




Kennecott Energy

www.kenergy.com

**ENERGY TO
POWER THE
COUNTRY™**

Health, safety, environment and community information in this report is augmented in the Kennecott Energy Company web site at www.kenergy.com. Look for the  symbol throughout, indicating the availability of additional data and initiatives.

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Stakeholders Report

2002



To Our Stakeholders

I am pleased to present our annual Stakeholders Report for 2002. The report summarizes Kennecott Energy's performance in the areas of health, safety, environment, and community and provides the basis for a productive dialogue with employees, local community leaders, and other stakeholders in a discussion of the opportunities and challenges we face as an industry.

Kennecott Energy is proud to be a leading source of reliable domestic energy for the United States. We make every effort to conduct our business in an accountable manner, reflecting the interests of our shareholders and others who might be affected by our mining activities. We aspire to do business in an open and honest manner and hope ample detail is given to make a fair assessment of our integrity and character.

Because of its affordability and the important role it plays in providing energy, coal will continue to play a significant role in meeting the world's energy needs. But to maintain long-term sustainable development goals, we must work more diligently to mitigate the impacts of our product. Kennecott Energy and our parent company, Rio Tinto, are committed to working hand-in-hand with interested part-

ners to pursue research and development of clean coal technology. We will seek solutions that balance the need for affordable energy with responsible development of resources.

At Kennecott Energy, we are proud of our historic performance and of our results for 2002. We are also concerned that performance is not always sufficient to meet targeted goals, and we have recently reinforced our commitment to safety programs. We are working to ensure that everyone who is involved in the mining process enjoys the security of a safe work environment.

As we look to the future, our success lies in maintaining a competitive niche in the marketplace and also in understanding local communities and the environment in which we operate. We will maintain and build positive relationships with our supporters, neighbors, and even those with whom we differ in opinion. With this report, I encourage your examination and your feedback. I look forward to your comments.

Best Regards,

Bret Clayton
President & CEO

Based in the Rocky Mountain region of the United States, Kennecott Energy Company is one of the safest and most efficient energy producers in the world. The company is part of the Rio Tinto group of companies, leaders in finding, extracting, and processing mineral resources. Coal, Kennecott Energy's primary product, is one of the most economical and dependable sources for much of the world's growing energy needs.

Kennecott Energy provides Energy to Power the Country™. The coal is extracted from the ground, loaded into railcars and shipped to power plants across the country. There the coal is converted into electricity and sent to countless homes and businesses, powering lights, heat, appliances, televisions, computers, and much more. With a combined workforce of over 1,700 employees and with the assistance of hundreds of contractors and suppliers, Kennecott Energy produced enough coal in 2002 to generate approximately six percent of the nation's electricity.



From its corporate headquarters in Gillette, Wyoming, Kennecott Energy provides management services to properties located in five states. Open pit coal mines comprise the majority of the company's business with active operations at Antelope, Cordero Rojo, and Jacobs Ranch mines in the Southern Powder River Basin of Wyoming; Colowyo in northwest Colorado; and Spring Creek in south central Montana.

Kennecott Energy also has other coal interests. The company owns the Fort Union coal mine, which is not currently in production. State-of-the-art reclamation is underway at Sequatchie Valley Coal Company in Dunlap, Tennessee. Kennecott Energy also owns 50 percent of Decker Coal in south central Montana.

In addition to coal, Kennecott Energy oversees two uranium properties – the Green Mountain Mining Venture in southwest Wyoming and the L-Bar Uranium site in northwest New Mexico – although both have ceased production.

The Green Mountain site includes a licensed uranium mill and tailings facility and two areas under reclamation. Reclamation is complete at L-Bar, and Kennecott Energy is facilitating administrative issues so the site can be formally transferred to the U.S. Department of Energy for long-term stewardship.

[Learn about the Coal Mining Process, See Operations Map, and Review Site Specific Statistics](#)

During 2002, Kennecott Energy:

- ▶ Had a total of \$1.5 billion invested in reserves, facilities and equipment.
- ▶ Spent \$265.6 million locally.
- ▶ Employed 1,702 people.
- ▶ Produced a total of 115.9 million tons of coal.

COMPANY OVERVIEW

ISSUES WITH IMPACT

In the natural course of business, operational issues constantly emerge. Given the significance of coal mining to the Rocky Mountain region and the entire country, some Kennecott Energy issues also impact the larger community as a whole. The company believes in addressing such issues in an open and honest manner.

Dust Suppression

Acceptable ambient air dust levels were first exceeded in 2001 – more than 25 years after monitoring began. Mines in the Southern Powder River Basin continued to experience exceedences during 2002. Prolonged dry weather conditions, increased mine activity, and heavier traffic on unpaved county roads all appear to contribute to the condition. Dust monitors, located on mine sites, capture dust emissions from mine properties and emissions that drift onto the mine property. The drought has become so severe that some exceedences in short-term particulate matter (PM-10) occurred when high winds gusted from the open prairie towards the monitors.

Even though no exceedences were recorded on Kennecott Energy properties in 2002 and mining activity is not solely responsible for increased dust levels, Kennecott Energy has taken an active role in dust control – both on and off its mine sites – and has worked with a regional coalition to mitigate dust issues. Successes of the coalition include:

- ▶ Targeting and treating high-traffic, unpaved county roads with dust suppression materials.
- ▶ Recognition of the air exceedences as isolated incidents.

To proactively address dust issues, Jacobs Ranch has developed a step-by-step plan, detailing how high dust levels should be handled. Employees are kept informed of existing dust levels and are prepared to slow down or even stop production temporarily should conditions warrant.

Dust Suppression Initiatives

Taxation

The volatile nature of energy markets and corresponding commodity prices creates a challenge for maintaining fiscal balance in spending when government entities are highly dependent on mineral taxes for revenues. Kennecott Energy maintains an active voice in tax discussions, both in public forums and legislative hearings. The company will continue to be a partner in developing good tax policy and will work to facilitate a fair solution for all concerned.

Kennecott Energy paid \$238.2 million in taxes and royalties in 2002.

Joint Development

Increased coalbed methane, oil and natural gas production in the West enhances the region's economic

development and the tax base. Since these resources often exist on the same property as coal, the economic benefit can be offset should the coal mining process be hindered as a result. Kennecott Energy supports the joint development of minerals, realizing that with proper planning, there can be a winning solution for all involved. The company supports new legislation, which creates a process for negotiations and enhances fair and timely resolution of future joint development issues.

New Developments

Kennecott Energy has a long-term commitment to the mining industry and continually invests in its operations. To meet the nation's energy needs, coal resources must continually be replaced once they are mined and transformed into energy. Leases and permits required to develop a new tract of coal, even at established operations, require approximately seven years and an investment of millions of dollars and thousands of hours of research, planning, and review.

Kennecott Energy's Jacobs Ranch mine acquired a new lease during 2002. The North Jacobs Ranch tract holds more than 500 million tons of recoverable coal reserves and will extend the life of Jacobs Ranch up to 15 additional years at projected production levels. Also during 2002, Spring Creek completed the development of its Carbone reserve and began shipping coal, and Antelope began developing the Horse Creek lease after obtaining all the necessary permits in late 2001.

“Kennecott Energy is very environmentally conscious. They do have some problems with dust, but their environmental ethics are very strong, and they are committed to providing positive environmental outcomes. It's a priority. I've been coordinating the grazing on Jacobs Ranch reclaimed lands for the past five years in a manner totally different than traditional grazing practices to bring the land to an even better condition than it was prior to mining. My goal is to provide a really good example of how we can produce positive outcomes and increase land use and function for all lands in Wyoming with proper management. Kennecott Energy recognizes the importance of improving the environment as well.”

**– Miles Keogh, Independent Contractor
Owner/Operator of KEY-O Incorporated**

Sustainable Development

Kennecott Energy continuously strives to obtain a balance between the safe, responsible development of mineral resources and meeting the nation's growing energy needs. At the same time, the company works to provide a reasonable return to shareholders and support the area's economic and social needs.

The company supports the global movement of Sustainable Development, which is defined by the World Commission on Environment and Development as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

In an effort to ensure Kennecott Energy's businesses, operations, and products contribute to sustainable development, the company is partnering with other business units from Rio Tinto's Energy Group in the development of its sustainable development framework.

Many of Kennecott Energy's ongoing efforts, like wellness and home safety initiatives, community contribution programs, and energy use reductions, already support sustainable development values. In 2003, Kennecott Energy will pursue joint research on carbon capture-storage, conduct a survey of local communities to identify sustainable development priorities, and evaluate wind generation potential at mine sites.



THE MOST VALUABLE RESOURCE



Developing People

Kennecott Energy devotes much time and effort in developing its most valuable asset – people. Although employees have a complete range of employment benefits, employee value and investment goes far beyond tangible dollars.

Employee payroll during 2002 totaled \$107.2 million. Benefits totaled over \$22 million.

Employee participation is the foundation of Kennecott Energy's operating philosophy. All employees, regardless of position or tenure, are encouraged to become involved and provide input into processes and procedures to improve safety, productivity, and efficiency at each site.

Kennecott Energy believes in supporting and investing in its workforce. The company provides skill training and tuition assistance for employees. Scholarship and summer work opportunities are offered to dependents to assist with funding continuing education needs and to provide job training. Kennecott Energy is also committed to developing a future workforce. College students can gain professional experience as interns with the company.

FLIP Exchange Program

Eleven Kennecott Energy employees worked temporarily in Australian mines during 2002 through Rio Tinto's Front Line Interchange Program (FLIP). For the second year, business units across Rio Tinto's Energy Group organized the six-week exchange program for front-line employees, operators and maintenance staff. FLIP provides a unique working experience for participants and facilitates the sharing of best practices across business units.

Employee Wellness

Designed to improve the quality of life for employees and spouses, the Wellness Program provides health screenings, educates employees on health-related issues, and encourages lifestyle improvements through a reward system. The program helps reduce medical costs, occupational injuries, and absenteeism. The program was revised during 2002 to encourage a higher level of voluntary participation.

Workforce Safety

While workforce development is a priority for Kennecott Energy, the company works even harder at protecting its workforce. Safety is the company's number one priority, and considerable effort is made to protect employees and others exposed to mining operations from unacceptable risk.

Kennecott Energy believes that all accidents are preventable, and devotes considerable resources to maintaining a safe, accident-free workplace. Safety is viewed as a culture, requiring the commitment of everyone involved in mining operations. Over the years, this dedication has paid off with reduced injuries and prominent state and national recognition as a leader in safety performance. All five mines operated by Kennecott Energy have qualified for the prestigious Sentinels of Safety award, a national recognition for the coal mine with the best safety performance of the year. Both Cordero Rojo and Colowyo have won the award multiple times.

 **Summer Intern Program and Sentinels of Safety History**



"I am impressed with the investment Kennecott Energy makes in the FLIP program. The company is giving hourly employees – non-managerial and non-supervisory employees – an opportunity to expand their horizons and experience the mining industry in a different continent. I think it says that this is a company that anticipates a strong relationship with their employees for the long term at all levels and is willing to put their money where their mouth is when they talk about personal development."

– Brad Cave

*Employment Counsel for Kennecott Energy,
Partner with Holland and Hart in Cheyenne*



"It's been my experience that when the school district is requiring support for any purpose, Kennecott Energy is very eager to assist in those needs. Spring Creek Coal, specifically, is greatly appreciated for their regular participation in mock employment interviews with our students. These interviews are imperative to the students' high school careers and their future; if they can't get a job, they can't support themselves or their families. Kennecott Energy is very conscious of the statements they make within the community. They care about our land; they care about our people. They're very user friendly."

– Jennifer Nehl, *English Teacher*

Fort Mackenzie High School, Sheridan, WY

The safety culture grows from a commitment by Kennecott Energy and its employees and contractors to provide and ensure a safe and healthy work environment. Successful company safety elements include individual accountability, performance recognition, safety system enhancements, and contractor safety measures. At a minimum these safety elements include:

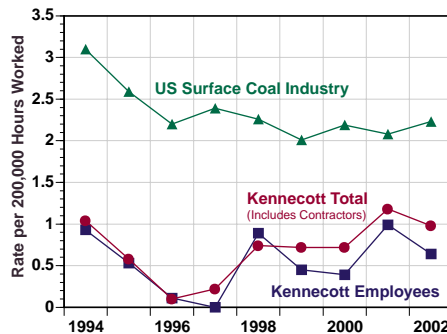
- ▶ Employee support in the development of safety initiatives, which is essential to the establishment of a safety culture.
- ▶ Laws and regulations applicable to operations are known and obeyed.
- ▶ Health and safety systems start from a foundation of compliance with applicable laws and regulations.
- ▶ Health and safety considerations are a core element of business planning.
- ▶ Facilities and processes are designed to protect employee health and safety.
- ▶ Internal self audits build and maintain a heightened awareness of safety initiatives.

Numerous programs have been implemented to help Kennecott Energy completely eliminate injuries. While the company's performance sets the standard for safety in the industry, the company and its workers continue to strive for excellence. Everyone makes an effort to achieve a target of reducing lost-time accidents by 50 percent per year, with an overall goal of zero accidents for all operations and contractors. While Kennecott Energy believes the goal is attainable, it is sometimes elusive.

Kennecott Energy did see a reduction in the injury rate during 2002, however the company did not meet its goals. A 20 percent decrease in injuries was achieved, resulting in a lost work-time injury rate of .98, down from 1.18 in 2001. Injuries to employees and contractors requiring medical treatment was reduced 10 percent from a rate of 1.13 in 2001 to 1.03 in 2002.

Safety Performance Lost-Time Incidence Frequency Rate

The safety performance of Kennecott Energy employees and contractors exceeds the performance levels of U.S. surface coal mine operations.



Safety Initiatives in 2002:

- ▶ Focus on risk assessment, unsafe practices and improved safety measures.
- ▶ Renewed emphasis on contractor safety.
- ▶ External safety audits for all sites.
- ▶ Occupational health assessments.
- ▶ Sites continued to implement individual, innovative systems to enhance safety.

The Colorado Division of Minerals and Geology and the Colorado Mining Association recognized Colowyo for safety innovation. The mine won an award for advancing its "Working at Heights" initiative beyond the use of fall protection to a proactive fall prevention system. Throughout the mine, employees began using newly designed and constructed platforms that provide for a safer working environment at heights.

Safety Initiatives

"Kennecott Energy shows a significant commitment to safety through its investment of time and training for its emergency mine rescue teams. The company extends that commitment to their communities, as well, by allowing their teams to respond to emergencies off site. Because of the vastness of our geography, their ability to respond is a true asset. Some locations in our county that would normally involve a 45-minute response time, a Colowyo ambulance can reach within 8 minutes. That can mean the difference between life and death."

– Karen Burley, *Coordinator for Rural EMS Services in Moffat County, Colorado*



Safety Performance Goals

- ▶ Reduce mine site lost-time incident and medical treatment case frequency rates by 50 percent per year with an overall goal of a zero frequency rate for all operations and contractors.
- ▶ Ongoing training and implementation of employee and contractor safety job observation for at-risk behavior.
- ▶ Continue implementing standards for occupational health and ergonomic issues, such as repetitive motion injuries, and increase industrial hygiene sampling.

Protecting People



THE SAFETY PRIORITY

"I think Kennecott Energy Company does a pretty good job with its reclamation. I have toured Jacobs Ranch several times in the last decade or so with my students. They always welcome us warmly and treat us well. While achieving adequate shrub cover for wildlife has been a challenge at Jacobs Ranch, they have made improvements, and newly reclaimed lands offer more cover than those reclaimed years ago. Though the primary post-reclamation focus has been on returning the lands to livestock production, a focus on maintaining wildlife habitat has been paramount. It's a tough balancing act, but I think they're headed in the right direction."



– Dr. Charles Butterfield
Assistant Professor of Agriculture and Range Management
Chadron (NE) State College

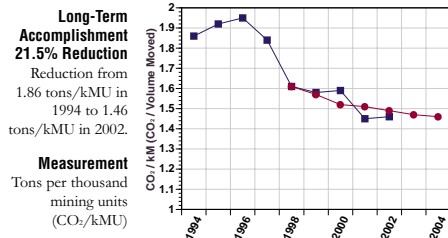
"While building a machine at Antelope, safeognized a potential procedural hazard while multiple cranes, handling a single suspended joint review of the procedure, we installed a wireless camera technology as a visual aide operators. During the Cordero machine asse ed and utilized the wireless camera technol nating any "at risk" procedure. Kennecott E an extreme emphasis on safety, and so do w safety perspective, we are always looking fo that stimulate safety awareness. Safety stan of Kennecott's commercial contracts, and th grams such as S.M.A.T. inspections offer a pr safety. That gives us a deeper sense of secur their sites."

– Bob Hicks, Manager of

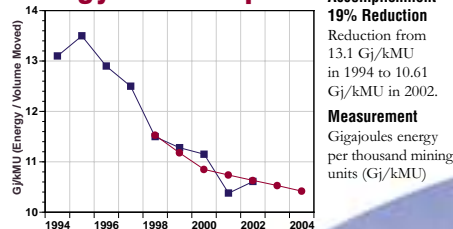
Kennecott Energy is cognizant of the environment in which it operates and takes seriously its role as a steward of the land. While the extraction process does disturb the environment, the company works to minimize the impact of mining operations.

To measure the impacts of mining on the environment and ensure success, Kennecott Energy establishes performance goals for water, air, and land quality and then routinely monitors the ability of the company to meet those goals.

Air Quality/CO₂ Emissions



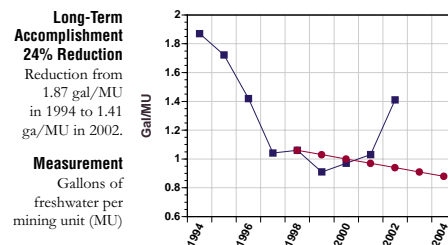
Energy Consumption



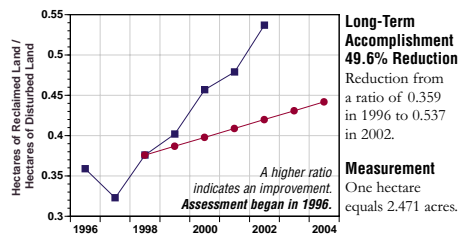
■ Actual Performance
● Target Performance

The Powder River Basin of Wyoming experienced its fourth-straight year of drought conditions during 2002. Below-normal precipitation and above-normal temperatures resulted in an increase of freshwater use to suppress dust. Usage relative to mining units rose 37 percent from 2001 to 2002 and was 50 percent higher than the established target.

Water Consumption



Land Disturbance



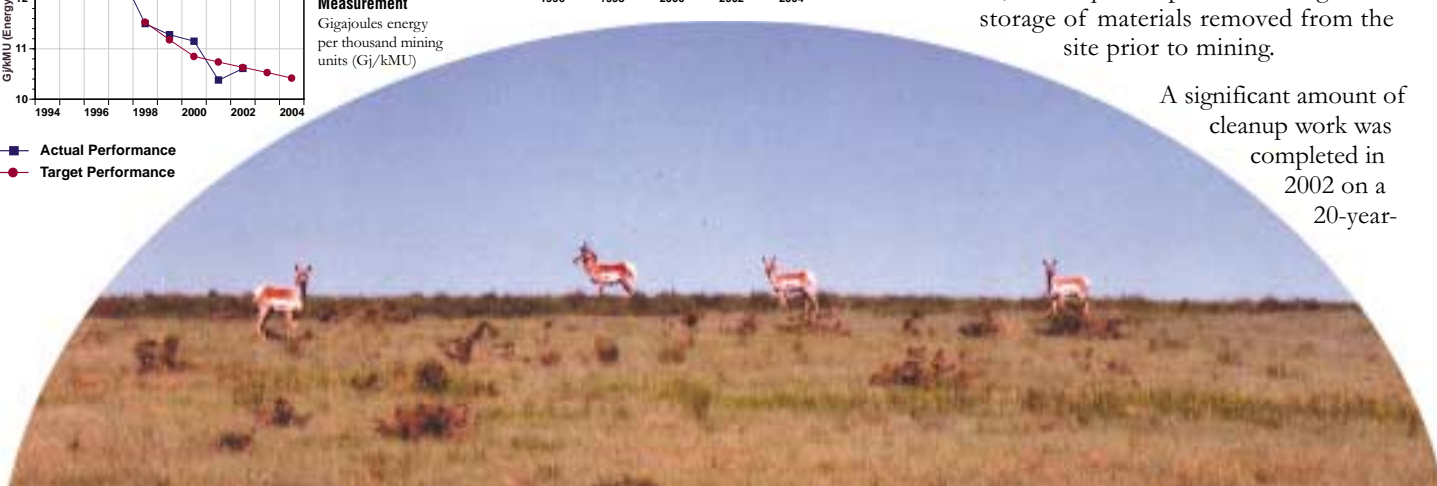
Environmental successes include Kennecott Energy's voluntary reduction program for hazardous material use, which has resulted in a 95 percent reduction at mine properties in the last 10 years.

Each of Kennecott Energy's mine sites incorporates environmental initiatives into their work plan. Whether a part of everyday mining operations or a unique and innovate solution to a specific challenge, these initiatives are designed to enhance Kennecott Energy's environmental focus and support the goal of leaving the land in equal or better condition for use than it was prior to mining.

In 2002, Kennecott Energy dedicated resources to research options for the reduction of carbon emissions. Processes being investigated include carbon capture and storage and coal gasification.

Spring Creek reclaimed two-thirds of the South Fork Spring Creek stream channel during 2002. Once completed, water will begin flowing down the new channel. The project involved significant research and study into the water capture and flow, and required special handling and storage of materials removed from the site prior to mining.

A significant amount of cleanup work was completed in 2002 on a 20-year-



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Service Operations Western Region
P & H MinePro

Jacobs Ranch obtained a partial incremental bond release on 1,629 acres of reclaimed land in 2002.

old diesel leak at the Green Mountain Mining Venture. The uranium facility had been idle for 10 years when it became part of Kennecott Energy. The extensive \$2 million cleanup included movement of more than 300,000 cubic yards of contaminated soil, which was excavated and placed in a land farm where natural microbial activity will break down the hydrocarbons from the diesel. Within a year, the contamination will be at a safe level and the soils will be returned to their original locations.

Besides agricultural uses, land around Kennecott Energy mines serves as a habitat for countless species of wildlife. The company works to coexist with wildlife before, during, and after the mining process and pursues numerous wildlife initiatives in the process. Examples are:

- ▶ Audits, completed at all sites annually, ensure power lines are safe for hawks and other raptors.
- ▶ Public bird watching events at multiple sites enhance wildlife appreciation. In 2002, a total of 55 bird species were sighted or identified by call during three events, and 36 different species of plants were also noted and identified.
- ▶ A multi-year study of northern sage grouse and Columbian sharp-tailed grouse at Colowyo is examining seasonal habitat use, population trends, and overlapping habitat use.
- ▶ An elk habitat improvement project, conducted at Jacobs Ranch in 2003, will work

Kennecott Energy communicates to all employees that everyone has a responsibility to conduct operations in a manner that protects the quality of the water, air, and land in the surrounding environment. Kennecott Energy's environmental focus ensures:

- ▶ Design of facilities to prevent pollution, conserve resources and energy, minimize use of hazardous materials, reduce waste, and exemplify best available practices.
- ▶ Integration of environmental considerations into business planning.
- ▶ Adoption of standards to meet or exceed applicable laws and regulations.

Stewards of the Land

on developing supplemental water sources and elk-friendly fence crossings to improve access on highly productive reclaimed lands.

- ▶ Efforts continue to reintroduce prairie dogs at Antelope mine. Reestablishing prairie dog habitat is especially important because prairie dog towns provide habitat for several sensitive species, including Mountain Plover birds.

Inevitably, waste is generated during the mining process. Kennecott Energy works to handle waste in a responsible manner. Continued, ongoing efforts include:

- ▶ A continued commitment to reduce waste generation with a general policy that promotes recycling and reusing valuable resources whenever feasible.
- ▶ A continued responsible approach to ensure the safe, long-term disposal of hazardous waste generated by mining properties. The waste is temporarily stored in protective enclosures and then transported to approved, licensed hazardous waste facilities for disposal.

Colowyo received two state awards for its environmental efforts during 2002. The site was recognized for innovative use of global positioning systems in constructing post-mine typography, and a Pollution Prevention Award was presented for active participation in waste reduction and pollution prevention programs.

About 30 people will visit Spring Creek in 2003 as part of a field tour sponsored by the Billings Land Reclamation Symposium and the American Association of Surface Mining and Reclamation. The periodic tours highlight properties accomplishing outstanding restoration work.

 **Environmental Initiatives and Environmental Recognition**





▲ Committed to Communities

Kennecott Energy is committed to positively impacting nearby communities. The company works to develop relationships, especially in those seven communities where a large number of employees live and where principal business transactions occur.

Since 1994, the company has directly invested more than \$3.5 million in community involvement and local charities. Each site and the Gillette office utilizes committees to prioritize contributions. Due to employee involvement, projects at each operating site are diverse. Priority is given to health care and social service needs, environmental initiatives, youth, the performing arts and education.

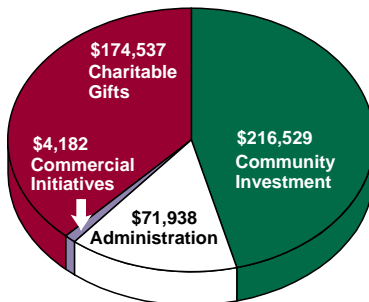
Community Initiatives

Kennecott Energy contributed over \$465,000 to community relation activities in 2002. In addition to monetary gifts, an internal survey indicated more than 400 employees contributed over 31,000 hours of their time to community events, and employees contributed nearly \$151,000 to charities. Jacobs Ranch employees led the way with a combined \$62,808 employee contribution to United Way.

Consistent with Rio Tinto's global emphasis, the company's Communities Plan focuses on the following aspects:

- ▶ Develop and maintain relationships that provide for respect, trust and mutual benefit in the communities affected by its operations
- ▶ Conduct operations and activities with integrity, honesty, and openness.
- ▶ Create a better quality of life for employees and community partners.
- ▶ Encourage high levels of employee involvement.
- ▶ Support select infrastructure development for long-term accommodation of community needs.

What We Give



Kennecott Energy contributed \$467,186 to local communities in 2002.

Representatives of Kennecott Energy have an active presence in local communities. Whether assisting local civic clubs, community youth organizations, or local governmental agencies, their goal is to make a difference. These volunteer interactions not only provide a valuable community service, but also the communication with local leaders provides feedback to Kennecott Energy regarding community priorities and needs.

“Because of local philanthropy, including contributions from Kennecott Energy, Campbell County Memorial Hospital now offers state-of-the-art radiation oncology care. Generosity was so significant that the hospital was able to purchase the best equipment, comparable to that at any major teaching hospital in the country. Before the unit opened last year, patients had to travel two or three hours for care, which they needed Monday through Friday often for several weeks. Many of these folks are really sick and having this available in town I think has significantly improved the quality of life for cancer patients and their families.”

– Dr. Margaret Barnes, (above right)
Radiation Oncologist
Campbell County Memorial Hospital

