



# Proposed Rights Issue and Proposed Acquisition of Prodeco

February 2009

## Two for one Rights Issue to raise \$5.9 billion (£4.1 billion)<sup>1</sup>

- Proceeds of fully underwritten rights issue to be used to repay existing debt, a portion of which represent the cash consideration paid to acquire the Prodeco assets
- Approx 1.96bn new shares to be issued at £2.10 per share, 40% discount to TERP at announcement
- Xstrata intends to repay US\$2.7 billion borrowings currently outstanding under the Group's US\$5.46 billion Club Facility and reduce US\$4.4 billion borrowings currently outstanding under a US\$4.68 billion Syndicated Facility
- Post rights issue, net debt to reduce to approx \$12.6bn with gearing of <30%
- Rights issue positions Xstrata to emerge from the current downturn with a strengthened balance sheet and an enhanced platform from which, at the appropriate time, to initiate the next stage of the Group's growth
- Glencore has provided an irrevocable undertaking to vote in favour of the rights issue resolutions and to take up its full entitlement under the rights issue. Glencore has also agreed to a lock-up in respect of its shares which expires six months after the latest time for acceptance and payment in full of entitlements to subscribe to the rights issue
- Measures other than the rights issue may be less effective in reducing Xstrata's gearing, may not improve its strategic positioning and may not be in the best long term interests of shareholders.

## Prodeco Coal Operations

- Currently the third largest producer of export thermal coal in Colombia<sup>2</sup>, the Prodeco Business produced >9mt of export thermal coal In the year ended 31 December 2008, (4.3mt for the La Jagua Complex and 4.9mt from Calenturitas) predominantly for the European and United States power generation markets<sup>3</sup>
- The high-quality export thermal coal is produced from open cut mines using traditional truck and shovel methods<sup>4</sup>
- Prodeco has long been regarded as attractive by Xstrata, given management's knowledge of the region and asset
- Complements Xstrata's existing ownership of a one-third stake in Cerrejón, a similar low cost, premium quality Colombian coal operation (Cerrejón FY08 Revenue \$841m, EBITDA \$418m)\*
- Geology and seam structures very similar to Cerrejón and Xstrata's Mt Owen operation in NSW.



<sup>1</sup> Circular p.9-15

<sup>2</sup> Circular p.16

<sup>3</sup> Circular p.27

<sup>4</sup> Circular p.27

\*Xstrata Preliminary Results for year ended 31 December 2008

### Premium Quality Coal, settled at \$75/t for 2009

- The coal produced is of a premium quality with La Jagua benefiting from very high energy content (achieves around \$5/t premium over benchmark), and Calenturitas's coal benefiting from low sulphur making it very attractive for the US market
- Coal from the Prodeco operations has an energy value in excess of benchmark 11,3000 btu/lb\* and typically attracts a premium price
- Prodeco has contracted coal sales for 2009 in respect of 100% of its production, benchmarked at a price of US\$75 per tonne<sup>5</sup>
- Coal from Prodeco does not need to be washed.

### Colombia enjoys competitive advantage<sup>6</sup>

	Prodeco	Correjón	Indonesia	Australia	South Africa
Premium product	<b>Yes</b>	Yes	No	Variable	Variable
% washed	<b>None</b>	Low	Low	High	High
Saleable export strip ratio <10:1	<b>Yes</b>	Yes	Yes (but increasing)	Variable	Variable
Distance to port	<b>approx 200km</b>	approx 150km	Variable	approx 200km	approx 550km
Dedicated private rail/port	<b>Yes</b>	Yes	Truck	Government rail	Government rail
Proximity to natural market	<b>Close</b>	Close	Close	Distant	Medium

### Substantial Resource Base<sup>7</sup>

The resource base is substantial, with JORC compliant reserves of over 250mt and total resources of 420mt, including 97mt of inferred resources.

- As at 1 September 2008 the Prodeco Business had a saleable reserve base in excess of 250mt, with resources (measured, indicated and inferred) of in excess of 420mt (La Jagua 133mt and Calenturitas 122mt).

### Rapid Expansion Underway

- The Prodeco Business is going through a period of significant expansion. Coal production is planned to increase from 9mtpa in 2008, to 11mtpa in 2009 and to 17mtpa by 2013<sup>8</sup>
- The cost of expansion is approximately US\$1 billion over the next four years for mining equipment, transport, port and other infrastructure<sup>9</sup>.

### Declining Operating Costs<sup>10</sup>

The Prodeco Business's ongoing operating costs on a unit cost basis are expected to decrease substantially as a result of:

- The transition from high-cost truck haulage to low-cost rail infrastructure, which will enable Prodeco to exploit the recent completion of a rail spur to the Calenturitas mine and Prodeco's ownership of 19 proprietary locomotives and 660 heavy haul wagons;
- The commissioning of a new materials handling system at the Calenturitas mine which is planned for the first quarter of 2009;
- Economies of scale from higher sales volumes as production expands;
- The transition from contract mining to primarily owner-operated fleets; and
- Improved productivity from new mining equipment purchased during 2008.
- A new materials handling system located at the Calenturitas mine site is expected to be completed by the end of the first quarter in 2009. This system should be able to load trains at rates between 4,000 and 6,000 tonnes per hour<sup>11</sup>.

<sup>5</sup> Circular p.27

<sup>6</sup> Slide 23, presentation announcing rights issue Acquisition of Prodeco and Preliminary Results

<sup>7</sup> Circular p.31

<sup>8</sup> Circular p.27

<sup>9</sup> Circular p.16

<sup>10</sup> Circular p.16

<sup>11</sup> Circular p.28

\*British Thermal Units per pound

### **Proprietary Rail<sup>12</sup>**

- Prodeco owns 39.8% of Fenoco, the owner-operator rail network which runs to Santa Marta (where the port is located). The other Fenoco shareholders are also coal companies – such as Drummond with a 25mtpa coal mine close to Calenturitas/La Jagua. A second track is currently being laid, increasing network capacity to at least 65mtpa
- During 2009, approximately 80% of production will be transported via rail, with 100% via rail from 2010 onwards
- The recently completed rail spur from the main rail line to Calenturitas, provides at least 20mtpa of rail capacity between Calenturitas and Santa Marta. The Fenoco shareholders have committed to expanding the railway to at least 65mtpa, which is expected to provide the Prodeco Business with sufficient capacity for its planned growth profile.

### **Port Concession Holder**

- The port facilities currently used by the Prodeco Business are located near the city of Santa Marta on the Caribbean coast of Colombia. Coal is exported via three ports; Puerto Zuñiga (wholly-owned by Prodeco), Carbosan and Rio Cordoba (both independently owned)
- Ultimately coal will be exported via a new direct ship loading port in line with the Government of Colombia's policy to replace barge loading ports with one multi-user direct ship loading port. Prodeco is part of the consortium (including Drummond and other coal producers) selected to build a new 32mtpa multi-user port called Puerto Nuevo and has signed an MOU in this respect – the new port is expected to be built by 2013
- The licence for Puerto Zuñiga expires in March 2009 and negotiations are underway to extend and increase the capacity of the port concession until Puerto Nuevo is completed<sup>13</sup>.

### **Call Option**

- Xstrata has conditionally agreed to grant Glencore an option to repurchase the Prodeco Business. The Call Option may be exercised on any Business Day in the period from the Prodeco Closing Date to the Business Day immediately following the first anniversary of Prodeco Closing
- The aggregate consideration payable by Glencore under the Call Option Agreement is an amount equal to the purchase price payable by Xstrata, plus US\$250 million, plus all profits of the Prodeco Business accrued and not distributed to Xstrata and any cash paid into the Prodeco Business by Xstrata
- The Xstrata Group will retain the economic benefit of profits generated by the Prodeco Business in this period, whether or not the Call Option is exercised<sup>14</sup>
- If the call option is exercised, Glencore will, in effect, pay a premium to other shareholders to participate in the rights issue and Xstrata will receive a return on its investment in one year that represents fair and reasonable compensation in the Board's view, which has been confirmed by Rothschild's.

### **Accounting Treatment<sup>15</sup>**

- The Prodeco Business will be accounted for by the Enlarged Group as a financial asset under IFRS during the Call Option period
- Should the Call Option be exercised any income generated by the Prodeco Business will at all times have been recognised as finance income
- Following the expiration of the Call Option, the Prodeco Business's earnings will be consolidated into Xstrata Coal's earnings
- Should Glencore exercise the Call Option, the amount in excess of the purchase consideration will constitute finance income, providing Xstrata with a robust return on the original consideration paid.

---

12 Circular p. 29

13 Circular p. 29

14 Circular p. 83

15 Circular p. 18

### Directors' Recommendation

- The board of Xstrata considers that the rights issue and each of the rights issue resolutions are in the best interests of the Company and the Shareholders of Xstrata as a whole. Accordingly, the board recommends shareholders to vote in favour of each of the rights issue resolutions, as the Directors intend to do in respect of their own shareholdings at the EGM<sup>16</sup>
- The proposed acquisition of Prodeco is conditional on shareholder approval. Glencore will not vote on the acquisition
- The rights issue and proposed acquisition resolutions are inter-conditional. If any of the resolutions are not passed by the requisite majority, neither the rights issue or the acquisition will proceed
- The board of directors, which has been so advised by Rothschild, considers that the acquisition is fair and reasonable as far as Xstrata shareholders are concerned
- The board, excluding Glencore nominees, recommends shareholders to vote in favour of the acquisition resolution.

### Key Dates<sup>17</sup>

Record Date for entitlements under the rights issue	Friday, 27 February 2009 – 5.00p.m. (6.00p.m. CET*)
Last time and date for receipt of Proxy Forms	Saturday, 28 February 2009 – 9.30a.m. (10.30a.m. CET*)
Extraordinary General Meeting	Monday, 2 March 2009 – 9.30a.m. (10.30a.m. CET*)
Nil paid rights expected to commence trading	Tuesday, 3 March 2009 – 8.00a.m. (9.00a.m. CET*)
Expected last time and date for acceptance and payment in full	Tuesday, 17 March 2009 – 11.00a.m. (12 noon CET*)
For ordinary shares held in SIX SIS system:	Friday 13 March 2009 – 11.00a.m. (12 noon CET*)
Expected commencement of trading of fully paid new shares	Wednesday, 18 March 2009 – 8.00a.m. (9.00a.m. CET*)

---

<sup>16</sup> Circular p.24

<sup>17</sup> Circular p.5

\*Central European time

### Contacts

Xstrata  
Claire Divver  
Telephone +44 20 7968 2871  
Mobile +44 7785 964340  
Email [cdivver@xstrata.com](mailto:cdivver@xstrata.com)

Analysts and investors  
Hanré Rossouw  
Telephone +44 20 7968 2820  
Mobile +44 7879 455885  
Email [hrossouw@xstrata.com](mailto:hrossouw@xstrata.com)

Aura Financial  
Michael Oke  
Telephone +44 20 7321 0000  
Mobile +44 7834 368 299  
Email [Michael@aura-financial.com](mailto:Michael@aura-financial.com)

