

Xstrata Alloys



Cazenove Business Briefing Wonderkop Plant 19 January 2005

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Agenda

Welcome	Deon du Preez, MD FeCr
Introduction and Strategy	Shaun Usmar, CFO
Market Overview	Jeff McLaughlan, Marketing Director
Operations: <ul style="list-style-type: none">- Ferrochrome- Growth - Lion- Vanadium	Tony Riley, GM Chrome East Wynand Meyjes, MD Vanadium
Transformation Update	Eric Ratshikhopha, Exec. Director Transformation
Conclusions	Deon du Preez, MD Chrome
Q&A	



Introduction and Strategy

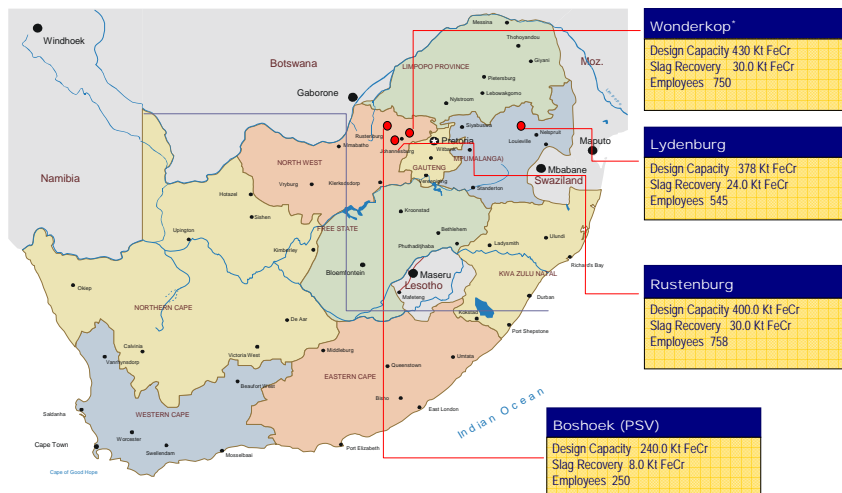


Snapshot Ferrochrome



- World's largest integrated producer of ferrochrome
- Total attributable annual ferrochrome capacity ca. 1.38m tonnes
- Low cost producer benefiting from:
 - Direct access to rail transport
 - Low cost power supply
 - Continuous focus on efficiency
 - Low cost chrome ore
- 18 furnaces at four metallurgical complexes
- Pooling and Sharing Venture with Merafe Resources (SA Chrome) in place H2 2004.
 - First BEE transaction in Xstrata

Ferrochrome Assets

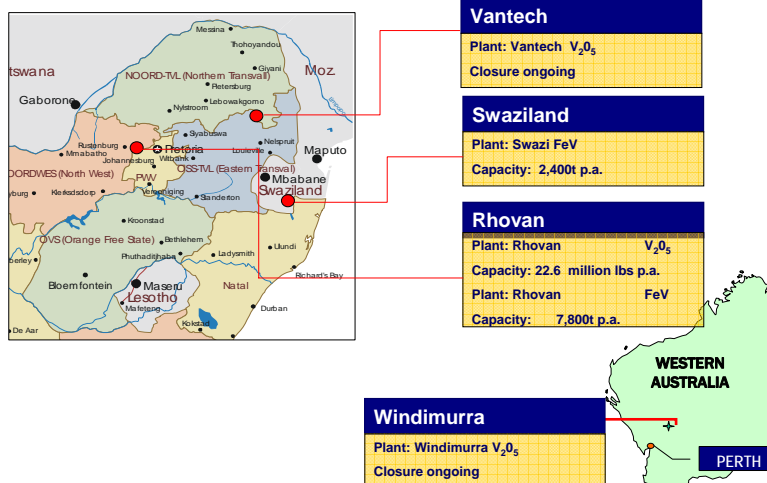


Snapshot Vanadium

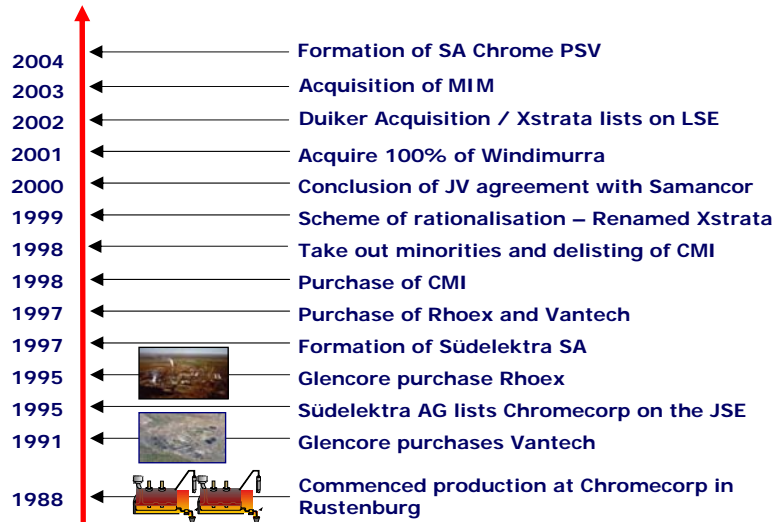


- Permanent closure of Windimurra and Vantech announced during 2004
- Production continues at Rhovan
 - Open-cast
 - Cost-efficient
 - Fully integrated producer
- Rhovan produces:
 - Vanadium Pentoxide
 - Ferrovandium
 - Vanadium Trioxide plant and furnace commissioned during 2004
 - Reduce aluminium consumption in ferrovanadium conversion

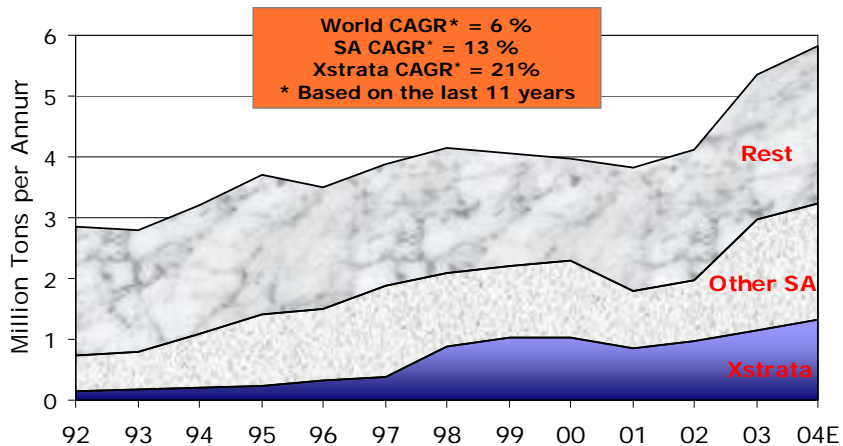
Vanadium Assets



Historic Overview



Growth Ferrochrome



Strategy

Ferrochrome



- Improve HSEC performance
- Deliver on transformation targets
- Enhance 'market-leader' position
 - Introduction of new capacity at lower cost
- Enhance cost competitiveness
 - Maintain competitive edge thro' process innovation
 - Increase agglomeration capacity
 - Reduction in specific energy consumption
 - Flexibility in reductant mix
 - Economy-of-scale benefits
- Reduce vulnerability to key inputs
 - Captive supply of reductants

Strategy

Vanadium



- Consolidate business
 - Windimurra and Vantech closures
 - Ensure LT financial viability
- Grow with BEE
 - Rhovan well positioned to capitalize on future expansion options
- Maintain cost competitiveness
 - Rhovan is a fully integrated operation
 - **cost benefits**
 - Brownfield expansion potential
 - **economy of scale benefits**

Progress vs. Objectives

- Xstrata-Merafe PSV in place, secures meaningful BEE participation without loss of shareholder value
 - BEE participation in vanadium business under active review
- Comprehensive health and safety programme implemented across SA operations
 - Focus on behavioural safety to prevent critical incidents
- Project Lion underway to ensure full participation in ferrochrome growth as market leader
- Transaction finalized to secure significant proportion of reductant requirements
 - Focus on coke reduction and security of other reductants continues
- Vanadium business refocused with low-cost expansion potential at Rhovan

Market Overview



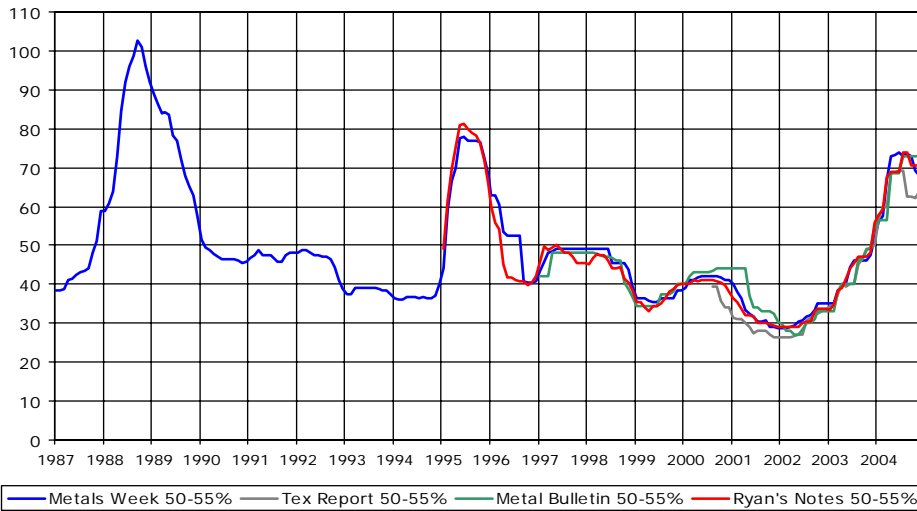
Ferrochrome Market

Market Dynamics Ferrochrome

- Prices at highest level for 8 years
- 95% capacity utilization in 2004
- Growth driven by China
- New entrants
- ZAR exchange rate movements
 - No meaningful increase in ferrochrome capacity until 2006

Prices

Ferrochrome (US\$/lb; ytd monthly average)



Capacity Utilisation

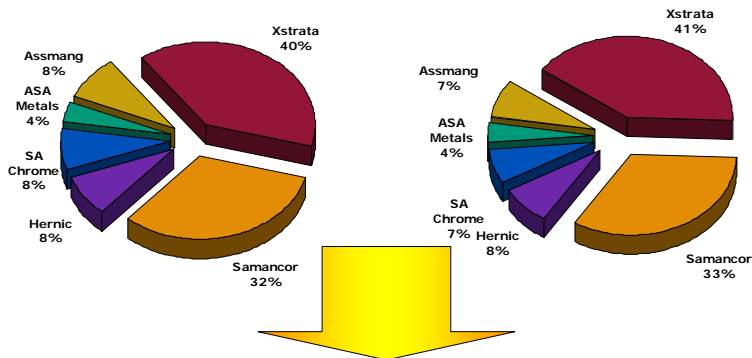
South African Ferrochrome Producers



Ferrochrome Production - South Africa 2004 (E)

DESIGN CAPACITY: 3'080KT
(MATERIAL BASIS)

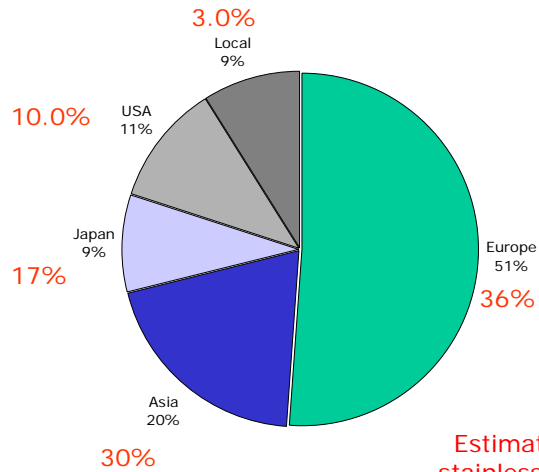
OPERATING CAPACITY: 2'931KT
(MATERIAL BASIS)



CAPACITY UTILISATION: 95%

Source: Re-Net, Heinz Pariser

Xstrata Sales Breakdown Ferrochrome Sales – Typical Distribution



Estimated percentages of stainless steel produced per region

Market Outlook Stainless steel melt growth

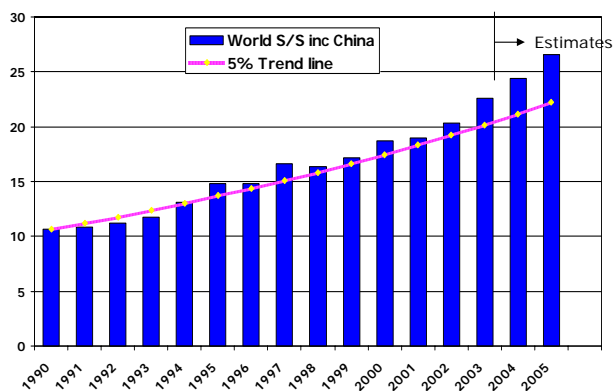


China driving stainless growth

Chinese consumption expected to be:

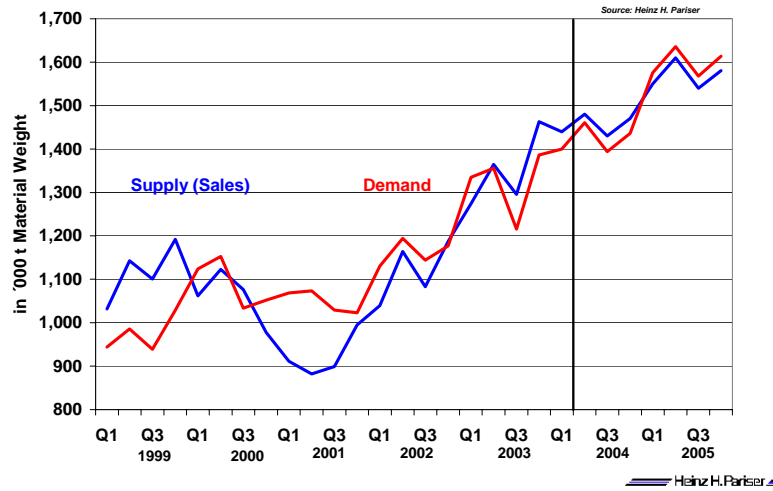
- ca. 4 million tonnes for 2004
- ca. 4.5 million tonnes in 2005

The Lion project ensures Xstrata's continued participation in this growth



Source H . Pariser

Supply-Demand Balance Ferrochrome



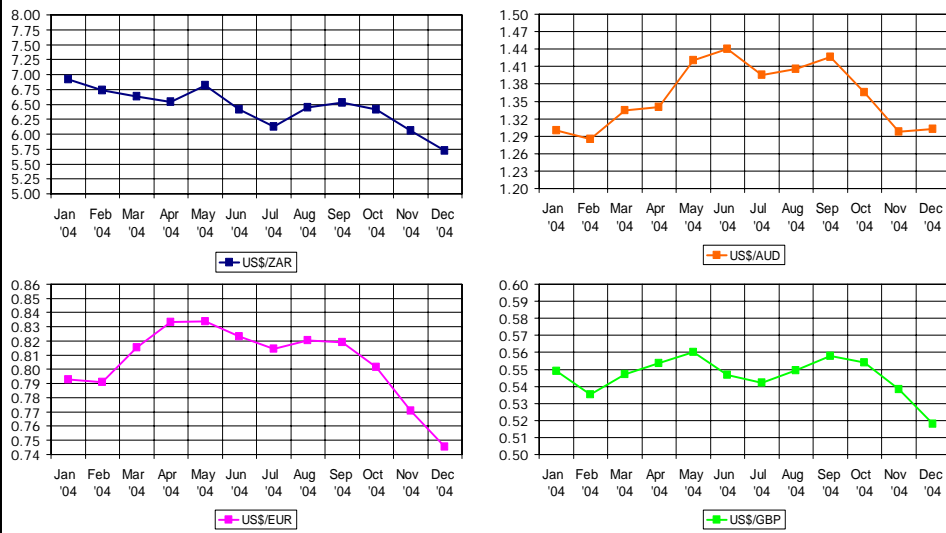
New Supply Ferrochrome



- Possible new entrants in South Africa
 - International Ferrometals => 240kt ???
- Expansion by existing South African producers
 - Xstrata Lion project 360 kt mid-2006
 - Herculite Ferrochrome fourth furnace (160kt) increasing total capacity to 420kt by 2006.
- Kazakhs and Russians – Incremental growth

Exchange Rates

"Prices giveth, currencies taketh away"...



Marketing Conclusions



- Stainless steel forecast to grow by as much as 9% to over 26 million tonnes in 2005
- SA ferrochrome industry at ca. 95% capacity utilization
- Forecasting strong sales performance for Xstrata in 2005
- Current price range should be supported by real demand, and ongoing growth underpinned by China

Vanadium Market

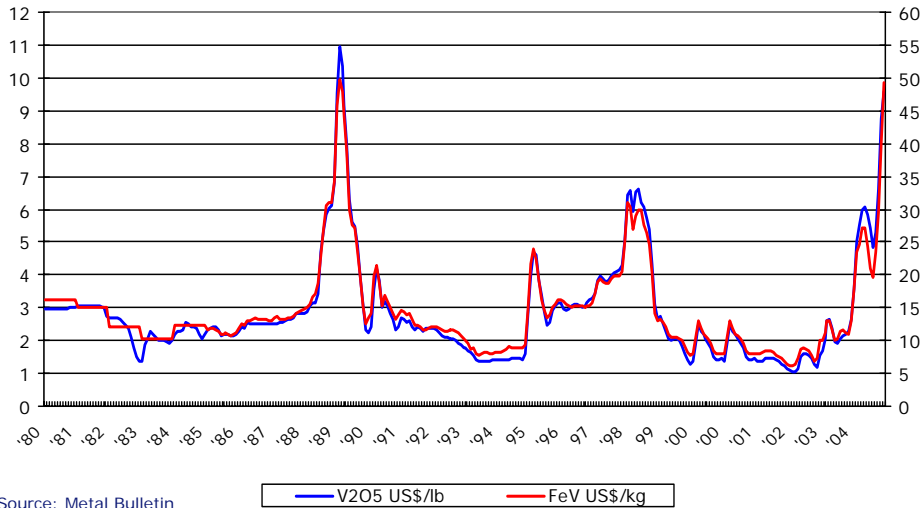
Market Dynamics Vanadium

- Prices at highest level for 15 years
 - Average MB FeV price 2003 = USD 11.46/kg/V
 - Average MB FeV price 2004 = USD 27/kg/V
 - Ca 130% increase
 - Current FeV price > USD 49/kg/V
- Demand exceeding supply, despite growth in secondary output
- Growth driven by China and USA
- Rapid increase in demand and depletion of stocks has positively assisted world vanadium prices.

Prices

Vanadium Pentoxide (US\$/lb; ytd monthly average)

Ferrovandium (US\$/kg; ytd monthly average)

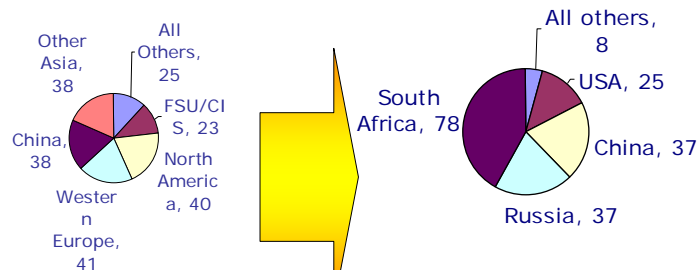


Supply/Demand

Vanadium



Demand exceeded supply in 2004 despite supply moving up by over 9% as a result of increased secondary production



Consumption = 205 million lbs

Production = 185 million lbs

Market Key Factors

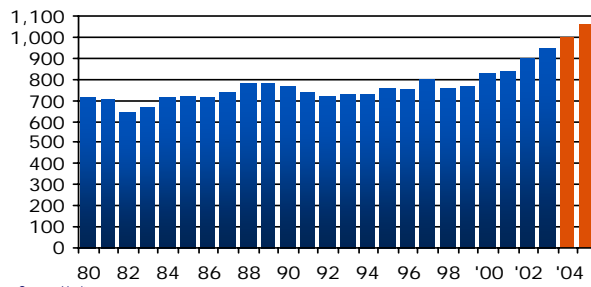


Global crude steel production expected to exceed 1.15 billion tonnes in 2005

Increased demand for specialty and high strength steels (USA & China)

No new primary vanadium production expected

World Crude Steel Production



Source: Vanitec

Vanadium Consumption

(as Kg V / Ton of steel)

World = .049

West = .054

China = .025

Marketing Summary



- Xstrata Alloys continuing to experience strong demand for both ferrochrome and vanadium
- Prices for both commodities are elevated and supported by real demand
- No meaningful increase in ferrochrome capacity pre-2006
- Rapidly increasing demand from USA and China has left the vanadium market in deficit

Operational Overview



Ferrochrome

Asset Summary Ferrochrome



Ferrochrome operations

Name of operation	% ownership ¹	Total annual production capacity (full plant/mine basis)	Accounting status	Location
Alloys				
Wonderkop plant	89	460kt	Business segment & JANE	Marikana, South Africa
Rustenburg plant	89	430kt	Business segment	Rustenburg, South Africa
Lydenburg plant	89	402kt	Business segment	Lydenburg, South Africa
Kroondal mine	89	2,050kt	Business segment	Rustenburg, South Africa
Waterval mine	89	50kt	Business segment	Rustenburg, South Africa
Thornclyffe mine	89	1,770kt	Business segment	Steelpoort, South Africa
Boshoek plant	89	248kt	Joint venture	Boshoek, South Africa
Boshoek mine	89	420kt	Joint venture	Boshoek, South Africa
Horizon mine	89	480kt	Joint venture	Pilansberg, South Africa

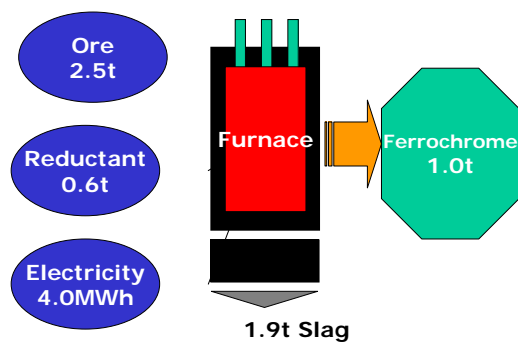
Source: Company information

¹ Xstrata's participation in the PSV will decline from 89% in 2004 to 82.5% over the next three years as per the PSV agreement

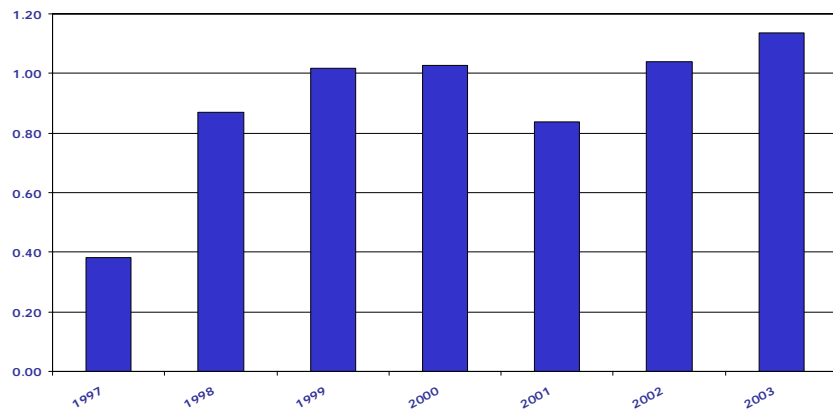
Industry Key Supply Issues Ferrochrome



- Quality / Availability of ore
- Reductants
 - Coke
 - Coke replacements (i.e. char, coal, anthracite, etc.)
 - Volatility in all types of coal prices & availability
- Electricity
 - Restructuring in SA
 - Skills drain
 - Open market
 - Risk / complexity
 - Potential future capacity shortfall
- Efficient use of these inputs



Xstrata Production Ferrochrome

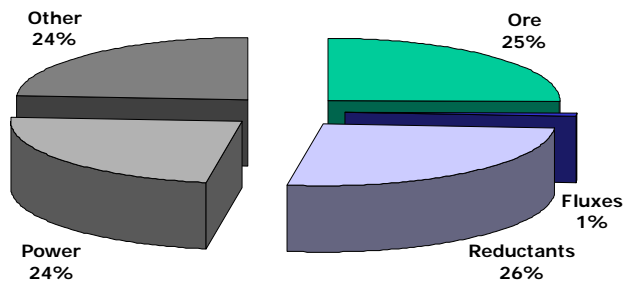


Xstrata Lion project comes on line mid-2006

Typical Variable Ferrochrome Cost Breakdown



Substantial effort and resource has been committed to ensure security of supply and reduced costs for major cost items (energy, reductants & ore)

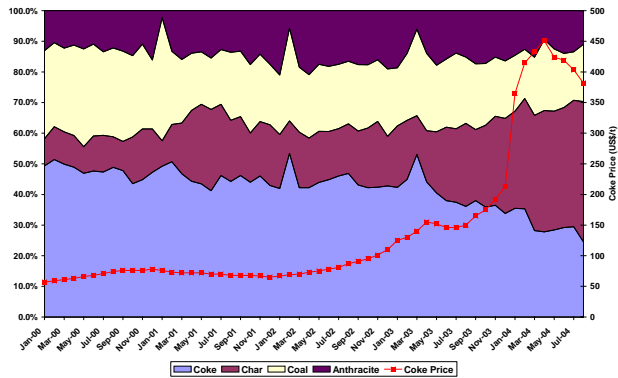


Reductants



Xstrata has reduced dependence on high-cost coking coal through:

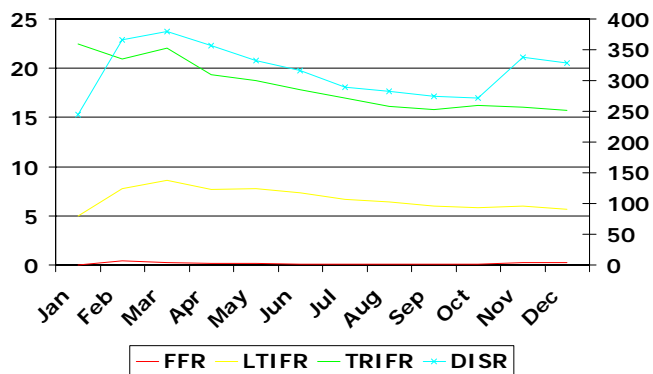
- Utilising greater quantities of char
- Securing char supply
- Enhancing specific consumptions
- Operating flexibly to minimise reductant costs without compromising product quality/efficiencies



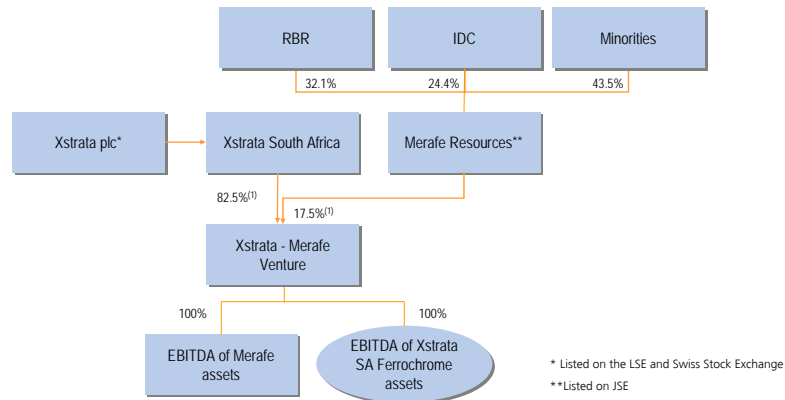
Health & Safety 2003 Stats



- Management safety focus intensifying:
 - FFR dropped from 0.33 in 2002 to 0.23 in 2003 to 0.16 in 2004.
 - LTIFR improved from 10.62 to 5.67 over the same period.
- Behavioural Safety programmes introduced
 - Had a positive impact on attitude and awareness of occupational safety



Xstrata-SA Chrome PSV



(1) Merafe participation increases from 11% currently to 17.5% in 3 years

(2) Excludes EBITDA from the two furnaces at Wonderkop Plant, which form part of the existing Xstrata-Samancor JV

Salient Terms PSV



- SAC and XSA retain ownership of assets
 - both Parties contribute to PSV the right to use assets
- EBITDA shared in proportion to participation
- Management of PSV by "Joint Board", with representation from SAC and XSA
- GIAG market full output from PSV
- SAC and XSA to offer all chrome opportunities in Southern Africa to PSV
- SAC right to increase participation interest to 26% -
 - disproportionate funding of new projects/ acquisitions

PSV Highlights



- Xstrata assumed management control of SA Ferrochrome assets in July 2004
 - Plant design capacities achieved in September 2004
 - Merafe achieved profitability for first time during Q3 04
- Many synergies identified
- Merafe mining operations presented additional challenges to Xstrata mining team
- Transaction enables Xstrata to move towards satisfying MPRDA requirements
- Merafe has strong strategic shareholders in the RBN and IDC

Project Lion Progress



- Capital Expenditure increased to ZAR1.67 billion
 - includes the Helena mining development
 - addition of second kiln with increased output
 - increasing steel prices
- Mine shaft development commenced June 2004
- Civil excavations commenced 10 January 05
- Orders have been placed for long lead items
 - Ball mills, kilns, transformers etc
- On target for H2 06 commissioning date
- Final EIA approval received on 17 December 04
- 42 hectares cleared and leveled by 23 December 04 and contractors site established

Vanadium

Asset Summary Vanadium

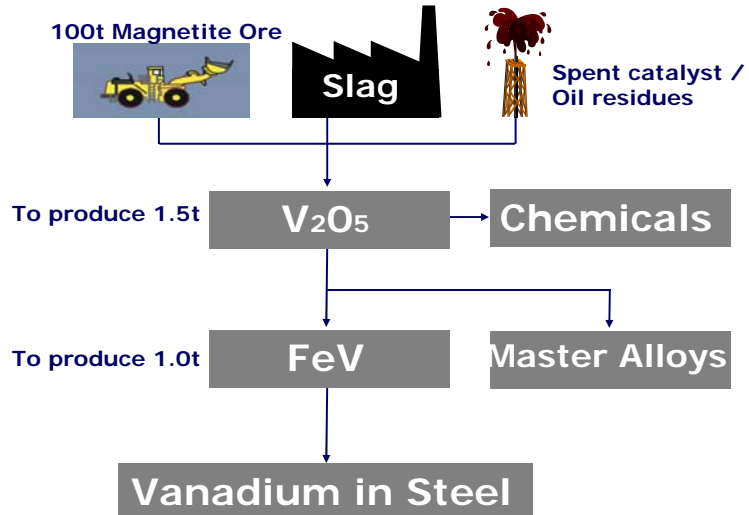
Vanadium operations

Name of operation	% ownership	Total annual production capacity (full plant/mine basis)	Accounting status	Location
Alloys				
Rhovan V205	100	22,579k lbs V205	Subsidiary	Brits, South Africa
FeV		7,800k kg FeV		
Swazi Vanadium (FeV)	100	2,400k kg FeV	Subsidiary	Swaziland

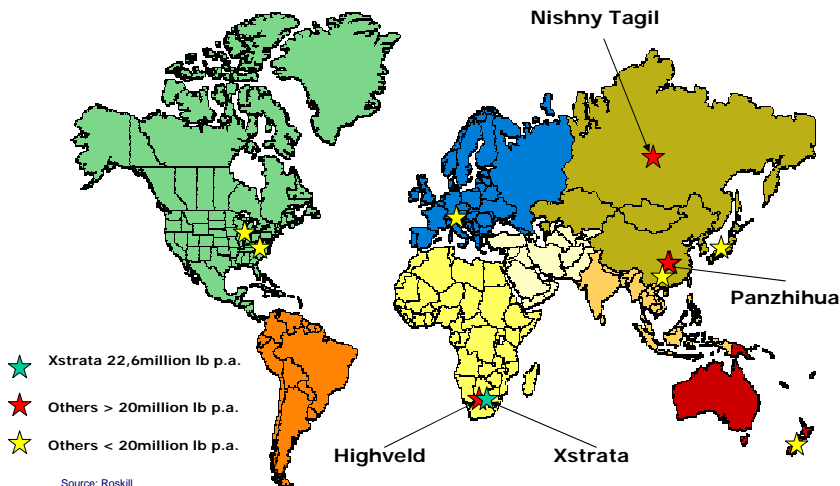
Source: Company information

Permanent closure of Windimurra and Vantech announced during 2004

Process Overview



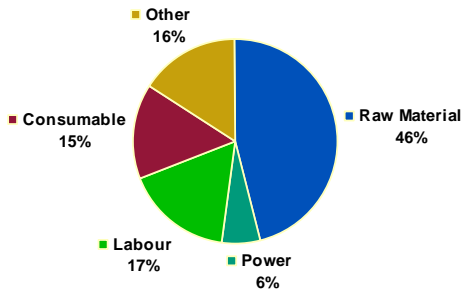
Supply Overview Vanadium



Key Cost Components Vanadium

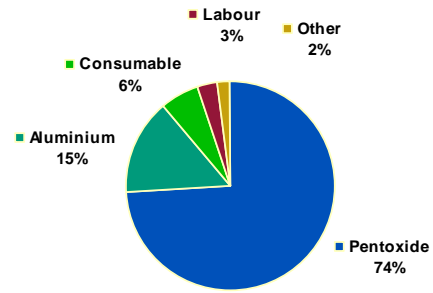


Vanadium Pentoxide



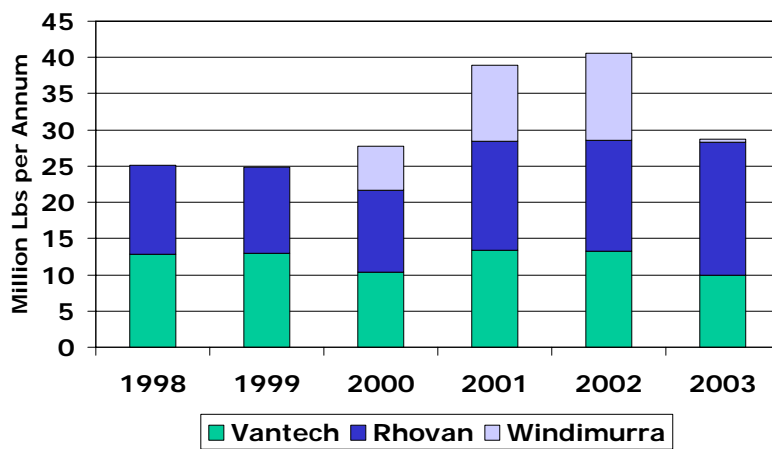
88% ZAR based

Ferrovanadium



76% ZAR based

Production Vanadium



Transformation



Xstrata Commitment to Transformation

- Xstrata Transformation Committee in place
 - Chaired by Mick Davis
- Executive Director appointment for implementation
- Transformation strategy developed and communicated to all stakeholders
- Resources made available to implement strategy
- Transformation strategy integrated into business strategy
 - Not a “stand-alone” or “addition”
 - Line driven with assistance and support from experts and support staff

Seven Pillars of Mining Charter



- Human Resources Development
- Employment Equity
- Housing and accommodation
- Migrant Labour
- Mine community and rural development
- Procurement
- Ownership and Joint Ventures

Human Resources Development



- Xstrata Mission Statement

Provide employees with the opportunity to progress their careers through skills development to the benefit of the employee, the company and society

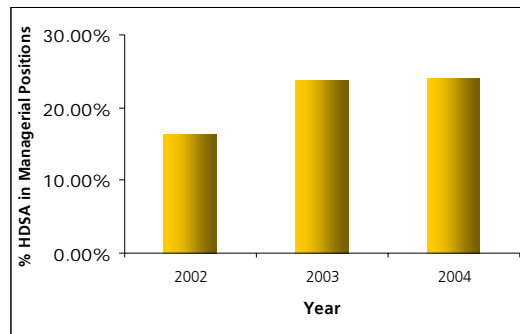
- Progress
 - Literacy:
 - Opportunities and training provided to all employees to be functionally literate
 - Career & Skills Development:
 - Career paths model developed and under implementation
 - Mining career day hosted in Mpumalanga
 - 3 year programme aimed at improving teaching of maths and science at 20 schools is being implemented

Employment Equity

- Xstrata Mission Statement

To have a workforce, at all levels of the organisation, that is properly representative of the society within which it operates.

- Progress



Housing & Living Conditions

- Xstrata Mission Statement

All Xstrata South Africa's employees should have the opportunity to live with their families in a normalised and sustainable social environment as well as having the opportunity to participate in wealth accumulation through the ownership of property.

- Progress

- Measures to encourage home ownership are being implemented e.g. sale of stands for employee accommodation



Migrant Labour

- Company policies and procedures comply with national treaties and agreements on migrant labour.
- Migrant employees are not treated differently unless dictated otherwise by national treaties and agreements on migrant labour.



Mine Community and Rural Development

- Xstrata Mission Statement

Xstrata appreciates the central role it plays in the community and intends to be recognised by the community for the important contribution it makes

- Progress
 - Development of comprehensive guidelines to ensure compliance with the Charter
 - Trust to improve efficiency of community development in the process of being registered
 - Integrated development plans for communities where mining takes place.
 - Engagement of the local mine community

Procurement



- Xstrata Mission Statement

It is Xstrata South Africa's intent to maximise the value of cost effective procurement of goods and services from companies owned or controlled by historically disadvantaged South Africans.

- Progress

- BEE preferential policy approved and under implementation
- Existing suppliers encouraged to form partnerships with HDSA's.
- BEE procurement development programme is being implemented.
- Progressive BEE targets have, been set and achievement thereof is being monitored

Ownership & Joint Ventures



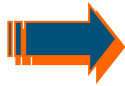
- Xstrata Mission Statement

Xstrata will align its HDSA Ownership and JV strategy with the intent of the MPRDA thus substantially and meaningfully expanding opportunities for HDSAs, including women, to enter into and benefit from the exploitation of the nation's mineral resources. Xstrata will achieve this through the disposal of certain assets or portions of assets at fair value to HDSA controlled companies as well as through developing partnerships with HDSA controlled companies in new ventures.

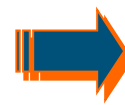
- Progress

- Formation of PSV with Merafe Resources

Conclusion: Transformation is a Business Imperative in Xstrata



Transformation is not a luxury but a business imperative in South Africa



Accordingly transformation is driven like any other business imperative: - production, costs, safety etc;



Xstrata SA is fully committed to Transformation as shown by all efforts put into the initiative to date



Conclusions

Conclusions



- Alloys well positioned to:
 - continue ferrochrome market leadership position
 - enhance our financially robust, but smaller vanadium business
- HSEC initiatives and operational efficiency and cost improvement form key management drives going forward
- Market conditions in vanadium and ferrochrome appear favourable for the year ahead
- Transformation objectives increasingly synonymous with doing business in Alloys
- BEE initiatives on track with PSV in ferrochrome; strong focus on vanadium
- Project Lion is on track and progressing well

