



Xstrata Offer for WMC Resources

January 2005



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Xstrata's Offer



- Provides **attractive premium** to WMC's historical share price—29.1%⁽¹⁾
 - High-point in commodity cycle
 - Significant premium to analyst valuations —36.6%⁽²⁾
- Delivers **certain** cash proceeds compared to “blue sky” value in the future
- **Removes significant risks** currently borne by shareholders
 - Project development
 - Operational performance
 - Contributing to the funding of approximately AUD8 billion of capital expenditure in the next 5 years

⁽¹⁾ Premium to the closing price of WMC's shares on 26 October 2004, one day prior to market speculation (AUD4.92/share)

⁽²⁾ Premium to the median of the brokers base case NPV estimates published after release of the WMC Target's Statement (AUD4.65/share)

3

Why is Xstrata highly sceptical of the Grant Samuel valuation?



- Does not state the stand alone value range
 - Includes substantial theoretical cost savings not accessible by WMC's shareholders alone nor accessible by all bidders (or Xstrata)
 - Target's Statement valuation range is really the maximum price for a hypothetical purchaser
- Grant Samuel does not provide an adequate explanation of its assumed costs synergies and other “strategic” premium included in its valuation
 - Grant Samuel assumes that a bidder would have the spare operational capacity to absorb WMC's corporate functions which employ approximately 600 individuals
 - Xstrata estimates the value of Grant Samuel's assumed costs synergies to be approximately AUD0.70/share

4

Why is Xstrata highly sceptical of the Grant Samuel valuation? (cont'd)

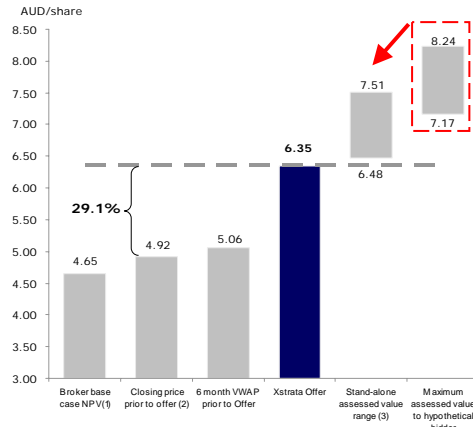


- Implied Grant Samuel stand-alone valuation of AUD6.48-7.51/share (including a premium for control) is product of substantial value attributed to:
 - Future projects unsupported by feasibility studies and currently unfunded
 - A set of optimistic assumptions and inconsistent methodology
- Each of these issues contributes materially to inflate the value claimed
- What does WMC management really believe the company is worth?

"The other (alternative) is share buyback. You have to look at the value of where you believe you are at the share price cycle versus your longer term NPV. Obviously, we believe if the share price is below long term NPV, then we'll send a signal to the market by spending money on buyback."

— Andrew Michelmore, Investor Briefing, 11 August 2004

Clarification of price and value ranges



- (1) Median of the brokers base case NPV estimates published after release of the WMC Target's Statement (AUD4.65/share)
 (2) Closing price of WMC's shares on 26 October 2004, one day prior to market speculation (AUD4.92/share)
 (3) Based on Xstrata calculation of value of costs savings assumptions of around AUD0.70/share

5

What is WMC's stand alone value?



- Corporate cost savings of AUD110-115 million assumed by Grant Samuel for "potential acquirers with an existing presence in Australia"
- No examination of Xstrata's ability to realise these savings
 - Assumes substantial existing under-utilised capacity
- Significant transaction costs (including WA stamp duty) ignored
- Theoretical reductions are more than double the approximately AUD40 million reportedly available in 2001. Why?

	Low (AUD/share)	High (AUD/share)
Grant Samuel valuation	7.17	8.24
Less: value attributable to corporate cost savings for 100% acquirer ⁽¹⁾	(0.69)	(0.73)
Less: additional strategic value	?	?
Grant Samuel stand alone value of WMC shares (including control premium)	6.48	7.51

AUD million	Existing cost	Cost in GS valuation	Assumed saving	%
Melbourne office				
Direct to business units	40	40	0	0
Allocated shared services	110	40	70	64%
Unallocated corporate	25	5-10	15-20	60-80%
Perth office				
	60	35	25	42%
Total	235	120-125	110-115	47-49%

"It is almost certainly the case that the recent WMC share price reflects expectations of a higher offer, from Xstrata or from some other acquirer. WMC shares could trade below the Xstrata Offer price in the absence of the Xstrata Offer or some other proposal."

(1) Based on Xstrata calculations

— Grant Samuel Letter, December 2004

6

Is Grant Samuel inconsistent in its valuation methodology?



- Should Grant Samuel be using the same discount rate for producing assets and projects?

- Inconsistent with accepted industry practice for project evaluation
- Inconsistent with lower discount rate for Fertilizer
- Inconsistent with previous Grant Samuel reports

- Grant Samuel's valuation is highly sensitive to discount rate

- In regards to the risk profile of WMC, Andrew Michelmore has said:

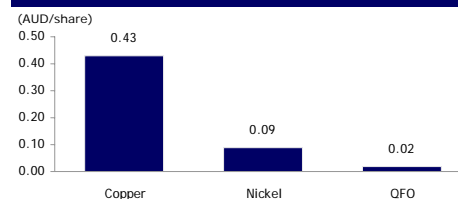
"We have one smelter in nickel and one in copper. If the smelter is offline, you are in trouble," he said. "If you look at BHP Billiton, Rio Tinto and others, they have multiple production facilities, they have the same sort of hiccups we have, but you never read about them, because it doesn't have the impact on their total production as it does on ours."

WMC or Alumina? By Tim Treadgold, 1 June 2004 – Leverage online

Grant Samuel discount rates in selected resources transactions

Acquirer/Target	Date	Core Asset DR	Project/Other DR	Project/Other asset
Billiton ONI	5-Aug-97	9.5%-10.5%	10.0%-11.0%	Cerro Matoso, Maggie Hays
Rio Tinto North	20-Jul-00	9.5%-10.5%	10.0%-11.0%	Northparkes, Alumbrera, Zinkgruvan, ERA
Xstrata MIM	29-Apr-03	9.0%-10.0%	9.0%-12.0%	Rolleston Project

Decrease in value with 0.5% discount rate increase



Note: Increase in discount rate of 0.5% from mid-point valuation assuming low-end commodity assumptions; Copper: Scenario B; Nickel: Scenario A

7

Is the value Grant Samuel attributed to Olympic Dam appropriate?



- Will WMC be able to mine materially above reserve grade for another 25 years?
- Will two stage smelting not be required for another 20 years?
 - No operation in the world has treated concentrate with a Cu:S ratio below 1.6 using single stage smelting (AMC assumes Cu:S ratio of 1.44)⁽¹⁾
 - Yet, Grant Samuel states that "two stage smelting is not needed to address the issue of a declining Cu:S ratio"
 - WMC assumes that it can find suitable ore for single stage smelting for at least another two decades – is this realistic?
- Declining real operating costs up to 2034
 - Inconsistent with historical trends and against declining grades
 - AUD50m in cost savings from 2007 is unproven

(1) AMC Specialist's Technical Report, December 2004

8

Is the value Grant Samuel attributed to Olympic Dam appropriate? (cont'd)



- When will shareholders see the returns from the Olympic Dam expansion?
 - Feasibility study for expansion will not start until 2006 at earliest
 - AMC estimate potential capital expenditure of AUD4.3 to 6.3 billion - broad range illustrates significant uncertainty. Grant Samuel uses AUD5.0 billion in valuation
 - Financial viability is questionable
 - At USD0.95 per pound of copper and USD20 per pound of uranium and 9% nominal discount rate, implied expansion value of USD318 million (AUD0.36/share) appears marginal particularly given uncertainty surrounding upfront capital expenditure
 - WMC management acknowledge that there is no certainty that an expansion will either meet their required rate of return, or proceed at all:

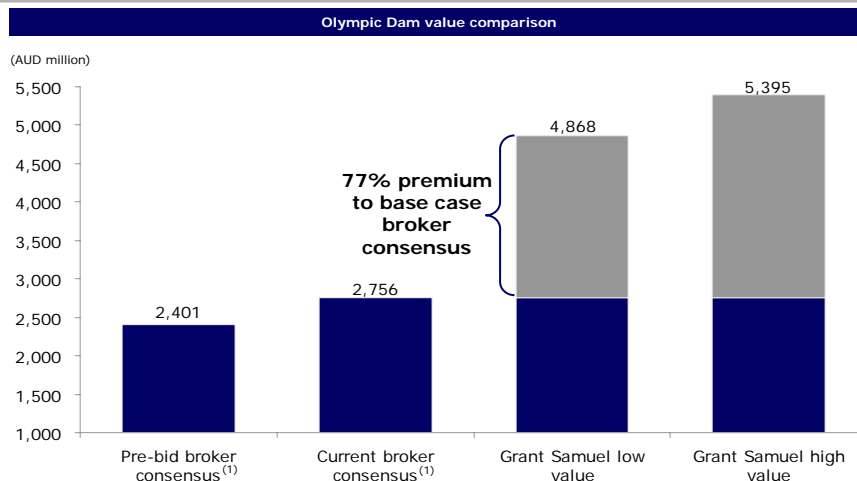
"But, while WMC also has plans to gradually raise rates further to 12 million tonnes within the next five years, Mr Michelmore said there would be no expansion beyond 10.5 million tonnes until he was certain of achieving a 10 per cent-plus return on the investment."
(emphasis added)

— The Australian, WMC set to realise its target of AUD1bn - Nickel prices soar, but copper expected to flatten out, p. 24, 14 October 2004

- Valuation includes a terminal value range of USD450-700 million
- 2005E EV/EBITDA multiple of 11.5 to 10.1 times against copper companies of 5.1 times

9

Why is Grant Samuel's Olympic Dam value so different to market?



⁽¹⁾ The median broker valuation was calculated using the base case valuation of Olympic Dam made by 11 equity research analysts that regularly provide research reports on WMC

10

Is Grant Samuel too aggressive in its commodity price assumptions?



- USD copper and nickel prices are relevant
 - Grant Samuel cash flow projections are in USD
 - Copper and nickel are traded in USD
 - Copper and nickel should be considered in USD and not AUD
- Grant Samuel valuation uses higher prices than those inherent in peer group market valuations
- Aggressive commodity price assumptions result in aggressive valuations²

"The valuation of WMC is critically dependent on assumptions regarding exchange rates and commodity prices."

— Grant Samuel Letter, December 2004

		Long-term assumptions (USD/lb)		
		Cu	Ni	U308
Median Broker Consensus¹		0.90	3.25	16.50
Grant Samuel Low-end - Real USD		0.95	3.80	20.00
Variance		6%	17%	21%
Grant Samuel Mid-pt - Real USD		1.00	3.90	21.00
Variance		11%	20%	27%
Grant Samuel High-end - Real USD		1.05	4.00	22.00
Variance		17%	23%	33%

		Long Term Copper price (USD/lb)					
		0.80	0.85	0.90	0.95	1.00	1.05
Long Term Nickel price (USD/lb)	3.00	3.96	4.53	5.09	5.65	6.21	6.77
	3.25	4.44	5.00	5.56	6.12	6.68	7.25
	3.50	4.92	5.48	6.04	6.60	7.16	7.72
	3.75	5.39	5.96	6.52	7.08	7.64	8.20
	3.80	5.49	6.05	6.61	7.17	7.73	8.29
	3.90	5.68	6.24	6.80	7.36	7.92	8.49
	4.00	5.87	6.43	6.99	7.55	8.12	8.68

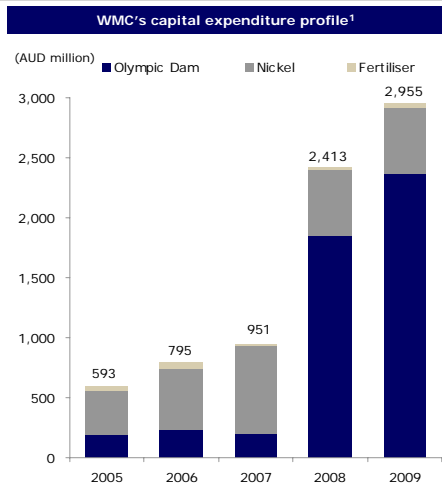
- (1) The median broker consensus is based long term commodity price assumptions made by 11 equity research analysts that regularly provide research reports on WMC
- (2) Base for analysis is low-end of Grant Samuel valuation. Sensitivities as per DCF tables provided by Grant Samuel (Copper: Scenario B, 9% nominal discount rate; Nickel: Scenario A, 9% nominal discount rate)

11

How is WMC going to fund the AUD8 billion required for its proposed projects?



- WMC value includes projects requiring approximately AUD8 billion capital expenditure over the next 5 years
 - Currently unfunded
 - Impact on WMC distributions and dividends?
 - Cash call on shareholders?
- Equivalent to approximately 130% of WMC's pre-bid market cap
 - Material change to WMC risk profile
- Uncertainty of capital expenditure quantum on majority of projects which have yet to complete feasibility studies
- Does the track record of WMC provide shareholders with the requisite degree of confidence in relation to project management?



- (1) Copper scenario B and nickel scenario A (2009 capital expenditure assumed to be same as 2008)

12

How could an asset deal create value for WMC shareholders?



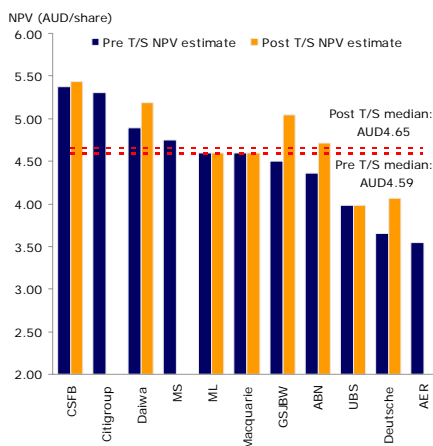
- It has been speculated that WMC is seeking to encourage “value-creating proposals” in respect of its assets and to validate a higher value for the company
- There are significant hurdles for an asset deal
 - Seeking a premium price for a minority interest or trading partnership while the expansion is still uncertain and with no feasibility study
 - Management and control issues - majors prepared to be non-operator?
 - Any price offered must be compared with an offer including a premium across all assets
 - Cannot include any element of poison pill (see Michelmore's comments¹) or detract from possible future control premium
 - Potential breach of Xstrata offer conditions
 - Complex and will require significant time
- Xstrata doubts that an asset deal or joint venture can produce value for WMC shareholders as against Xstrata's cash offer for 100% of the company

(1) AFR, 18 January 2005, p11

What are broking analysts saying?



Brokers have only slightly revised their base case valuations since the release of the Target's Statement



*“Aside from optimistic price forecasts, the valuation unusually includes AUD900m of terminal value (post 2037) for Olympic Dam, together with annual corporate savings of AUD115m (NPV value of AUD950m). Excluding these two key ‘enhancements’, the clean base case valuation falls to AUD5.58-6.66ps. **This suggests that Xstrata’s bid is well pitched.** Given the uncertainties over the Olympic Dam expansion and the fact a potential counter bidder cannot risk paying the full (post 2037) value upfront, **we continue to believe that a competing bid is unlikely.**”*

— Macquarie, 10 January 2005

*“If the bid lapses, **the shares are likely to trade below our ex-bid target price of AUD5.37 per share**”*

— ABN Amro, 13 January 2005

*“The [Grant Samuel] valuation represents the ceiling of two very good scenarios, which if watered down to more conservative assumptions will provide a more informative range of outcomes. **Clearly AUD6.35 represents a base valuation as an independent WMR would probably trade below this,** obviously a worse case scenario for shareholders.”*

— CSFB, 5 January 2005

“The recent WMC share price reflects expectations of a higher offer, from Xstrata or from some other acquirer.”

*“From a bear view, **the risk/return equation beyond January (in the absence of counter bid) will materially alter the market view and share price...**”*

— Deutsche, 4 January 2005

Withdrawal rights provide additional leverage to WMC shareholders



- The withdrawal rights attached to Xstrata's Offer are similar to acceptance facilities / bare trusts, however the right to withdraw is available to all shareholders and embedded in Xstrata's Offer eliminating the need for additional legal structure
- Shareholders can accept into Xstrata's Offer while retaining full control of their shares – this is not a free option over the shares
 - Withdrawal rights are in effect until Xstrata reaches 90% or provides notice of terminating these rights
 - The notice period for termination of the withdrawal rights is 14 days
 - The only circumstance under which shareholders will lose the right to withdraw acceptances is if the minimum acceptance clause is satisfied, not waived

15

FIRB



- Xstrata will maximise WMC's growth opportunities and has no scheduling or development conflicts
- Mooted interlopers are all foreign companies under the Foreign Acquisitions & Takeovers Act (1975) and would require FIRB approval
- Xstrata is confident that its track record of investment and effective operatorship is recognised

"This is precisely what good corporate citizenship is all about – creating jobs for Queenslanders, boosting the State's economy and giving back to the community wherever possible."

**Tony McGrady, MP for Mount Isa
Minister for State Development and Innovation**

16

Key conclusions



- Stand-alone value of WMC (including a premium for control) implied by Grant Samuel's valuation is AUD6.48-7.51/share
- WMC management appears determined to retain its independence
 - An asset deal is a value defeating option for WMC shareholders
- Xstrata will look for a decision from WMC shareholders and will not provide an indefinite underwrite of WMC's share price
- Xstrata has other opportunities to create shareholder value
- Xstrata is not prepared to pay cash for an unsustainable premium at the top of the commodity cycle on an optimistic outcome scenario
- Xstrata is prepared to pay a premium price for WMC's assets and its projects recognising:
 - Risks and uncertainties inherent in those projects
 - The current stage of the commodities price cycle
 - The additional value a combination with Xstrata creates