

GLENCORE

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Optimum Coal commences business rescue proceedings

Glencore announces that the directors of its subsidiaries, Optimum Coal Holdings and Optimum Coal Mine (Optimum), have resolved to commence business rescue proceedings and place both companies under supervision given continued and unsustainable financial hardship.

Optimum has over the last 6 months taken various steps to restructure its operations and reduce its costs, including downscaling its operations and reducing its production. Optimum has, however, continued to suffer financial hardship as a result of its agreement with Eskom.

Optimum is contracted to supply 5.5 million tons per annum to Eskom following an agreement signed in 1993. This agreement has resulted in Optimum supplying coal to Eskom at a cost significantly less than the cost of production for a number of years.

Optimum has engaged in extensive discussions over the years with Eskom to renegotiate the agreement to a level which is sustainable for both parties, including securing the supply of coal to Eskom until the end of the estimated life of the Hendrina power station in 2023.

The shareholders of Optimum have, since September 2014, advanced approximately R900 million of funding to Optimum to enable it to continue operating and supplying Eskom. This is in addition to R2.5 billion of bank funding which Optimum drew down prior to September 2014. The funding enabled Optimum to continue operating while negotiations with Eskom with regard to ensuring the sustainable supply of coal to the company continued.

In June 2015, Eskom informed Optimum that it is not willing to renegotiate the agreement and terminated the framework agreement. The framework provided the platform on which the renegotiation discussions were being conducted and interim supply of coal to Eskom was being made.

Despite the termination, Optimum secured additional funding from Glencore in early July 2015 to enable it to continue supplying Eskom.

Whilst fully aware of the unsustainable nature of the agreement and Optimum's precarious financial situation, Eskom served a notice on Optimum in July 2015 in which it asserts its rights to claim significant historical penalties from Optimum and to impose future penalties.

Eskom is enforcing specifications in the supply agreement which Optimum is unable to meet on a sustainable basis and which were the subject of the recent renegotiation discussions.

The penalties sought would result in Optimum supplying coal to Eskom for an effective price of R1 per ton.

While Optimum is disputing the Eskom claims, the continued financial hardship of Optimum means that Optimum cannot continue operating the mine and supplying Eskom on this unsustainable basis. The directors have therefore resolved to commence business rescue

proceedings which allows for independent parties to assess Optimum's financial position and contractual obligations and determine how best to rescue Optimum.

The directors are of the view that if the Eskom supply agreement can be renegotiated, there is a reasonable prospect of rescuing Optimum.

Glencore is willing to extend certain post commencement funding to Optimum to afford the business rescue practitioners an opportunity to assess the company and time to prepare a business rescue plan for Optimum.

Glencore will provide all necessary assistance to the business rescue practitioner during the business rescue process to develop a business rescue plan which will enable Optimum to emerge as a sustainable business and a long-term supplier of coal to Eskom.

For further information please contact:

Investors:

Martin Fewings	Elisa Morniroli
t: +41 (0) 41 709 2880	t: +41 (0) 41 709 2818
m: +41 (0) 79 737 5642	m: +41 (0) 79 833 0508
e: martin.fewings@glencore.com	e: elisa.morniroli@glencore.com

Media:

Charles Watenphul	Gugulethu Maqetuka
t: +41 (0) 41 709 2462	t: +27 11 772 0650 / +27 11 772 0726
m: +41 (0) 79 904 3320	m: +27 82 944 6572
e: charles.watenphul@glencore.com	e: gugulethu.maqetuka@glencore.co.za

www.glencore.com

 www.youtube.com/glencorevideos

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With a strong footprint in both established and emerging regions for natural resources, Glencore's industrial and marketing activities are supported by a global network of more than 90 offices located in over 50 countries.

Glencore's customers are industrial consumers, such as those in the automotive, steel, power generation, oil and food processing. We also provide financing, logistics and other services to producers and consumers of commodities. Glencore's companies employ around 181,000 people, including contractors.

Glencore is proud to be a member of the Voluntary Principles on Security and Human Rights and the International Council on Mining and Metals. We are an active participant in the Extractive Industries Transparency Initiative.