Corvo majority owners (RTZ's interest is 49 percent).

A&S can say that in general Neves Corvo's:

- Metals production (copper, tin and silver) can be expected to decline gradually in accordance with projected declining grades
- Ore production and total production costs should continue at present levels for the next several years
- Capital expenditures should remain at their present level (A\$10-20 million annually) for the foreseeable future

#### 7.2.4 Freeport

PT Freeport's operations, (86 percent owned by Freeport Copper & Gold), are located in a remote region of Irian Jaya, Indonesia in rugged terrain at an altitude of 14,000 feet, in steep mountains, with an annual rainfall exceeding 200 inches. The original mine and infrastructure was developed by Freeport in the 1970s and early 1980s. Freeport has since continued to find additional high grade copper and copper-gold ores. Stated recoverable reserves are approximately 13 million tonnes of recoverable copper and 40 million ounces of gold.

Production growth has been rapid. When visited by A&S in 1987, an expansion from 15,000 to 20,000 tonnes per day of ore was being contemplated by Freeport. In 1995, mine capacity was approximately 115,000 tonnes per day; an expansion to 200,000 tonnes per day is now being contemplated, according to Freeport Copper & Gold's 1994 Annual Report.

In 1995, RTZ purchased 11.8% of Freeport Copper & Gold for US\$500 million. As part of this transaction RTZ also agreed to:

- Spend US\$100 million on exploration over the next three years, for which RTZ will receive a 40 percent interest in any future projects
- Lend up to US\$750 million for identified expansion projects if both parties agree to expand, on the basis of the presently ongoing feasibility study; after recovering its funding with interest from 100 percent of the incremental cash flow, RTZ would earn a 40 percent interest in the incremental cash flow
- Fund 40 percent of any further agreed expansions or new projects in Irian Jaya, with the remaining 60 percent funded by PTFI
- Acquire a 25-percent interest in the Huelva smelter in Spain (subsequently terminated).

Table 7.2.5 provides Freeport operating statistics for 1992, 1993 and 1994.

**Table 7.2.5. Freeport Operating Statistics**

	1992	1993	1994
Ore Milled ('000 tonnes)	57,600	62,300	72,500
Headgrades:			
Copper %	1.59	1.57	1.51
Gold (grammes per tonne)	1.35	1.46	1.31
Silver (grammes per tonne)	4.79	4.02	3.02
Metal Production:			
Copper (Recoverable tonnes)	280,898	298,730	322,278
Gold (Recoverable ounces)	641,000	786,700	784,000
Silver (Recoverable ounces)	1,642,500	1,541,200	1,305,400

Source: Freeport 1994 Annual Report

#### Freeport Information Sources

A&S reviewed RTZ's intentions in relation to its investment in Freeport with senior RTZ management. A&S also reviewed the projected tonnage and cash flow from the existing operation.

The information provided was sufficient to enable A&S to reach the conclusions expressed.

### Freeport Conclusions

- Freeport's contracts of work areas in Irian Jaya are considered to be among the world's most prospective areas for copper and gold exploration
- PT Freeport Indonesia's new exploration effort has already demonstrated significant additional reserves potential in the Grasberg area (see further comment under Section 7.8, RTZ Exploration Interests)
- A&S notes a recent statement by the Overseas Private Investment Corporation (OPIC) indicating cancellation of US\$100 million in political risk insurance relating to Freeport's operations; this matter is now in arbitration
- Recent (New York Times: November 2, 1995) reports indicate opposition to Freeport's tailing disposal methods
- The value of the investment to RTZ will depend upon the results of the exploration program, and on the results of the feasibility study for expansion of the mining and milling operations.

### 7.3 Gold

RTZ gold production comes from several sources. Table 7.3.1 following summarizes RTZ's 1994 gold production and year end reserves.

**Table 7.3.1. RTZ Gold Interests**  
(<sup>'000</sup> oz. recoverable)

	Total 1994 Production	Total 12/31/94 Reserves	RTZ Per cent.	RTZ 1994 Production	RTZ 12/31/94 Reserves
<b>Bingham Canyon</b>	510	8,678	100.0%	510	8,678
<b>Other U.S.</b>					
Ridgeway	120	630	100.0	120	630
Barney's Canyon	93	708	100.0	93	708
Flambeau	63	127	100.0	63	127
Rawhide	121	719	51.0	62	367
Total Other U.S.				338	1,834
<b>Non-U.S.</b>					
Morro do Ouro	169	1,108	51.0	86	565
RT Zimbabwe	80	(1)	56.1	45	(2)

Note:

(1) Not reported.

#### 7.3.1 Bingham Canyon

Bingham Canyon contains over 8 million ounces of gold reserves and current production is over 500,000 ounces per year. This gold is treated for accounting purposes as a by-product of Bingham Canyon copper production.

Bingham Canyon gold production was included in A&S' discussion of Kennecott Copper. A&S concludes that Bingham Canyon should reliably produce for 20 or more years, or somewhat longer than indicated by RTZ's stated reserves.

### 7.3.2 Other U.S. Gold-Producing Operations

RTZ has four other gold-producing operations in the U.S.:

- Ridgeway
- Barney's Canyon
- Flambeau
- Rawhide

A fifth mine, Cortez, which produced 28,000 ounces to RTZ's account in 1994, is associated with the Pipeline Gold Exploration Project, which is discussed in Section 7.8.1.

RTZ's interest in the total recoverable reserves of the four mines is 1.8 million ounces. RTZ's share of 1994 production totalled 338,000 ounces. A&S has some knowledge of these mines independent of RTZ. A&S discussed the mines and their prospects with RTZ but did not visit them for three reasons:

- They have limited life (average of five years)
- They are known to be reliable producers
- None individually has a material value in the context of the proposed transaction.

RTZ provided A&S with full access to all information requested on the US gold assets.

A&S concludes, on the basis of general industry knowledge, that production from these mines can be reliably counted on until their reserves are exhausted two to seven years hence. Table 7.3.2 provides an estimate of future US gold mines production and costs that A&S believes to be reasonable. In relation to the Rawhide mine, A&S has withheld production, cost and capital expenditure projections on the grounds that RTZ's partner in Rawhide might consider disclosure of these data to be harmful to its interests.

**Table 7.3.2. Estimate of U.S. Gold Mines Future Production and Cost**

	1995	1996	1997	1998	1999
<b>Flambeau Mine</b>					
Production					
Copper ('000t)	37.13	31.07	16.74	—	—
Gold ('000 oz.)	50.0	42.0	18.0		
Silver ('000 oz.)	836.0	523.4	169.5		
Cash Operating Cost (A\$MM)	62.72	68.59	40.17		
Capital Expenditure (A\$MM)	0.05	0.05	0.05		
Starting Reserves					
Copper (MMt)	0.09				
Gold (MM oz.)	0.13				
Silver (MM oz.)	2.113				
<b>Ridgeway Mine</b>					
Production					
Gold ('000 oz.)	119.2	126.4	129.8	118.8	128.1
Silver ('000 oz.)	—	64.7	62.6	55.4	65.1
Cash Operating Cost (A\$MM)	58.62	53.33	55.97	54.32	55.14
Capital Expenditure (A\$MM)	4.0	1.3	—	—	—
Starting Reserves					
Gold (MM oz.)	0.63				
Silver (MM oz.)	—				
<b>Barney's Canyon</b>					
Production					
Gold ('000 oz.)	110.0	90.2	101.5	120.4	140.8
Cash Operating Cost (A\$MM)	40.64	40.12	37.70	34.60	40.85
Capital Expenditure (A\$MM)	13.4	12.1	9.4	9.4	—
Starting Reserves					
Gold (MM oz.)	0.708				

### 7.3.3 Non-U.S. Gold assets

RTZ provided A&S with all information requested on the following non-US gold assets.

#### *Morro do Ouro*

RTZ holds a 51 percent interest in this Brazilian gold mine in the State of Minas Gerais. RTZ considers this to be a low cost mining operation. A&S did not investigate the project independently, given the mine's limited materiality relative to the transaction. RTZ believes there is some reserve upside potential. Information given to A&S regarding geology and mining conditions appears to support RTZ's estimates of production costs and volumes.

A summary of the principal operating statistics for Morro do Ouro for the last three years is given below.

**Table 7.3.3. Morro do Ouro Operating Statistics**

	1992	1993	1994
Rock Mined ('000 tonnes)	10,413	13,116	13,452
Ore Milled ('000 tonnes)	10,492	12,973	13,409
Headgrade Gold (grammes/tonne)	0.590	0.517	0.497
Gold produced ('000 ounces)	166.5	174.3	168.8

## RT Zimbabwe

The RT Zimbabwe investments were reviewed on the basis of RTZ's briefing books prepared for their Directors. The investments were not reviewed further, and there is no indication that RTZ Zimbabwe is material in the context of the transaction.

## Libir

Lihir is a world class (14.6-million-ounce) reserve of gold on Lihir Island in Papua New Guinea. RTZ has a 17.1 percent interest in, and is operator of, this project. Project construction is expected to commence in the near term for an operation with a capacity to produce an average of 584,000 ounces of gold annually during the first 14 years of its life.

## 7.4 Industrial Minerals

RTZ's Industrial Minerals businesses consist of borax, iron and titanium, and talc.

### 7.4.1 Industrial Minerals Overview

The iron and titanium assets include:

- QIT-Fer et Titane Inc. mine and plant in Canada (QIT)
- RTZ's 50 percent interest in Richards Bay Minerals (RBM) in South Africa.

Borax assets include principally the U.S. Borax operations (mine and plants) in California and a small mine in Argentina.

Talc assets include the Talc de Luzenac mines and plants, principally in France, Austria, Italy, Canada and the United States.

Table 7.4.1 sets out production of the more important industrial minerals at RTZ Group operations for 1992, 1993 and 1994.

**Table 7.4.1. RTZ Industrial Minerals Production Excluding CRA  
(in thousands)**

	1992		1993			1994		
	Total production	RTZ share of production	Total production	RTZ share of production	Total production	RTZ share of production	Total production	RTZ share of production
<b>Borates (tonnes)<sup>(1)</sup></b>								
Boron mine (US)	436	100.0%	436	455	100.0%	455	477	100.0
Tincalayu (Argentina)	16	100.0	16	12	100.0	12	16	100.0
<b>RTZ Total</b>		<u>452</u>			<u>467</u>		<u>493</u>	
<b>Titanium dioxide feedstock (tonnes)</b>								
RTZ Iron and Titanium (Canada/S. Africa) <sup>(2)</sup>	1,637	(2)	<u>1,195</u>	1,545	(2)	<u>1,099</u>	1,537	(2)
<b>Talc (tonnes)</b>								
Luzenac Group (Europe/ North America) <sup>(3)</sup>	861	99.9	<u>860</u>	958	99.9	<u>957</u>	1,022	99.9%
<b>Silica sand (tonnes)<sup>(4)</sup></b>								
US Silica (US)	4,382	100.0%	<u>4,382</u>	4,409	100.0	<u>4,409</u>	4,823	100.0%
<b>Potash (tonnes)</b>								
Discontinued operations <sup>(5)</sup>	551	(4)	<u>284</u>	nil	nil	<u>nil</u>	nil	nil

#### Notes:

- (1) Production is expressed as B<sub>2</sub>O<sub>3</sub> content.
- (2) Production comprises 100% of QIT and 50% of RBM.
- (3) Talc production is based on mill output which includes some product derived from purchased talc ores.
- (4) Production from discontinued operations represents output from mines in which RTZ had an indirect interest via its 51.5% interest in Rio Algom. RTZ's shareholding in Rio Algom was sold in June 1992. The 1992 production data shown are only for the period of RTZ's interest.
- (5) RTZ has entered into agreements to sell this business.



**Table 7.4.2. Estimated Proved and Probable Reserves at Industrial Minerals Mines  
(in thousands)**

	Type of reserves (1)	Proved and probable reserves (2)	RTZ interest	RTZ share of reserves (2)
<b>Borates (tonnes) (3)</b>				
Boron mine (US)	O/P	24,619	100.0%	24,619
Tincalayu (Argentina)	O/P	260	100.0%	260
<b>RTZ Total</b>				<b>24,879</b>
<b>Titanium dioxide feedstock (tonnes)</b>				
RTZ Iron and Titanium(4) (Canada/S. Africa)	O/P and D/O	79,800	(4)	63,600
<b>Talc (tonnes)</b>				
Luzenac Group (Europe/ North America)	O/P and U/G	82,335	99.9%	82,247
<b>Silica sand (tonnes)(5)</b>				
US Silica (US)	O/P	241,979	100.0%	241,979

Notes:

- (1) O/P – Open Pit; D/O – Dredging Operation; U/G – Underground Mine.
- (2) Reserves are expressed in terms of the recoverable quantities of saleable product (i.e., after all mining and processing losses.)
- (3) Reserves are expressed as saleable B<sub>2</sub>O<sub>3</sub> content.
- (4) Comprises reserves at QIT (RTZ 100%) and RBM (RTZ 50%).
- (5) RTZ has recently entered into agreements to sell this business.

#### 7.4.2 Industrial Minerals — Information Sources

A&S' principal source of information was from interviews with key senior RTZ management, principally:

- G. Sage (Director of Industrial Minerals)
- G. Elliott (Head of Business Evaluation)
- J. Collier (Head of Exploration)
- A. Emery, (Head of Health, Safety and Environmental Services).

All information provided to A&S by RTZ in these interviews, and most other information relating to this business unit provided to A&S is in the public domain. RTZ restricted disclosures given the need to protect proprietary technology and customer relationships. Restrictions on information dissemination placed on RTZ by its Richards Bay joint venture agreement with Gencor also prevented disclosure of confidential titanium information on RBM.

The information provided was sufficient to enable A&S to reach the conclusions expressed.

#### 7.4.3 Industrial Minerals Observations

The principal characteristics of the talc, borax and titanium businesses are that:

- Proprietary technologies and commercial considerations are the key factors underlying profits
- The quality of reserves is a significant factor
- Much value is added to the products by the upgrading facilities
- Market growth is regular and less sensitive to business cycles than in metal mining
- RTZ holds a strong position in the world market for each product, except iron.

#### 7.4.4 Industrial Minerals Conclusions

A&S was provided with only limited production and cost information. Hence, A&S cannot directly provide its opinion as to the reasonableness of future production tonnage and cost plans.

However, A&S can say that:

- Nothing A&S was told was inconsistent with A&S pre-existing understanding of the businesses
- A&S saw no indication that RTZ's pattern of reliable long term growth in profits would be broken. Indeed, A&S believes the projections may be conservative
- RTZ has demonstrated, through past performance in these businesses, its ability to produce product to meet market demand while maintaining profitable margins.

Based upon A&S review of public information and interviews, and A&S pre-existing understanding of the businesses, A&S believes that there will be a continuation of long-term growth in RTZ's Industrial Minerals business.

## 7.5 Coal

Kennecott owns or has positions in five U.S. coal mines. Table 7.5.1 details historical production.

**Table 7.5.1. RTZ Coal Mine Production Excluding CRA (Steamcoal in thousands)**

	1992		1993		1994	
	Production	RTZ share of Production	Production	RTZ share of Production	Production	RTZ Share of Production
<b>KENNECOTT ENERGY<sup>(1)</sup></b>						
Cordero (US)	12,100*	nil	11,800*	100.0%	7,500 <sup>(1)</sup>	14,900 100.0%
Antelope (US)	5,200*	nil	6,600*	100.0%	5,700 <sup>(1)</sup>	7,500 100.0%
Spring Creek (US)	6,000*	nil	6,500*	100.0%	5,700 <sup>(1)</sup>	9,000 100.0%
Decker (US)	10,600*	nil	9,800*	50.0%	4,300 <sup>(1)</sup>	9,800 50.0%
Colowyo (US)	4,200*	nil	4,300*	nil	nil	4,100* (2) 300 <sup>(2)</sup>
<b>RTZ Total</b>		<b>nil</b>			<b>23,200</b>	<b>36,600</b>

**Notes:**

- (1) The figures shown for RTZ's share of Kennecott's coal production are from the effective date of acquisition of these mines (i.e., Cordero from June 4, 1993; Antelope, Spring Creek and Decker from February 17, 1993; and Colowyo from December 6, 1994).
- (2) Kennecott Energy is responsible under a management agreement for the operation of the Colowyo mine, but most production is contracted for delivery to local utilities until at least 2003. Proceeds from these sales will go directly to service payments on the collateralized bonds of Colowyo Coal Company, L.P. After the coal supply contracts expire and the collateralized bonds have been repaid in 2011, RTZ, through Kennecott Energy, will have sole rights to all coal production and reserves from Colowyo.
- \* Indicates full production including quantities produced prior to acquisition by the RTZ Group.

Table 7.5.2 gives estimated proved and probable reserves of coal at major RTZ Group (ex-CRA) operations at December 31, 1994.

**Table 7.5.2. RTZ Estimated Proved and Probable Reserves at Coal Mines Excluding CRA (Open Cut Mines Producing Steam Coal)**

	Calorific Value <sup>(1)(2)</sup>	Sulphur Content <sup>(2)</sup>	Mine Reserves <sup>(3)</sup>	RTZ Interest	RTZ Share Reserves <sup>(4)</sup>
	(BTU/Pound)		(MM tonnes)		(MM tonnes)
<b>KENNECOTT ENERGY</b>					
Cordero (US)	8,400	0.33%	360	100.0%	360
Antelope (US)	8,800	0.31%	181	100.0%	181
Spring Creek (US)	9,300	0.33%	163	100.0%	163
Colowyo (US)	10,500	0.43%	172	<sup>(4)</sup>	172 <sup>(4)</sup>
Decker (US)	9,400	0.40%	288	50.0	144
<b>RTZ Total</b>					<b>1,020</b>

**Notes:—**

- (1) BTU – British Thermal Unit.
- (2) Analyses of coals from Kennecott Energy were undertaken according to "American Standard Testing Methods" (ASTM) on an "As Received" moisture basis.
- (3) Reserves are net of mining losses and losses due to beneficiation (e.g. washing).
- (4) Kennecott Energy is responsible under a management agreement for the operation of the Colowyo mine but most production is contracted for delivery to local utilities until at least 2003. Proceeds from these sales will go directly to service payments on the collateralized bonds of Colowyo Coal Company, L.P. After the coal supply contracts expire and the collateralized bonds have been repaid in 2011, RTZ, through Kennecott Energy, will have sole rights to all coal production and reserves from Colowyo.

### 7.5.1 Coal Overview

Kennecott Coal acquired these five mines from Nerco (Antelope, Spring Creek and Decker), Sun Oil Corporation (Cordero), and W.R. Grace (Colowyo) in 1993 and 1994 in accordance with its strategy to acquire low cost assets at a time when Powder River Basin Coal had excess capacity.

Kennecott Energy plans to increase coal production and reduce coal operating costs over the next several years. A&S' review focused on the capabilities of the mines to increase production, and whether the cost reduction projections were reasonably based. A&S' charter did not include market issues, and A&S did not investigate how Kennecott Coal plans to market the increased production.

### 7.5.2 Coal Information Sources

A&S reviewed the business and economic plans for all five coal mines during a visit to RTZ's London headquarters. A&S visited two of the mines, Cordero and Antelope, and also reviewed plans for those mines with Kennecott management. The A&S consultant responsible has personal knowledge of the Powder River Basin Coal mining business.

The information provided was sufficient to enable A&S to reach the conclusions expressed.

### 7.5.3 Coal Conclusions

A&S concludes that Kennecott's coal mining operations are efficient and well managed:

- The plans to increase production and reduce operating costs were well based from a technological and operating point of view; with the reported planned capital expenditures RTZ should be able to produce the planned coal tonnages at the planned cash costs
- The plans to reduce overhead costs appeared to be achievable
- The production plans for the Antelope and Spring Creek mines exceed reported reserves. Kennecott Energy is in the process of leasing additional coal at both operations which should last throughout the projected mine life
- The key risks confronting RTZ's US coal operations are market related.

The U.S. Powder River Basin coal business is highly competitive and A&S has not included estimates of future coal production and costs for reasons of commercial sensitivity.

As to RTZ's Colowyo coal mine (not in the Powder River Basin).

- Production is expected to range between 4 and 4.5 million tonnes per year through the end of the 1990s.
- Capital expenditures should total about \$70 million for 1995 and 1996 combined and then drop to sustaining levels of less than \$5 million a year thereafter.
- Reserves are ample for production at present production tonnages for the foreseeable future.

## 7.6 Uranium

RTZ's uranium investment consists of a 66.2 percent share of the Rossing Uranium Ltd. mine located in Namibia – reportedly the world's largest open-pit uranium operation. According to RTZ's 1994 Form 20-F, production in 1994 was only 50 percent of mine and plant capacity (4,500 tonnes of uranium oxide per annum). No reserve figures were published.

While reserves and ore grade have not been published, A&S believes on geological grounds that the grade is probably lower than other types of worldclass deposits in Canada and Australia. Additionally, competitive data published by independent sources provided to A&S by RTZ indicate that a considerable portion of the world's capacity can produce at a cash cost lower than Rossing's by 10 to 20 percent. A&S understands that a significant proportion of Rossing's production is committed to long-term contracts at favourable prices.

## *Uranium Conclusions*

Based on geological grounds (and not on any firm data), A&S concludes that Rossing can probably continue to produce for many years to come, provided market conditions make it economic to do so.

### **7.7 Other RTZ Operations**

A&S briefly reviewed other RTZ smaller operations that are desirable assets but which are not considered to be material in relation to the proposed transaction.

- Anglesey Aluminium is an aluminium smelting operation in the UK. A&S believes it to be an efficient operation, but like all aluminium smelters, the financial performance is sensitive to power costs.
- Norzink (50 percent RTZ) is a Norwegian zinc smelter with low cost power that is fed by concentrate from mines worldwide. A&S believes it to be an efficient operation and useful earner; risk of failure to achieve forecast levels is low.
- MCA Corumba is an iron ore mining operation in the state of Mato Grosso Do Sul, in Brazil. Corumba is a world class iron ore deposit with a production capacity of 1.2 million tonnes per year of high quality lump ore and lesser quality fines. Corumba's challenge is getting production to market. In order to realize Corumba's potential RTZ is upgrading its transportation system by adding a number of river barges to freight iron ore down the Parana River to ocean vessels on the Rio Della Plata.
- Fortaleza is a Brazilian nickel project that includes an open pit and underground mine, concentrator and smelter. The complex which is presently under construction at a capital cost of approximately A\$310 million, is designed to produce approximately 10,000 tonnes a year of refined nickel.
- Greens Creek is a multi-metals mine (silver, gold, lead and zinc) in the Alaska panhandle. RTZ has a 70 percent interest. The mine was closed indefinitely in April 1993, but is to be restarted as a consequence of a new high value ore discovery. Reserves are unknown to A&S.

### **7.8 RTZ Exploration Interests**

Exploration programs were reviewed with RTZ exploration management including Messrs. Collier, Albanese and Van Dalsen. The exploration portfolio includes three projects of particular importance:

#### *7.8.1 The Pipeline Project (including Cortez)*

RTZ holds a 40 percent interest in a Nevada gold discovery associated with RTZ's Cortez mine and known as Pipeline and South Pipeline. Placer Dome holds 60 percent. RTZ has not reported reserves in the Form 20-F, but A&S believes, on the basis of prior acquaintance with the deposit, that considerable exploration work has been done and that the resource has been reasonably well defined with considerable additional exploration potential.

A&S also believes that the projected production is reasonably certain. However, since the reserves have not been classified as proven and probable by SEC standards, there is still some uncertainty attached to the project.

#### *7.8.2 Northwest Territory Diamond Program*

RTZ's diamond exploration interests (located in Canada's Northwest Territories — NWT) appear to hold considerable promise. A&S reviewed these interests with Mr. J. Collier, RTZ's Head of Exploration. Delineation and bulk sampling programs are under way but no commitments have been made by RTZ to develop any of the current interests.

One property, the Diavik Joint Venture, (RTZ 60 percent interest) has discovered, to date, four Kimberlite pipes with potentially economic diamond content. One pipe (A154S) has undergone mini bulk sampling,

which to date has indicated an estimated diamond content averaging 4.5 carats per tonne, to a depth of 250 metres. This pipe will undergo an underground bulk sampling program in early 1996. Three other pipes will undergo mini bulk sampling at the same time.

RTZ also told A&S that:

- A number of other diamond targets in the Slave Craton are under evaluation and will continue to be explored;
- Diamond exploration is also underway in other parts of Canada, Brazil, Finland, Zimbabwe, Namibia, Botswana and Tanzania;
- To date, including the NWT, over 200 targets have been identified and are in the process of being evaluated.

RTZ believes that its diamond interests have the potential to become a significant business unit of the RTZ group.

### *7.8.3 Freeport Copper and Gold Exploration Program*

As stated in Section 7.2.4, RTZ is involved in exploration in Irian Jaya via its 40 percent interest in Freeport Copper and Gold's exploration program and 11.8% equity interest in Freeport Copper and Gold. RTZ has told A&S that exploration drilling recently completed on certain exploration targets surrounding the Grasberg porphyry copper-gold deposit has provided drill-assay data warranting an upward revision to the value of RTZ's interest in those prospects. The exploration targets mentioned include:

- AMOLE
- Kucing Liar
- Lembah Tembaga
- IOZ
- DOZ
- Big Gossan
- Wabu

RTZ stated that the new drill holes have revealed the existence of high grade mineralization that potentially may be exploited by underground bulk production methods. RTZ is confident that the new exploration data is more than sufficient to provide assurance that these new deposits have the dimensions and grade to justify the additional value ascribed to them.

### *7.8.4 Other Exploration Programs*

The following summarizes countries in which RTZ reports that it has developed, or is close to developing, a potential resource.

- Spain
- India
- Czech Republic
- Mexico
- Canada
- Chile
- Russia
- Brazil

RTZ has not yet made production decisions on all of these properties yet. Some of them may not meet RTZ's minimum size criteria, in which case they would be candidates for sale.

A&S had a general discussion with Mr. Collier on the opportunities in the above countries. In addition, the company is actively exploring for gold, base metals, ferro metals, and industrial minerals in North and South America, Europe, and Africa.

### 7.8.5 Valuation of Exploration Interests

A&S reviewed RTZ's exploration interests with J. Collier and other RTZ Exploration executives. A&S also reviewed various RTZ papers which attribute valuations to RTZ's exploration interests.

A&S had access to the relevant RTZ executives but did not have access to the relevant supporting documentation for the papers provided to A&S and so A&S is not able to provide a firm valuation conclusion on RTZ's exploration interests. However, based on interviews and A&S' extensive knowledge of the international mining business, A&S believes that RTZ conducts its exploration activities in a very professional manner and the methodologies and valuation estimates discussed with them seem reasonable. RTZ's estimates have been taken into account in Morgan Stanley's analysis of RTZ. A&S notes that Morgan Stanley's valuation of RTZ treats the Pipeline Project separately from RTZ's other exploration interests.

## 8. Corporate Controls

A&S reviewed CRA's and RTZ's corporate controls to ensure that:

- Each company is exercising sufficient controls to properly manage risks in the areas reviewed
- Differences in practices between CRA and RTZ are not sufficient to have a material impact on relative value.

Three areas were reviewed:

- Reserve estimation
- Environmental management
- Capital expenditure planning.

### 8.1 Reserve Estimation

A&S objective was to ensure that both CRA and RTZ have sufficient control over their reserve estimates to conform with mandated reporting requirements, and to ensure that any differences between CRA's and RTZ's reserve estimate methodology would not have a material impact on the relative values of the two companies.

A&S conclusions were that:

- CRA and RTZ use substantially the same methodology, which is consistent with industry methodology and in compliance with regulatory requirements
- Differences between the two companies' practices should not have a material effect on relative value.

### 8.2 Environmental Management

At RTZ, A&S reviewed environmental matters with Messrs. Alan Emery (head of Health, Safety and Environmental Services), Dr. John M. Campbell (Principal Environmental Scientist), and other RTZ executives. In relation to CRA's environmental matters, A&S interviewed Mr. Ron Kay, (Group Advisor Environment).

A&S concludes that:

- RTZ is doing a commendable job in keeping environmental issues under control
- RTZ's estimated closure costs (which were updated in 1995) appear appropriate in relation to the currently ascertainable costs that ultimately will be incurred
- CRA's estimated mine closure costs are only preliminary estimates (Type 1 estimates) – probably plus or minus 30 percent

- CRA's policies for providing or accruing for mine closure costs have only recently been developed and may not be uniformly implemented at this point in time, but are included in the 1996 budgets
- A&S believes that RTZ is probably accruing closure costs to a greater degree than CRA, but that CRA is catching up and should be at the same level as RTZ in about two years; consequently, A&S believes that RTZ's profits are probably somewhat understated in relation to CRA's profits.

Overall, A&S believes that by industry standards, both companies have good management control over all relevant environmental matters.

### 8.3 Capital Expenditure Planning

A&S interviewed Mr. Guy Elliott (RTZ's Head of Business Evaluation), and Mr. Leigh Clifford (RTZ's Mining Director) on the subject of capital expenditure planning. A&S reviewed CRA's capital planning process during site visit interviews, in addition to analysis of all relevant 1996 Business Plans.

A&S believes that RTZ's capital planning is exceptionally effective:

- RTZ has well defined and strictly enforced capital expenditure control procedures
- RTZ relies heavily on capital expenditure planning at the corporate level as the principal means of ensuring its business units operate in the most economically effective and efficient manner
- The effectiveness of RTZ's capital expenditure planning derives from the use of formal and informal planning processes, coupled with the use of a strong central technical staff to participate in planning and evaluating all proposed major projects
- The planning process is flexible as it is applied to different types of mining investments throughout the world, taking into account the specific circumstances of each project.

A&S concludes that CRA:

- Handles and reports capital planning estimates consistently across all business units
- Has specific capital estimates that appear to be backed up by professional engineering studies and cost estimates
- Monitors capital expenditures against budget plans

Reviews of past CRA capital plans compared with later actual capital expenditures indicated that projects and budgets are generally well planned and accurate. Annual expenditures tend to be less than planned in any given year, an indication of financial conservatism, and many expenditures are delayed or carried into the next year.

Overall, A&S believes the capital planning and control processes used by both companies are of a high standard and competently assess and control risk.

## 9. A&S' QUALIFICATIONS

A&S is a management and technical consulting firm (whose predecessor F.R. Schwab & Associates, Inc. was formed in 1965) and is based in New York City. A&S has specialized in the international minerals and coal industry for most of its existence. The firm's professionals are consultants who have spent the bulk of their professional careers on mining industry matters, and senior mining executives who have previously held high-level technical and operating positions in the mining industry.

A considerable portion of A&S' practice has been in support of financial institutions and others on matters dealing with the valuation of mining assets and businesses. Recent assignments of this type that A&S has conducted include serving as:

- Technical advisor in relation to the fairness opinion provided British Petroleum on the sale of BP Minerals to RTZ for approximately US\$3.7 billion. (At that time, this was the largest transaction ever done in the minerals industry)

- The independent technical consultant for a consortium of banks involved in a financing of a major new gold project in Alaska
- The minerals industry advisor to a consortium of 26 international banks involved in financial restructuring of the NCA project in Queensland.
- Consultant to senior management of a major Australian publicly listed mining company in relation to conducting a comprehensive skills audit of the exploration function to include Australia and other locations.

A&S selects consultants for individual assignments on the basis of their qualifications for the specific assignment. Attachment A to this report describes the qualifications, experience and role in this assignment of each consultant.

## **10. FEES**

A&S will be paid a fee of US\$350,000 plus expenses for the preparation of this report. The fee is not contingent on the conclusions of the report nor the conclusion of the proposed transaction. Neither A&S nor any of the contributors to this report have any interest in CRA or RTZ or any other companies associated with CRA or RTZ that could reasonably be regarded as being prejudicial to their ability to give an unbiased and independent assessment. Neither A&S nor any of the individual contributors to this report has carried out any consulting assignment for CRA, RTZ, or any of the assets in which these companies have interests, in the last two years. In 1989, A&S was retained as technical adviser in relation to the fairness opinion provided to BP as part of the sale of its worldwide minerals portfolio to RTZ.

## **11. INDEMNIFICATION**

A&S has been indemnified by Morgan Stanley as to damages, losses and liabilities relating to or arising out of A&S engagement other than those arising from proven, wilful misconduct or negligence on A&S part.

## **12. CONSENT**

A&S has given its written consent to the inclusion of this letter in the documents to be provided to CRA shareholders, pursuant to Australian regulatory requirements. A&S also consents to the inclusion of this letter in the documents to be provided to RTZ shareholders. As of this date A&S has not withdrawn this consent. A&S has not been involved in the preparation of, or authorized or caused the issue of, any other part of the documentation to be provided to CRA or RTZ shareholders other than this letter.

A&S hereby consents to the use of data and conclusions supplied by A&S to Morgan Stanley in the Morgan Stanley report and to the references made to A&S in that report. Our consent does not extend to any Morgan Stanley valuation, deduction or inference drawn by Morgan Stanley from such data or conclusions.

Neither the whole nor any part of this letter, nor any reference thereto, may be included in or with, or attached to any document or used for any other purpose without A&S prior written consent to the form and content in which it appears and to what use.

All of the persons involved in the preparation of this report have consented to the inclusion of this assessment report, in the form and context in which it appears.

## **13. LIMITATION**

The statements and opinions contained in this report are given in good faith and, to a considerable extent, reliance has been placed on the information provided by CRA and RTZ. All such information, which has been evaluated through analysis, enquiry and review, has been presented in a professional manner. A&S believes, on reasonable grounds, that it is true, complete as to material details, and not misleading. The work undertaken for the purpose of this report in no way constitutes a technical audit of any of the assets or records reviewed, and A&S does not warrant that its enquiries have realized all of the



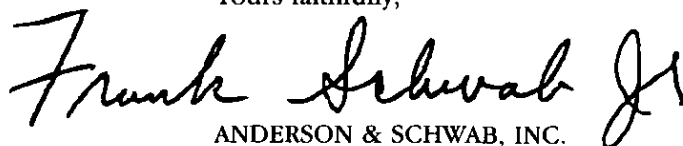
matters that an audit might disclose. A&S in no way guarantees or otherwise warrants the achievability of the forecasts of future production and costs of CRA or RTZ.

#### 14. FACTUAL AND CONFIDENTIALITY REVIEW

A copy of this report in draft has been provided to officers of CRA and RTZ for comments as to confidentiality issues, any errors of fact or misinterpretation, or substantive disagreements as to the assumptions A&S has made. While A&S has deleted certain information deemed by CRA and RTZ to be confidential and included minor corrections and amendments in this final report as a result of comments received from CRA and RTZ officers, there were no alterations to the methodology or conclusions.

A&S gratefully acknowledges the assistance provided by CRA and RTZ in facilitating the preparation of this report.

Yours faithfully,

A handwritten signature in black ink that reads "Frank Schwab Jr." with a stylized flourish at the end.

ANDERSON & SCHWAB, INC.

by: Frank Schwab, Jr.

President

## **ATTACHMENT A A&S STAFF**

**ROBERT G. ADAMSON**, is an Australian citizen and senior consultant with Robertson Australia, Pty. Ltd. He has worked on a number of projects relating to diamond, gold and base metals exploration and development. He has nearly 30 years of experience in mining geology in Australia and around the world and was formerly Managing Director for Cluff Resources Pacific Ltd. (Sydney), a gold, diamond and petroleum exploration company listed on the Australian Stock Exchange.

Mr. Adamson received his BSc in Geology from the University of Canterbury in New Zealand. He is a Fellow of the Australasian Institute of Mining and Metallurgy (AUSIMM).

Mr. Adamson reviewed CRA's diamond interests.

**DONALD P. BELLUM**, is a Senior Associate Consultant with Anderson & Schwab, Inc. He has over 34 years of industry experience in mining and related fields.

Until his 1991 early retirement, Mr. Bellum was Executive Vice President of Cyprus Minerals for whom he managed Cyprus Copper/Moly, Gold, Zinc, and Iron Ore Divisions and Exploration, and Corporate Development Departments. Early in his career Mr. Bellum was with Kennecott Copper Corporation, for whom he was Mine Manager, Nevada Mines Division.

Mr. Bellum has a B.S., Mining Engineering from the University of California, Berkeley and MS, Mining Engineering from the University of Utah. He attended the Stanford University Executive Program. He is a Director of USMX and a Member of SME of AIME.

Mr. Bellum led the site review of RTZ's Kennecott Copper Bingham Canyon operation.

**DR. HARRY A. DURNEY**, is a Senior Associate Consultant with Anderson & Schwab, Inc. He has three degrees from Johns Hopkins University: a Bachelor of Chemical Engineering, a Masters in Chemistry, and a Ph.D. in Chemistry.

Until his retirement as an operating executive, he was Chief Executive Officer at Pacific Tin, later called Zemex Corporation (listed on the New York Stock Exchange), which is a diversified industrial minerals company. Prior to joining Zemex he spent 16 years with QIT (now owned by RTZ) where, in his last position, he was Vice President of Production.

Dr. Durney (with Klaus G. Scheye) reviewed RTZ's borax and iron and titanium (QIT) businesses.

**NORMAN A. GILBERTHORPE**, Senior Advisor for A&S, was formerly Chairman of Aberfoyle, an Australia-based mining and exploration company with operations in tin and base metals. Earlier in his career, he managed several of CRA's UK based operations. Mr. Gilberthorpe is an Australian and is a graduate of the University of Sydney with a Bachelor of Engineering. He is a Chartered Engineer; Fellow of the Institution of Mining and Metallurgy; and a Fellow of the Australasian Institute of Mining and Metallurgy.

Mr. Gilberthorpe reviewed CRA's gold holdings, the Century Zinc Project and RTZ's Europe-based businesses.

**ROBERT E. GOLKOSKY**, is a Vice President of Anderson & Schwab in charge of the firm's Charleston, West Virginia office. He received a B.S. degree in Mining Engineering from Pennsylvania State University in 1966.

Mr. Golkosky was formerly Vice President, Engineering and Development of British Petroleum Coal Company, for whom he was responsible for engineering and acquisitions analysis. He is a registered professional engineer (W.Va.) and a Member of SME of AIME.

Mr. Golkosky reviewed RTZ's Kennecott Coal operations.

**WILLIAM HAMPSHIRE**, is an Anderson & Schwab Senior Associate Consultant. Mr. Hampshire was the President of Howmet Aluminum Corporation until 1984 when Alumax purchased the company. Since 1984 he has been an independent consultant in the aluminum industry except for a one-year period (1992-1993) as President and Chief Executive Officer of Ravenswood Aluminum Corporation. He remains as Director of the company.

Mr. Hampshire has spent his entire career in the aluminium industry. He holds his B.Sc. degree in Chemical Engineering from Miami University of Ohio.

Mr. Hampshire reviewed CRA's aluminium interest in Comalco.

**EDMUND JAMES MALONE**, a Senior Associate Consultant of Anderson & Schwab, Inc. is a Visiting Fellow at the Key Center for Mines at the University of New South Wales, where he teaches post doctorate courses in mining geology. As an independent consultant, Mr. Malone has worked for over 50 small mining companies – planning exploration programs, evaluating exploration results, and planning and evaluating mining projects in base and precious metals in Australia and overseas.

He holds a B.S. and an MS from the University of Sydney, and an MBA from Macquarie University. He is a Fellow of the Australian Institute of Mining and Minerals, FAUSIMM and the Australian Institute of Management FAIM.

Mr. Malone reviewed CRA's reserve methodology and CRA's exploration projects.

**DR. MICHAEL B. MEHRTENS**, a Senior Associate of A&S, has had an extensive career in minerals exploration, particularly in gold. Dr. Mehrtens was formerly Chief Executive Officer of USMX, a U.S.-based junior gold company. Earlier in his career he held a number of exploration positions with RTZ and its subsidiaries.

Dr. Mehrtens is a graduate of the University of Hull with a B.S. in Geology and a graduate of the Royal School of Mines with a Ph.D. in Applied Geochemistry. He is a Member of IMM-London; Member of the Association of Exploration Geologists and a Member of the Society of Economic Geologists.

Dr. Mehrtens reviewed RTZ's reserve reporting methodology, RTZ's exploration prospects, and RTZ's gold mining interests.

**DR. KEITH B. MURDEN**, is a Principal of Jan H. Reimers & Associates. Dr. Murden worked for many years as an employee of Outokumpu, whose flash furnace technology was adopted for the expanded Kennecott smelter. Dr. Murden is a member of the AIME and CIMM. He holds his BS and PhD degrees in Metallurgical Engineering from the Royal School of Mines. He has also studied (post-graduate) at the Nuffield Research Group in London and the Royal Institute of Technology in Stockholm and has taught metallurgy at the Abo Akademy in Finland.

Dr. Murden reviewed the metallurgical aspects of Kennecott's copper operations.

**THOMAS C. OSBORNE**, is a Senior Associate of A&S. He holds a B.Sc.(Hons) from the University of Manitoba and an M.Sc in Economic Geology from the University of Manitoba. He has also completed the Senior Executive Management Course, Sloan School, Massachusetts Institute of Technology. He is a Canadian Citizen.

Prior to his 1992 retirement, Mr. Osborne was Executive Vice President of ASARCO Incorporated, where he was responsible for all mining and exploration operations directly managed by ASARCO, including an average of 16 base and precious metal mines in the U.S., Canada, and Latin America. Prior to that appointment he was ASARCO's Vice President Exploration. He is a Member of SME of AIME, and the Canadian Institute of Mining and Metallurgy (CIMM).

Mr. Osborne led the reviews of all RTZ Copper mining, uranium and non-U.S. gold operations.

**RICHARD D. ROBISON**, is Vice President of Anderson & Schwab, Inc. and in charge of the firm's Denver office. He is a graduate of the University of Utah with a BS in Mining Engineering and received his MBA from the J.L. Kellogg Graduate School of Management of Northwestern University.

Prior to earning his MBA, Mr. Robison was with ARCO Coal with whom he held a number of operating and staff positions including being Production Manager of the Gordonstone Mine in Queensland, Australia. Mr. Robison is a Registered Professional Engineer (Colorado) and a member of the SME of AIME.

Mr. Robison was the A&S coordinator for the CRA review, and also reviewed CRA's coal interests.

**KLAUS G. SCHEYE**, a Senior Advisor to Anderson & Schwab, Inc. is a graduate of Queen's University with a B.S. in Engineering and received his MBA from Columbia University. Before joining A&S in 1987, Mr. Scheye was Vice President of W.R. Grace & Co. for whom he was a member of the corporate appropriations committee and of all group operations review and long-range planning committees. He was also responsible for review of major expenditure projects and acquisitions worldwide ranging from \$3 million to \$300 million.

At W.R. Grace and with A&S, Mr. Scheye has had extensive experience with Industrial Minerals businesses.

Mr. Scheye reviewed RTZ's Industrial Minerals businesses and RTZ's environmental management. He also participated in the review of RTZ's exploration interests.

**FRANK SCHWAB, JR.**, is the founder, President and CEO of A&S. He is a graduate of Rutgers University and received his MBA from the Harvard Graduate School of Business Administration.

Mr. Schwab has, over the past 30 years, been involved in a variety of management and technical studies and has specialized in the natural resources industry. Mr. Schwab is also a Director of the National Mining Hall of Fame and Museum and serves both as a Director of the Manufacturers and Services Division and as a member of the finance committee of the National Mining Association. Mr. Schwab is a Certified Management Consultant.

Mr. Schwab has been A&S' Officer-In-Charge of this assignment.

**JOHN C. TAYLOR**, is a graduate in metallurgical engineering from the University of Toronto. Mr. Taylor is President of Jan H. Reimers and Associates.

Mr. Taylor joined Jan H. Reimers and Associates in 1973 after 14 years with Inco; became a Principal in 1980 and its President in 1986. Over the last 19 years Mr. Taylor has been involved in a broad variety of metallurgical assignments for over 50 mining companies, as well as various engineering and accounting firms. Mr. Taylor is a member of Professional Engineers of Ontario, Canadian Institute of Mining and Metallurgy (CIMM).

Mr. Taylor reviewed the metallurgy of Kennecott Copper's new smelter.

**HARLEIGH V.S. TINGLEY**, is Executive Vice President of A&S. He has a B.A. from Amherst College where he majored in economics, and an MBA from the Harvard Graduate School of Business Administration.

Mr. Tingley has been with A&S since 1968. His work has involved a wide spectrum of assignments in strategy, economic analysis, management controls, management organization planning, and due diligence for many energy and minerals companies. Mr. Tingley is a Certified Management Consultant.

Mr. Tingley is Project Coordinator for A&S minerals finance projects. He was Project Coordinator on this assignment.

**HENRY P. WHALEY**, a Senior Associate Consultant of Anderson & Schwab, Inc. was formerly Senior Vice President of Operations for Cleveland Cliffs Inc. for whom he had responsibility for eight iron ore processing operations, three in Canada, two in Minnesota, two in Michigan, and one in Australia.

Mr. Whaley holds memberships in the AIME and the CIMM and the AISI, and is a Registered Professional Engineer in Missouri. He received his B.S., Engineering from the University of Missouri, Rolla School of Mines.

Mr. Whaley reviewed CRA's iron ore operations.

## Part VI

### OTHER INFORMATION

#### 1. Share capital

- (a) As at 14 November 1995 (being the latest practicable date prior to the publication of this document), RTZ had an authorised share capital of £153,000,000 divided into 7,732,967 3.325 per cent. 'A' Cumulative Preference Shares of £1 each, 3,143,750 3.5 per cent. 'B' Cumulative Preference Shares of £1 each and 1,421,232,830 Ordinary Shares of 10 pence each. All of the RTZ 'A' Shares and RTZ 'B' Shares and 1,068,477,409 of the Ordinary Shares have been issued.
- (b) As at 14 November 1995 (being the latest practicable date prior to the publication of this document),
- (i) options over 2,444,419 Ordinary Shares were outstanding under the RTZ Executive Share Option Schemes at prices between 406.45p and 888.3p and exercisable at various dates up to April 2005; and
  - (ii) options over 1,758,614 Ordinary Shares were outstanding under the RTZ Savings Related Share Option Schemes at prices between 338.46p and 734p and exercisable at various dates up to June 2001.
- (c) On 10 May 1995 the RTZ Directors were authorised to allot RTZ Shares or other relevant securities up to an aggregate nominal amount of £35,397,160 and to issue RTZ Shares or other equity securities for cash to persons other than existing shareholders up to a nominal amount of £5,336,306 or under a rights issue, both such authorities expiring on the earlier of the date of the next Annual General Meeting of RTZ or 9 August 1996.
- (d) As at 14 November 1995 (being the latest practicable date prior to the publication of this document), CRA had an authorised share capital of A\$3,000,000,000 divided into 1,500,000,000 Ordinary Shares of A\$2.00 each and the issued share capital of CRA was 597,602,891 Ordinary Shares of A\$2.00 each.
- (e) As at 14 November 1995 (being the latest practicable date prior to the publication of this document), there were 250,000 share options over CRA Ordinary Shares outstanding under the Senior Executive Share Plan. Each option can be converted to one Ordinary Share in CRA by the holder subscribing A\$19.48 per Ordinary Share. These options cannot be exercised before April 1997 and expire on 20 April 2000.
- (f) Following implementation of the DLC merger, the ability of RTZ and CRA to exercise the powers and authorities referred to above to issue shares or other securities will be regulated by the provisions of the Sharing Agreement and their respective articles of association.

#### 2. Substantial shareholdings

- (a) As at 14 November 1995 (being the latest practicable date prior to the publication of this document), RTZ had been notified of the following interests in its issued ordinary share capital:

	Number of Ordinary Shares	Percentage of issued Ordinary Shares
Mercury Asset Management PLC and Mercury Asset Management Group PLC	117,873,812*	11.03%
Prudential Corporation PLC	35,190,327	3.29%

\* All but 14,425 of these shares arise by reason of discretionary investment management arrangements.

Save as disclosed above, RTZ has not been notified of any person who, directly or indirectly, is interested in three per cent. or more of the issued ordinary share capital of RTZ and is not aware of any person who could, directly or indirectly, jointly or severally, exercise control over RTZ.

- (b) As at 14 November 1995 (being the latest practicable date prior to the publication of this document), RTZ had been notified of the following interests in RTZ 'B' Shares:

	Number of RTZ 'B' Shares	Percentage of issued RTZ 'B' Shares
Morgan Grenfell Group plc	1,258,125*	40.02%
Commercial Union plc	784,000	24.94%
Provincial Insurance plc	573,125	18.23%
Norwich Union Insurance Group	470,000	14.95%

\* This holding includes 573,125 shares managed on a discretionary basis.

Save as disclosed above, RTZ has not been notified of any person who, directly or indirectly, is interested in three per cent. or more of the issued RTZ 'B' Shares.

The entire class of RTZ 'B' Shares account for less than 2 per cent. of the aggregate number of votes attributable to the issued share capital of RTZ.

- (c) As at 14 November 1995 (being the latest practicable date prior to the publication of this document), CRA had been notified of the following interests in its ordinary share capital:

	Number of Ordinary Shares	Percentage of issued Ordinary Shares
Tinto Holdings Australia Pty Ltd*	291,818,420	48.83%

\* A wholly owned subsidiary of RTZ.

Save as disclosed above, CRA has not been notified of any person who, directly or indirectly, is interested in five per cent. or more of the issued share capital of CRA and is not aware of any person who could, directly or indirectly, jointly or severally, exercise control over CRA.

### 3. Directors

- (a) The directors of RTZ are as follows:

**Sir Derek Birkin**, TD, age 66. Chairman of RTZ since June 1991 and a director since 1982. He was Chief Executive and Deputy Chairman from 1985 until his appointment as Chairman. He relinquished his executive duties in May 1994. He is also Chairman of the Environmental and Finance and General Purposes Committees. Sir Derek is a director of Carlton Communications plc, The Merchants Trust PLC, Royal Opera House Covent Garden Limited and Merck & Co., Inc. in the USA and an Advisory Director of Unilever PLC. He is an alternate director of CRA for Mr R Adams. Sir Derek resides in Surrey.

**Robert P Wilson**, BA, CBIM, HonDSc, age 52, joined RTZ in 1970 and was appointed a director of RTZ in 1987 and Chief Executive in 1991. He was Managing Director of AM&S Europe in the United Kingdom for the three years prior to joining RTZ Development Enterprises in 1982. He is a non-executive director of The Boots Company PLC and Chairman of Kennecott Corporation. Mr Wilson was directly associated with the CRA Group between 1972 and 1982, during which time he held senior executive appointments. Mr Wilson was appointed a non-executive director of CRA in 1990. Mr Wilson resides in London.

**Robert Adams**, MA(Cantab), MSc(London), age 50, joined RTZ in 1970 and was appointed a director of RTZ in 1991, with responsibility for Planning and Development. He was head of RTZ's Business Evaluation Department from 1974 to 1989, and was appointed Commercial Director of RTZ Mining and Metals Ltd in 1989. Mr Adams is also a director of a number of RTZ Group companies, including Kennecott Corporation. Mr Adams was appointed a non-executive director of CRA in January 1995, and prior to that appointment, he had been an alternate director of CRA since 1992. Mr Adams resides in London.

**Lord Alexander of Weedon**, QC, age 59. A non-executive director of RTZ since 1991. He became Queen's Counsel in 1973. He is Chairman of National Westminster Bank PLC, Deputy Chairman of the Securities

and Investments Board, Chairman of the Council of Justice and President of the Institute for Fiscal Studies. He was Chairman of the Panel on Takeovers and Mergers from 1987-1989, and was Chairman of the Bar Council from 1985 to 1986. Lord Alexander resides in London.

**Lord Armstrong of Ilminster**, GCB, CVO, age 68. A non-executive director of RTZ since 1988. He was formerly Secretary of the Cabinet from 1978-1987 and Head of the Home Civil Service from 1983-1987 and is Chairman of the Board of Trustees of the Victoria and Albert Museum and Bristol and West Building Society and Chancellor of the University of Hull. He is also a director of BAT Industries PLC, The Shell Transport & Trading Co. PLC, NM Rothschild & Sons Ltd and Robeco Group N.V. Lord Armstrong resides in London.

**Christopher R H Bull**, MA, FCA, age 53, was appointed Finance Director of RTZ in 1991. Before joining RTZ, he was Group Finance Director of BTR plc. He is a director of Schroder Split Fund plc and the University of Greenwich. He is an alternate director of CRA for Mr R P Wilson. Mr Bull resides in Surrey.

**Leigh Clifford**, BE (Hons), M Eng Sc, F AusIMM, age 48, on secondment from CRA, was appointed Mining Director of RTZ in May 1994. At CRA he was the Group Executive responsible for investments in energy and the Kelian gold project in Indonesia. He is a director of Freeport-McMoRan Copper & Gold Inc. and a number of RTZ Group companies including Kennecott Corporation and Palabora Mining Company Limited. He has particular responsibility for the Company's business in Chile, Bolivia, South Africa and Zimbabwe and most recently the RTZ partnership with Freeport-McMoRan Copper & Gold. Mr. Clifford resides in London.

**Richard V Giordano**, KBE, age 61, has been a non-executive director of RTZ since 1992. He is Chairman of British Gas plc and The BOC Group p.l.c., Deputy Chairman of Grand Metropolitan Public Limited Company and a director of Georgia Pacific Corporation in the USA. Mr Giordano resides in London.

**Sir Denys Henderson**, age 63. A non-executive director of RTZ since 1990, he is Chairman of the Nomination and Compensation Committee. He is Chairman of The Rank Organisation PLC, a director of Barclays Bank PLC and Schlumberger Limited. He is also Chairman of the Crown Estate and Chancellor of the University of Bath. He recently retired as Chairman of ICI PLC and Zeneca Group PLC. Sir Denys resides in Buckinghamshire.

**Lord Holme of Cheltenham**, CBE, age 59, was appointed a Director of RTZ in April 1995 and is responsible for external affairs and human resources. He was created a life peer in 1990 and sits on the Liberal Democrat benches in the House of Lords. His management career which started with Unilever, has embraced international marketing, publicity and communications in the USA, UK and Europe. Richard Holme resides in Sussex.

**Sir Martin Jacomb**, age 66, has been a non-executive director of RTZ since 1988 and is Chairman of the Audit Committee. He is Chairman of The British Council, Prudential Corporation plc and Delta plc and a director of Marks and Spencer plc. Sir Martin resides in London.

**Jonathan C A Leslie**, MA (Oxon), age 44, was appointed Mining Director of RTZ in 1994 with particular responsibility for RTZ's business in Europe, Brazil, Papua New Guinea, Namibia and India. He joined RTZ in 1977 and has held a number of executive positions within the company's Metal Group. He is a director of a number of RTZ Group companies including Rössing Uranium Limited, where he was previously managing director, and Anglesey Aluminium Limited where he is Chairman. He is also a director of Lihir Management Company Pty. Limited, which is responsible for the management of the Lihir gold project in Papua New Guinea. Mr. Leslie resides in London.

**Gordon Sage**, BSc, MSc, CEng., age 48, was appointed Industrial Minerals Director of RTZ in April 1995. He joined RTZ in 1970 and was Chief Executive of RTZ Pillar Limited from 1987 to 1993 when he was appointed Chief Executive of RTZ Borax and Minerals Limited. He is a director of a number of RTZ Group companies, including Chairman of US Borax Inc. He is also a member of the Council of the Confederation of British Industry. Mr. Sage resides in London.

**Sir David Simon**, age 56, has been a non-executive director of RTZ since September 1995. He is Chairman of The British Petroleum Company plc, a member of the Court of the Bank of England and a

director of Grand Metropolitan Public Limited Company. He is also a member of the Advisory Board of Deutsche Bank and the international Advisory Council of Allianz AG Holding. Sir David resides in London.

**(b) The directors of CRA are as follows:**

**John A Uhrig**, AO, BSc, DUniv, FAIM, age 67, Chairman. Mr Uhrig, a non-executive director of CRA since 1983, was appointed Chairman in 1987. Mr Uhrig is Chairman of Westpac Banking Corporation, Santos Limited, the Australian Minerals and Energy Environment Foundation and Amdel Limited. He retired as Managing Director of Simpson Holdings Limited in 1985. Mr Uhrig resides in Adelaide.

**Leon A Davis**, Associate Diploma – Primary/Extractive Metallurgy (SA Inst of Tech), FAusIMM, FRACI, age 56, Managing Director and Chief Executive of CRA and Chairman of Comalco Limited. Mr Davis was appointed Managing Director and Chief Executive in June 1994. He joined the CRA Group in 1956 as a metallurgical cadet with the Broken Hill Associated Smelters and has held senior management positions in various parts of the CRA Group. In 1989 Mr Davis was appointed a Group Executive of CRA as well as Chairman of Argyle Diamond Mines and Dampier Salt. Prior to that he was Managing Director of Pacific Coal and held positions with Bougainville Copper Limited in Papua New Guinea and with Conzinc Asia in Singapore. In 1991 Mr Davis was seconded to RTZ, London, as Mining Director. He returned to Melbourne in May 1994. Mr Davis is a member of the Executive Committee of the Australian Mining Industry Council, a member of the Business Council of Australia and is a Fellow of the Royal Australian Chemical Institute and of The Australasian Institute of Mining and Metallurgy. Mr Davis resides in Melbourne.

**William L Dix**, AO, FCPA, FAIM, ACIS, ACIM, age 69. A non-executive director since 1990. Mr Dix is a director of ICI Limited, Bowater Tutt Bryant Limited and the Geelong Football Club Limited. He is also a member of the National Tennis Centre Trust. Mr Dix resides in Melbourne.

**Sir Gustav Nossal** AC, CBE, MB, BS, BSc(Med), PhD, Hon MD, Hon DSc, Hon LLD, FRCP, FRACP, FRCPA, FRACMA, FRSE, FTS, FRS, PresAA, age 64. A non-executive director since 1977. He is a Director of The Walter and Eliza Hall Institute of Medical Research. Sir Gustav is President of the Australian Academy of Science and is a Fellow of The Royal Society. He is a member of the Prime Minister's Science and Engineering Council, Chairman of the Victorian Health Promotion Foundation and is an Honorary Counsellor of the Board of the Committee for Melbourne. Sir Gustav resides in Melbourne.

**Michael A O'Leary**, DipMinE, BSc (Technology), FAusIMM, FAIM, age 60, was appointed a director in 1992. Mr O'Leary, a Group Executive since 1991, is responsible for CRA's interests in iron ore, diamonds, salt, zinc and nickel development and the CRA Group's corporate and government relations in Western Australia. Mr O'Leary, who joined the CRA Group in 1952 with The Zinc Corporation Limited, has held a number of positions within the CRA Group including Managing Director of Argyle Diamonds and of Hamersley Iron. He is Executive Chairman of Hamersley Iron Pty Limited and Chairman of Argyle Diamond Mines Pty Limited, Argyle Diamond Sales Limited and Dampier Salt Limited. Mr O'Leary resides in Perth.

**Richard H Searby** QC, MA (Oxon), age 64. A non-executive director since 1977. He became Queen's Counsel in 1971. His practice was principally in the fields of commercial, company and constitutional law. Mr Searby is Chairman of The Equity Trustees Executors and Agency Company Limited, and a director of Shell (Australia) Limited, BRL Hardy Limited and Amrad Corporation Limited. Mr Searby is a consultant to Messrs Blake Dawson Waldron, Solicitors. He is also National President of the Australian Institute of International Affairs. Mr Searby resides in Melbourne.

Robert P Wilson and Robert Adams are directors of both RTZ and CRA.

**(c) RTZ and CRA directors' service contracts**

There are no service contracts between any RTZ Director or any CRA Director and any member of the Combined Group of over 12 months' duration which have not previously been on display in their current form.

**4. Litigation**

(a) The RTZ Directors are not aware of any legal or arbitration proceedings pending or threatened against RTZ or any of its subsidiaries which may have, or have had during the previous 12 months, a significant effect on the financial position of RTZ and its subsidiaries.



- (b) Subject to the native title claims described in Part III of this document under the heading "Aboriginal land entitlements", the CRA Directors are not aware of any legal or arbitration proceedings pending or threatened against CRA or any of its subsidiaries which may have, or have had during the previous 12 months, a significant effect on the financial position of CRA and its subsidiaries. As stated in Part III of this document, a number of claims have been made asserting native title to areas which include mining tenements of the CRA Group. On the basis of legal advice received, it is the opinion of the CRA Directors that such claims are unlikely to succeed in a manner which would have a significant adverse effect on the financial position of CRA and its subsidiaries.

## **5. Miscellaneous**

- (a) Coopers & Lybrand, London and Coopers & Lybrand, Melbourne have given, and not withdrawn, their written consents to the inclusion in this document of their joint letter and their names in the form and context in which they are included.

Morgan Stanley Australia Limited has given, and not withdrawn, its written consent to the inclusion in this document of its report and name in the form and context in which they are included.

Anderson & Schwab, Inc. has given, and not withdrawn, its written consent to the inclusion in this document of its report and name in the form and context in which they are included.

- (b) The registered office of RTZ is 6 St James's Square, London, SW1Y 4LD. The telephone number is 0171 930 2399.
- (c) The principal executive and registered office of CRA is 55 Collins Street, Melbourne, Victoria 3000, Australia. The telephone number is 03 9283 3333.

## **6. Documents available for inspection**

Copies of the following documents will be available for inspection at the offices of Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA and CRA, 55 Collins Street, Melbourne, Victoria, Australia during normal business hours (Saturdays, Sundays and public holidays excepted) until 20 December 1995:

- (a) the existing and proposed Memorandum and Articles of Association of RTZ;
- (b) the existing and proposed Memorandum and Articles of Association of CRA;
- (c) the published audited consolidated accounts of RTZ for the two financial years ended 31 December 1993 and 1994;
- (d) the published unaudited consolidated interim statement of RTZ for the six months to 30 June 1995;
- (e) the published audited consolidated accounts of CRA for the two financial years ended 31 December 1993 and 1994;
- (f) the published unaudited consolidated interim statement of CRA for the six months to 30 June 1995;
- (g) the written consents referred to in paragraph 5 above;
- (h) the letter from Coopers & Lybrand, London and Coopers & Lybrand, Melbourne reproduced in Part IV relating to the unaudited pro forma unified profit and loss account and balance sheet;
- (i) the Implementation Agreement and the agreed forms (subject to variation by agreement) of the Sharing Agreement, the RTZ Deed Poll Guarantee, the CRA Deed Poll Guarantee, the RTZ Shareholder Voting Agreement and the CRA Shareholder Voting Agreement;
- (j) the Independent Expert's Report by Morgan Stanley Australia Limited which is set out in Part V; and
- (k) the CRA Circular.

27 November 1995

## Definitions

The following principal definitions apply in this document, unless the context otherwise requires:

“A\$”	<i>Australian dollar</i>
“ASX”	<i>the Australian Stock Exchange</i>
“Australian GAAP”	<i>generally accepted accounting principles in Australia</i>
“Combined Group”	<i>RTZ Group and CRA Group</i>
“CRA”	<i>CRA Limited (ACN 004 458 404)</i>
“CRA Bonus Shares”	<i>new CRA Ordinary Shares to be issued pursuant to the CRA bonus issue as set out in the Implementation Agreement</i>
“CRA Circular”	<i>the document dated 27 November 1995 addressed to CRA Shareholders containing information on the proposed DLC merger</i>
“CRA Deed Poll Guarantee”	<i>the deed poll guarantee to be executed by CRA pursuant to the terms of the Implementation Agreement</i>
“CRA Directors”	<i>the directors of CRA</i>
“CRA Group”	<i>CRA and its subsidiaries and associated companies</i>
“CRA Ordinary Shares”	<i>ordinary shares of A\$2 each in CRA</i>
“CRA Public Shareholders”	<i>holders of CRA Ordinary Shares to which a member of the RTZ Group is not beneficially entitled</i>
“CRA Shareholders”	<i>holders of CRA Ordinary Shares</i>
“CRA Shareholder SVC”	<i>CRA Shareholder SVC Limited</i>
“CRA Special Voting Share”	<i>the Special Voting Share of A\$2 in CRA</i>
“CRA Shareholder Voting Agreement”	<i>the agreement to be entered into between RTZ, CRA, CRA Shareholder SVC and Law Debenture pursuant to the terms of the Implementation Agreement</i>
“Deed Poll Guarantees”	<i>the RTZ Deed Poll Guarantee and the CRA Deed Poll Guarantee</i>
“DLC”	<i>Dual Listed Companies</i>
“DLC merger”	<i>the merger of RTZ and CRA pursuant to the terms and conditions of the Implementation Agreement</i>
“DLC proposal”	<i>the proposal to implement the DLC merger</i>
“DLC stucture”	<i>the structure of the Combined Group once the DLC merger has been implemented</i>
“Implementation Agreement”	<i>an agreement entered into between RTZ and CRA on 3 November 1995 setting out the terms and conditions for the implementation of the DLC merger</i>
“Law Debenture”	<i>The Law Debenture Trust Corporation p.l.c.</i>
“marketable reserves”	<i>coal reserves stated in terms of recoverable quantities of saleable material, i.e. after processing or beneficiation losses</i>
“Ordinary Share”	<i>a CRA ordinary share and/or a RTZ ordinary share as the context requires</i>
“probable reserves”	<i>reserves stated in terms of mineable tonnes/volumes and grades where the conditions are such that ore will probably be confirmed but where the in situ identified mineral deposit has not been defined with the precision necessary for the “proved” category. Probable reserves include ore that has been sampled on a pattern too widely spaced to ensure continuity but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability</i>

“proved reserves”	<i>reserves stated in the terms of mineable tonnes/volumes and grades in which the identified in situ mineral deposit has been defined in three dimensions by excavating/drilling and may include additional minor extensions beyond actual openings and drill holes, where the geological factors that limit the ore body are known with sufficient confidence</i>
“Public Holders”	<i>a CRA Public Shareholder and/or a RTZ Public Shareholder</i>
“RTZ”	<i>The RTZ Corporation PLC</i>
“RTZ ‘A’ Shares”	<i>3.325 per cent. ‘A’ Cumulative Preference Shares in RTZ</i>
“RTZ ‘B’ Shares”	<i>3.5 per cent. ‘B’ Cumulative Preference Shares in RTZ</i>
“RTZ Circular”	<i>the document dated 27 November 1995 sent with this document to RTZ Shareholders containing information on the proposed DLC merger</i>
“RTZ Deed Poll Guarantee”	<i>the deed poll guarantee to be executed by RTZ pursuant to the terms of the Implementation Agreement</i>
“RTZ Directors”	<i>the directors of RTZ</i>
“RTZ Group”	<i>RTZ and its subsidiaries and associated companies</i>
“RTZ Ordinary Shares”	<i>ordinary shares of 10p each in RTZ</i>
“RTZ Public Shareholders”	<i>holders of RTZ Ordinary Shares or RTZ Voting Preference Shares to which in each case a member of the CRA Group is not beneficially entitled</i>
“RTZ Shares”	<i>RTZ ‘A’ Shares, RTZ ‘B’ Shares and RTZ Ordinary Shares</i>
“RTZ Shareholders”	<i>holders of RTZ Shares</i>
“RTZ Shareholder SVC”	<i>RTZ Shareholder SVC Pty. Limited</i>
“RTZ Shareholder SVC Trust Deed”	<i>the trust deed between RTZ, RTZ Shareholder SVC and Law Debenture in relation to the shares in RTZ Shareholder SVC to be entered into pursuant to the Implementation Agreement</i>
“RTZ Special Voting Share”	<i>the Special Voting Share of 10 pence in RTZ</i>
“RTZ Shareholder Voting Agreement”	<i>the agreement to be entered into between RTZ, R.T.Z. Australian Holdings Limited, RTZ Shareholder SVC, CRA and Law Debenture pursuant to the terms of the Implementation Agreement</i>
“RTZ Share Option Schemes”	<i>the RTZ Savings Related Share Option Schemes 1983 and 1993, the RTZ Executive Share Option Scheme 1985 and the RTZ Overseas Executive Share Option Scheme 1990.</i>
“RTZ Voting Preference Shares”	<i>in relation to any matter at any time, the RTZ ‘A’ Shares and/or the RTZ ‘B’ Shares the holders of which would, if that matter were being considered at an RTZ general meetings, be entitled to vote at such meeting</i>
“Shareholder SVC”	<i>RTZ Shareholder SVC and/or CRA Shareholder SVC</i>
“Sharing Agreement”	<i>an agreement to be entered into between RTZ and CRA on completion of the implementation of the DLC merger which regulates the relationship between RTZ and CRA following the implementation of the DLC merger</i>
“Special Voting Share”	<i>the RTZ Special Voting Share and/or the CRA Special Voting Share</i>
“Tinto Holdings Australia”	<i>Tinto Holdings Australia Pty Ltd and includes any transferee of the CRA Ordinary Shares held by that company at the date hereof which is a member of the RTZ Group</i>
“UK GAAP”	<i>generally accepted accounting principles in the United Kingdom</i>
“US\$”	<i>United States dollar</i>



