



Positioned for Value: The Mining Industry and Xstrata

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JPMorgan CEO Conference
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Mining Industry: Historical Characteristics

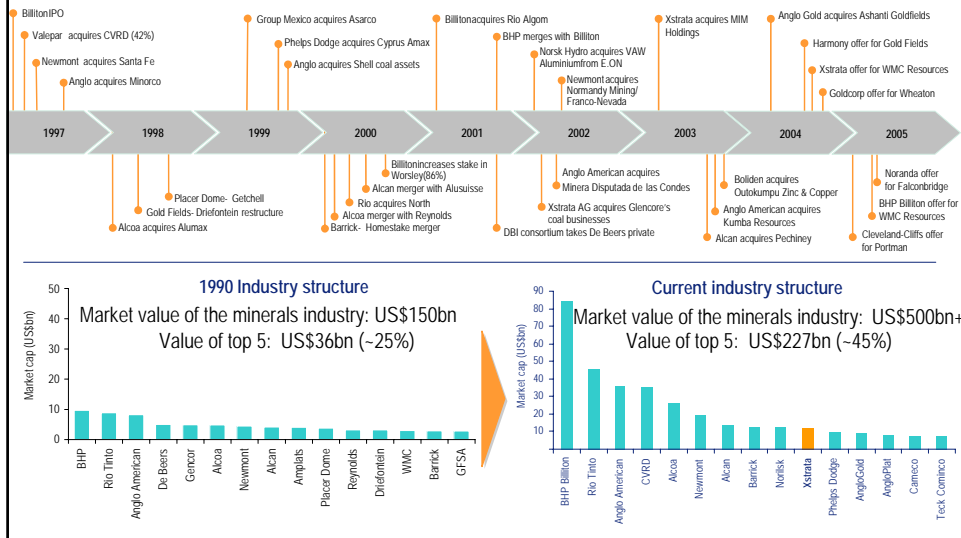
Most commodity sectors characterised by

- Fragmentation
- Limited focus on returns
- Irrational producer behaviour - production and size driving decision making
- "Boom and bust" cycles – inappropriate allocation of capital
- Increasing trend towards spot sales, terminal markets
- Barriers to entry/new production low; barriers to exit /reduced production high
- Transparency of costs, margins and technology to customers in VJ partnerships



- **Overcapacity**
- **Commodity prices declines in real terms**
- **Unattractive investment fundamentals for the industry**

Industry Consolidation



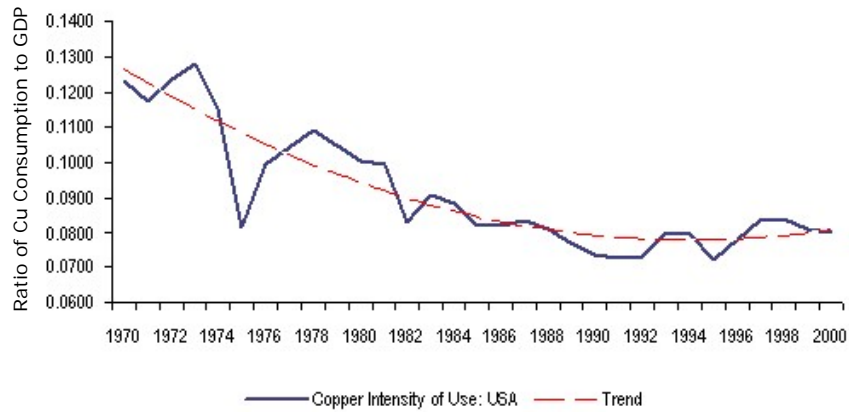
Supply-side Developments



- Smaller number of larger producers provides greater potential for more rational relation of production to demand
- More rigorous investment processes and higher hurdles
- Diversified miners allow for internal competition for capital, potential cut-backs and investment in cycle troughs
- Greater disclosure of financial, technical and market assumptions in investment decisions
- Providers of capital have also consolidated and are more discerning
- Focus on efficiency programmes and aligning production with demand
- Reduced growth opportunities: lower exploration expenditure and requirement to access riskier geographies

Intensity of Metals Usage

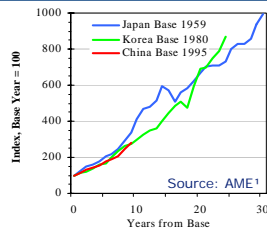
Declining intensity of metal utilisation in traditional OECD markets



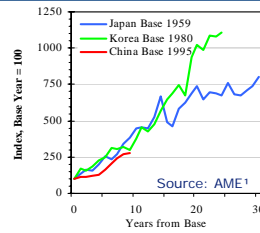
Source: JP Morgan 5

Demand for Metals

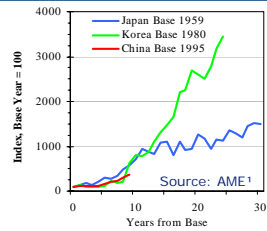
Industrial production



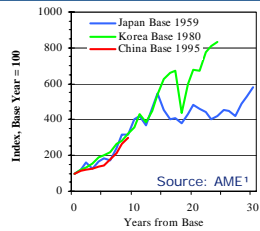
Copper Consumption



Nickel Consumption



Steel Consumption



¹ AME Mineral Economics. As published in Export MetCoal Outlook (May 2005). Reproduced with kind permission of AME Mineral Economics

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2001: US\$126m

Commodity



Geography



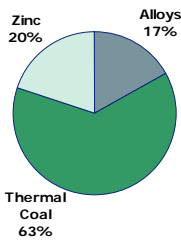
Xstrata 2001:

- US\$600m market capitalisation
- US\$500m debt
- No critical mass; illiquid stock; lack of diversification
- Conviction: niche in the market for nimble diversified newcomer with headroom to grow
- Needed transformational acquisition to break out

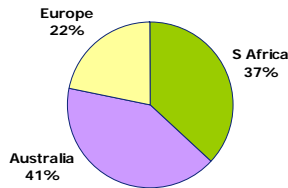
2001: US\$126m

2002: US\$482m

Commodity



Geography



IPO & Coal acquisition:

- Cash generative assets with scale, critical mass & diversification
- Cash flow and earnings accretion & stronger balance sheet
- Growth platform in a liquid market with sector familiarity
- Portfolio imbalance: thermal coal, South Africa

Xstrata Growth in Diversification EBITDA 2001-2004

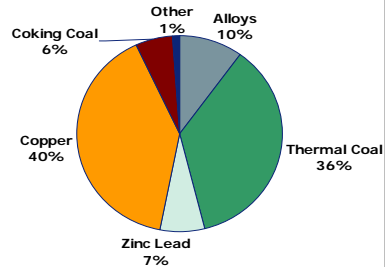
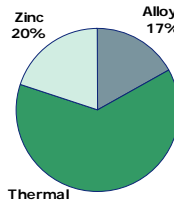


2001: US\$126m

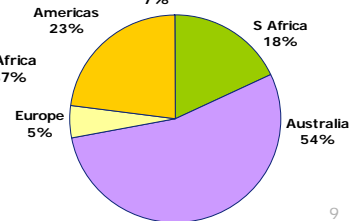
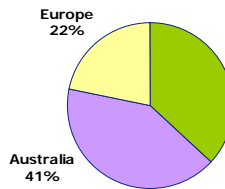
2002: US\$482m

2004: US\$2,075m

Commodity



Geography



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MIM Acquisition



MIM acquisition

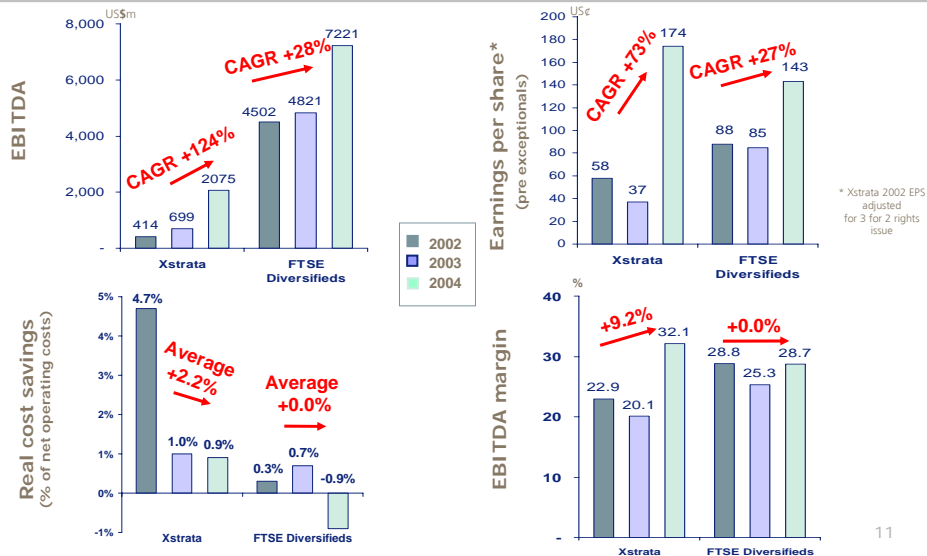
- Positive financial returns: cash and earnings accretion from year one
- Cash generative assets with critical mass and growth optionality
- Enhanced diversification: geography and commodity

Turnaround in Queensland base metals operations in first year:

- Efficiency gains in real terms of US\$52 million
- Mining productivity up 15% at Mount Isa and 10% at Ernest Henry
- Mount Isa zinc productivity up 20% and lead bullion production up 20%
- Productivities captured the benefit of strong copper prices in 2004
- 59% improvement in total recordable injury frequency rate in copper
- Full financial benefit to be realised across copper and zinc in 2005

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Xstrata Performance vs Peers 2002-2004



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The Imperatives



- Capacity to act decisively and entrepreneurially
- Market confidence: clear objectives
- Rigorous and unambiguous about value
- Maximising immediate operational and capital efficiencies

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Key Imperative
Capacity to Act Decisively and Entrepreneurially



- Small, focused team with commonality of objectives
- Accountable and empowered businesses
- Proper incentives
- Momentum

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Key Imperative
Market Confidence and Clear Objectives



Market confidence is gained from:

- Transparency
- Credibility and consistency of communications
- Laying out explicit, stretched but not unrealistic goals
- Giving the market the criteria by which to measure our progress
- Success!!

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Xstrata's Acquisition Objectives

- "Universe of the possible"
- Accretive in earnings and cash flow in year one
- New revenue stream and improved diversification
- Now: key focus on NPV accretion
- eg Las Bambas Copper Project (Peru)
 - US\$91 million acquisition in August 2004
 - Exploration commenced March 2005 (7 drilling rigs; 50,000 metre drilling programme)
 - US\$45.5 million trust fund for community development initiatives

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Key Imperative Rigorous About Value

- Danger of hostile acquisitions
- Be clear that value is the goal
- Be rigorous and uncompromising
- Let others pay for the thrill of the chase

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Key Imperative
Maximise Immediate Opportunities



- Don't be seduced by pipedreams: focus on what you have
- Value inherent in the existing asset base and mine footprint
- Focus management to this goal
- Then develop the options

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Current Industry Position



- Industry now delivering acceptable returns with outlook good to sustain these for several years
- Inevitably supply will return to meet demand and prices will reflect the marginal cost of new production. Bumpy ride for commodity prices and equities
- But outlook is robust: Little sign of major producers raising long-run assumptions and initiating unwarranted new production
- Application of current significant free cash generation across the industry will determine its future performance

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Conclusion

- Xstrata well positioned to secure further value from this point
- Higher prices in 2005 and positive impact of on-going efficiency programmes and new production will boost this year's earnings
- Confident that Xstrata will continue to leverage its size and momentum to seize further opportunities

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