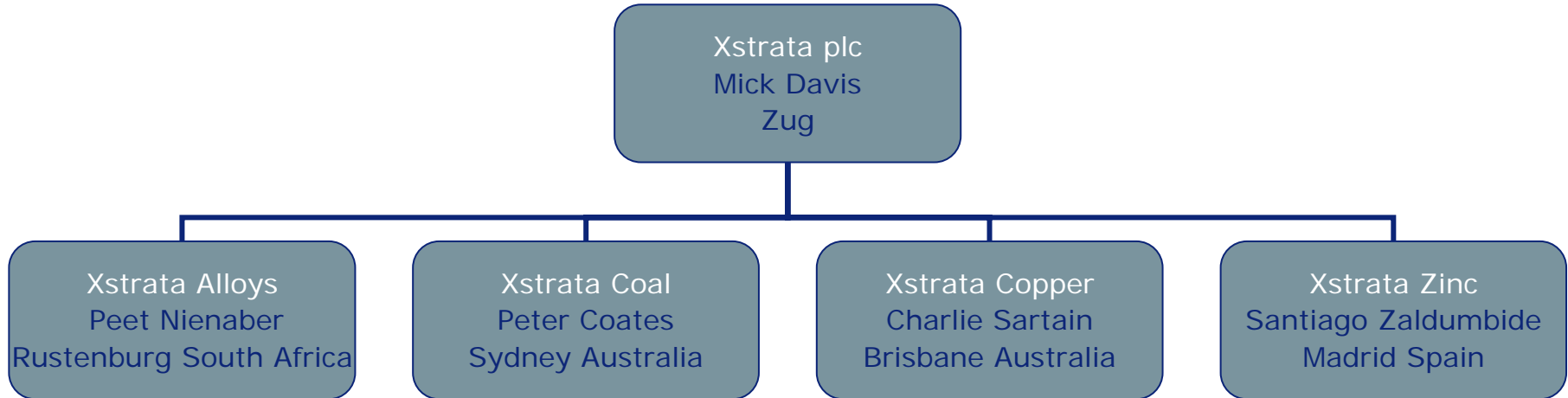


Agenda

- Introduction to Xstrata plc and Xstrata Coal
- Categories of Capacity Growth
- Strategic Considerations in Development of Mining Capacity
 - Timing
 - Market Positioning and Project Attributes
 - Political and Environmental Setting
 - Infrastructure
- Xstrata Coal Project Pipeline
- Case Study - Rolleston

Xstrata plc



- A major global diversified mining group
- Headquartered in Switzerland
- Listed on London & Zurich Stock Exchanges
- FTSE Top 50 and listed in S & P Europe 350 Index
- Market Cap US\$15 billion
- Employs 24,000 people worldwide

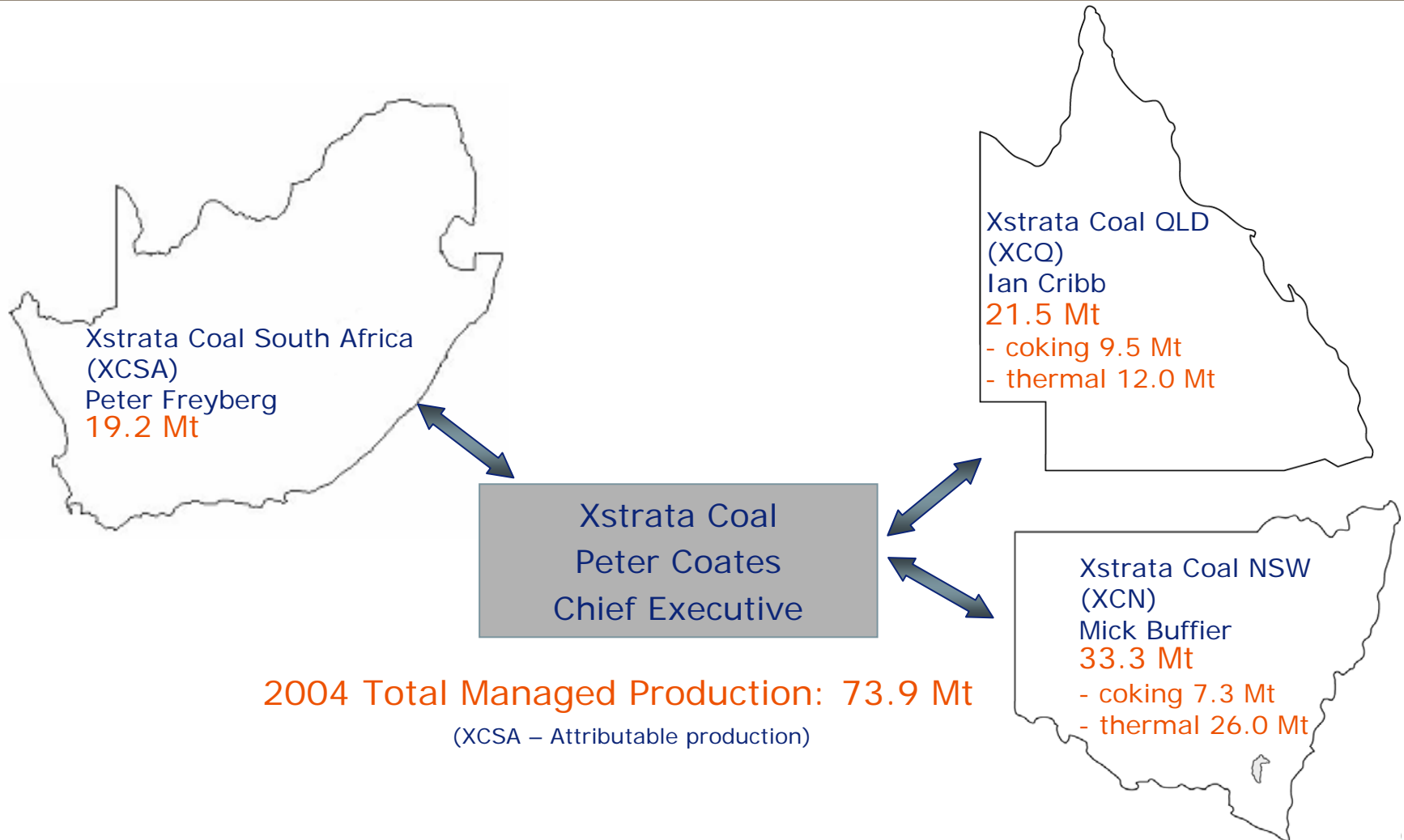
Xstrata's Global Investments



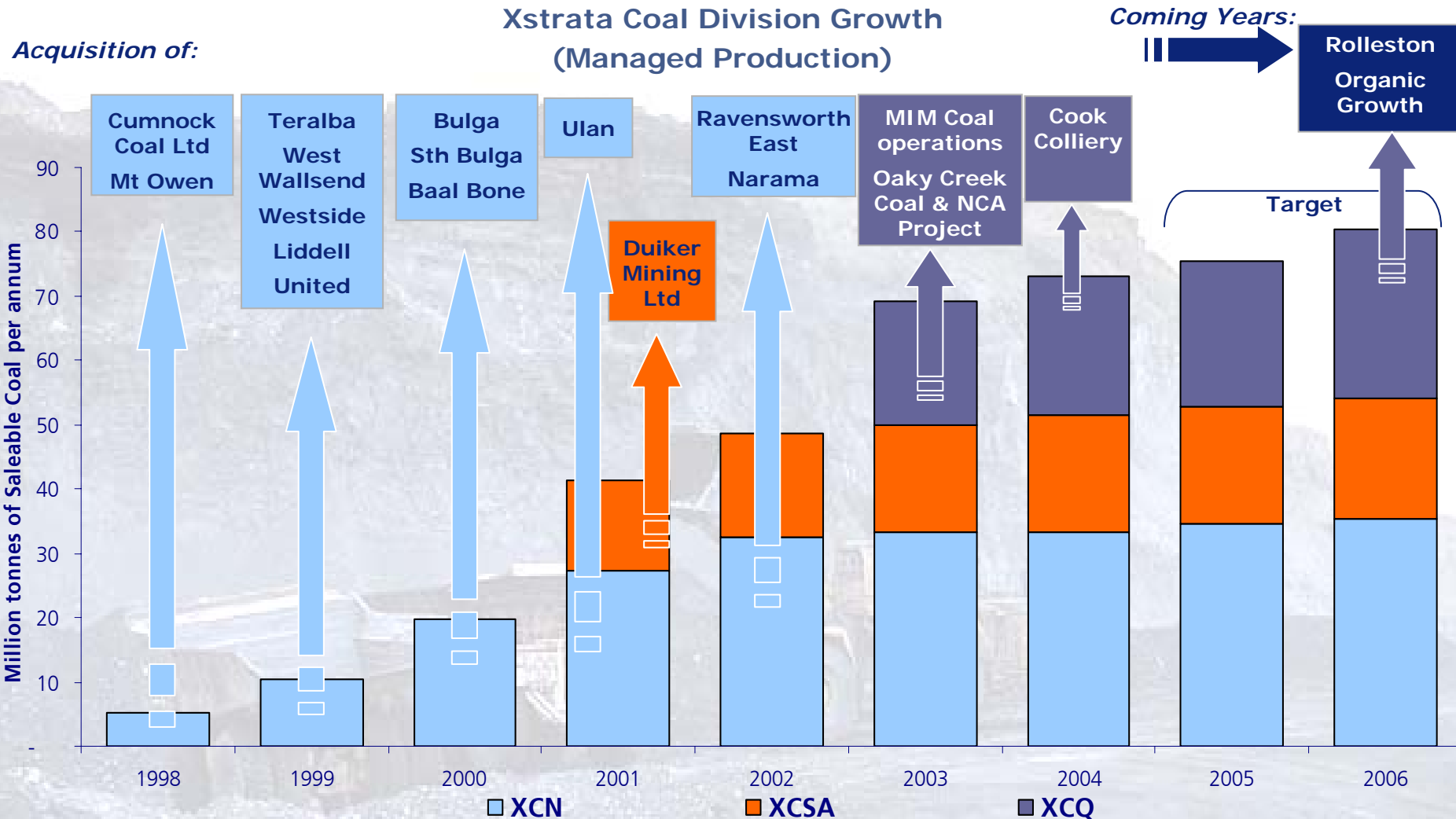
Xstrata Coal Profile

- The largest of Xstrata plc's commodity businesses. In the first six months to June 2005 the coal division earned:
 - US\$515M of EBIT (representing 48% of 1H 2005 group operating profit)
 - US\$444M of free cash flow (net of all Capex)
 - The world's largest producer of export thermal coal (managed basis) and a significant exporter of coking coal
 - Interests in over 30 operating coal mines located in South Africa and Australia, employing around 10,000 people
- 

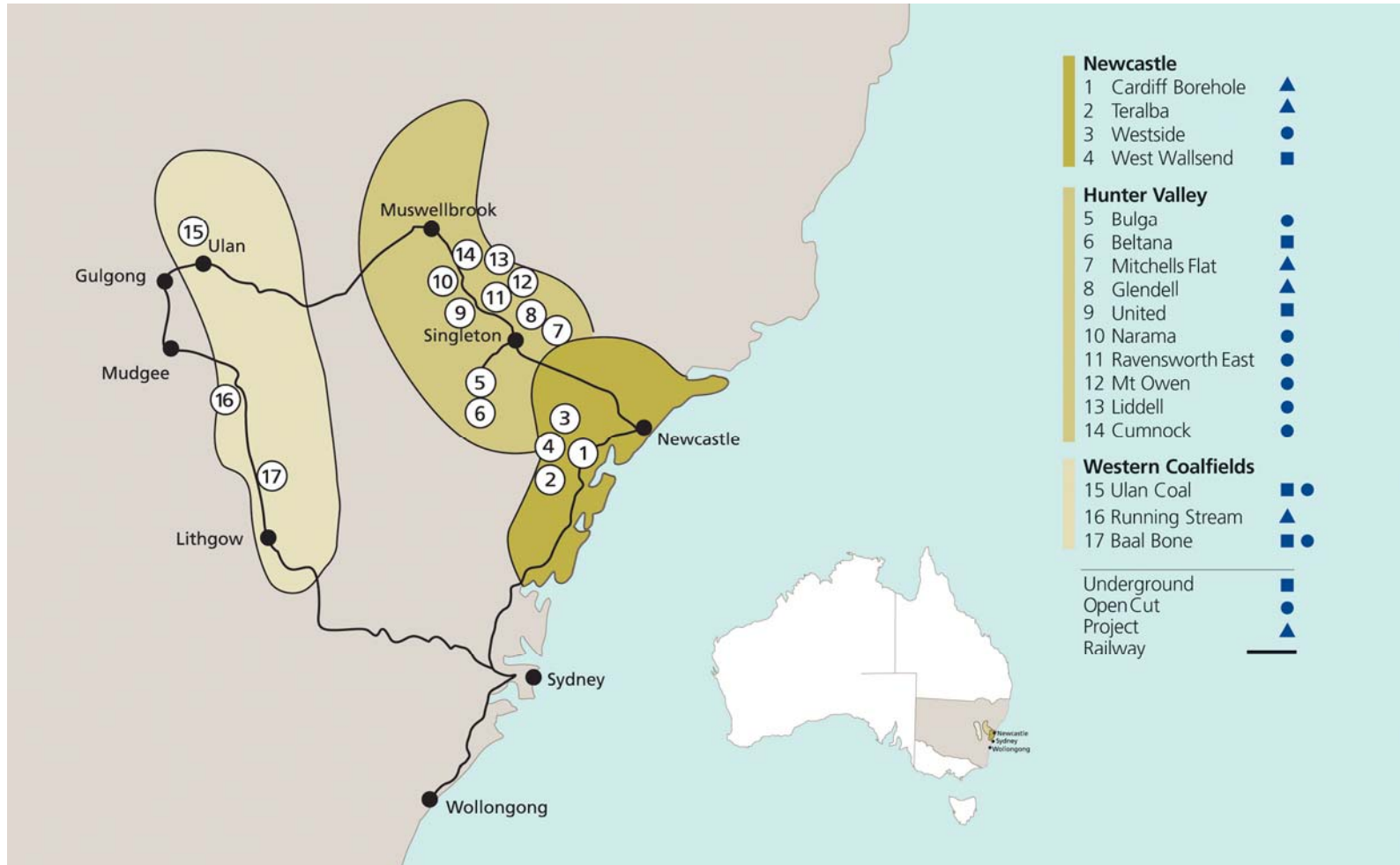
Xstrata Coal Structure 2004 Production



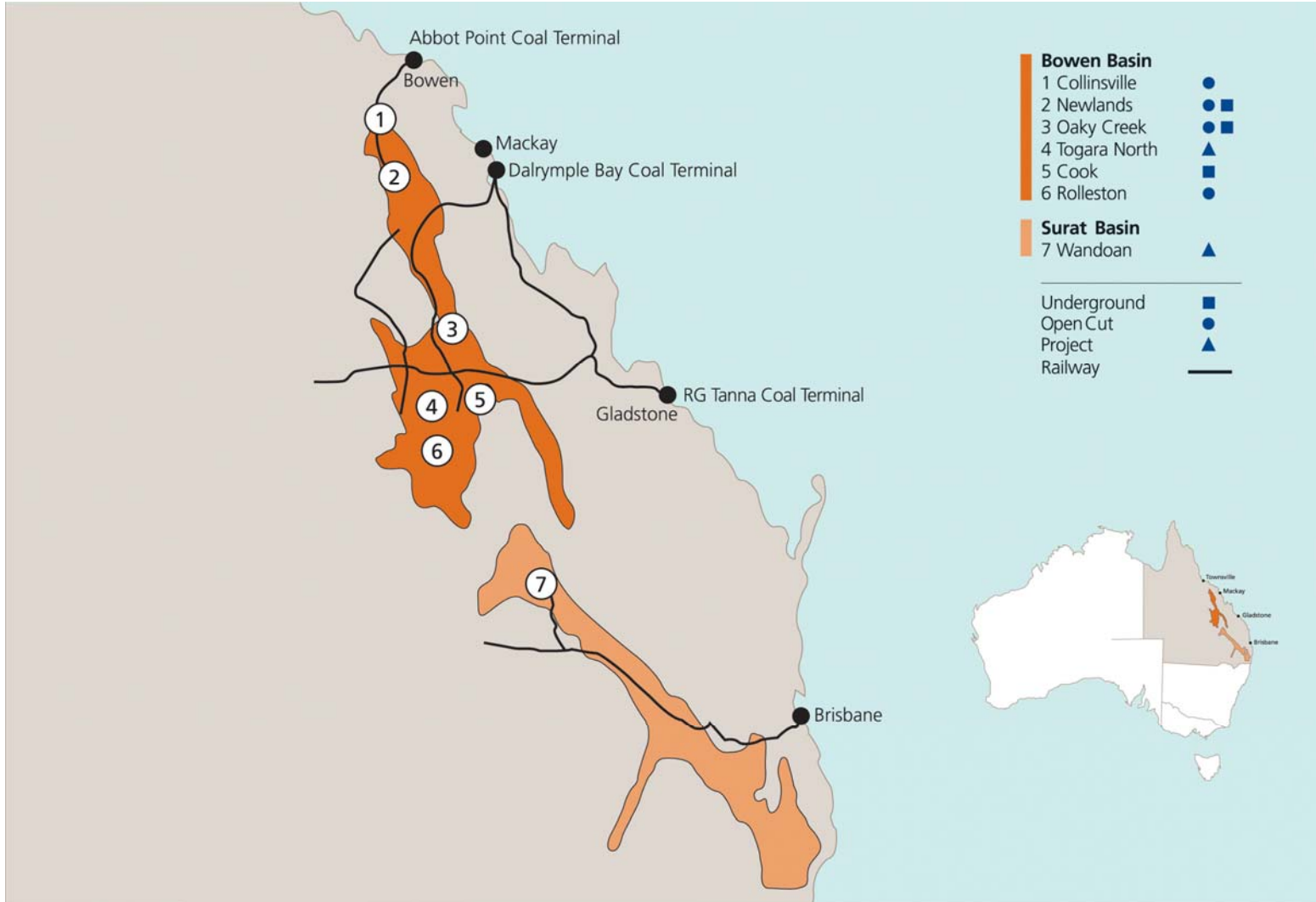
The Growth of Xstrata Coal



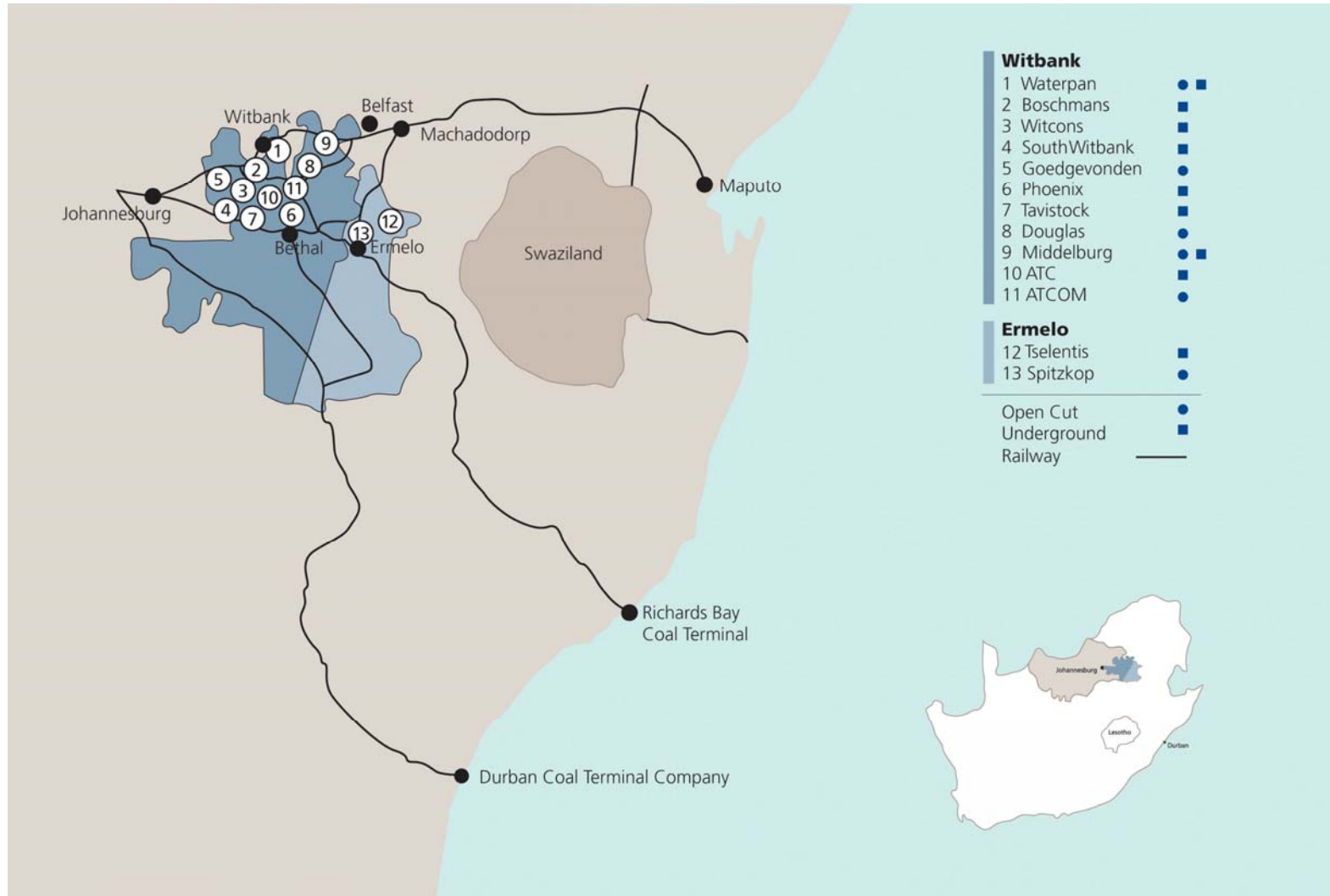
Xstrata Coal NSW



Xstrata Coal Queensland

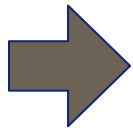


Xstrata Coal South Africa



Categories of Capacity Growth

- A. Brownfield Expansion
- B. Greenfield Development
- C. Acquisition



- Each of these Categories is held to differing financial criteria and return thresholds

A. Brownfield Expansions

- Typical Project Attributes
 - Quick to complete – aim to capture the current market opportunities
 - Relatively low capital expenditure
 - Leverages existing infrastructure
- Typical Financial Attributes
 - Short term horizon
 - High Rates of Return
 - 1-2 year payback expected
- Decision on these types of Expansions are made based on the current market environment and consequently an exceptional cost structure is not a vital consideration

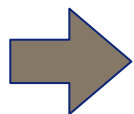
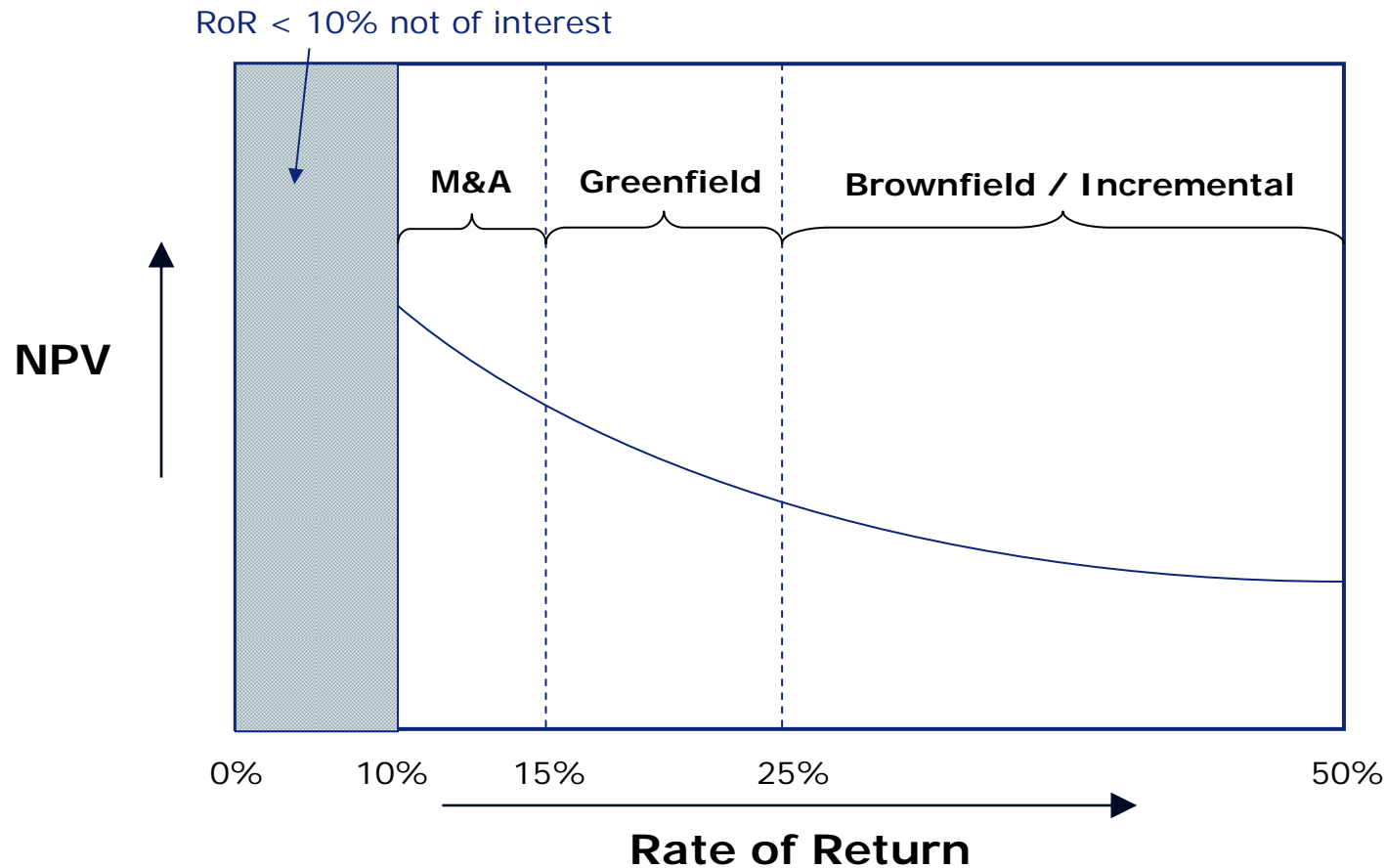
B. Greenfield Developments

- Must be based on long-term market fundamentals – “tomorrow’s market, not today’s”
- Usually higher capital cost, often driven by significant infrastructure requirements
 - High NPV
 - Lower Rate of Return
 - Long term payback horizon
- Essential that these projects be “armour-plated” – ideally in the lowest quartile of the cost spectrum

C. Acquisitions

- Acquisitions must also be based on long-term market fundamentals
- A major benefit is that they do not require market growth to make sense – already have market share
- Downside is that, unless the acquirer has a different (and ultimately correct) market view or brings a major synergy to the acquisition, RORs will always be marginally above the WACC
- Acquisitions at a “high” point of the commodity cycle?
 - Acquisitions can make sense at any point provided the forecast price assumptions used are correct
 - Higher short term cash flows justify higher NPVs when purchasing at peaks in cycles.

Categorising Capacity Growth



- Let us now look at the strategic considerations involved when investing in new capacity – with a focus on Greenfield Developments

Strategic Considerations:

1. Timing

- **Brownfield**
 - Capture the current market
 - 12 to 24 months
- **Greenfield**
 - Capture tomorrow's market, don't be lured by the promise of today's
 - Concept to Completion approx 5 years
 - Important to coordinate project timing with the timing of infrastructure availability
 - Very important to carefully analyse market demand growth
- **Acquisition**
 - Immediate but lower RoI
 - Normally some tonnage risk taken
 - Must capture the value seen by the buyer

Strategic Considerations:

2. Market Positioning & Project Attributes

- **Brownfield**
 - Demand for coal type already established
 - Customers want more – here it is!
 - Short term, quick payback. No real market science required
- **Greenfield**
 - Completely different level of justification required
 - Investment requires a clear view of the long-term market direction
 - Project needs to offer a robust and sustainable advantage
 - o Lowest cost quartile? Unique quality? Offtake agreements?
 - o Ideally a combination of all the above
 - Thorough risk analysis - project needs to satisfy significant “what if” scenarios, e.g:
 - o What if China/Indonesia ramp up exports?
 - o What if Kyoto-based emissions trading is implemented in Asia?
- **Acquisition**
 - Decision should be based on strategic positioning/diversification issues
 - Acquisitions often destroy shareholder value so clear synergies and operational expertise are “must haves” to make them work

Strategic Considerations:

3. Political and Environmental Setting

- **Political/Sovereign Risk**
 - Local government support is essential and needs to be managed in accordance with the level of sovereign risk
 - Opportunistic changes in royalty rates “move the goalposts” and can seriously affect project economics
 - Queensland currently offers a more “mining-friendly” climate than NSW
- **Environment**
 - The carbon-constrained age is upon us
 - Cleaner-burning, lower-sulphur, lower ash fossil fuels are ever more valued by the market
 - Investment in clean coal technology helps to grow the market
 - GHG abatement plans -> emissions trading certificates in the future?
- **Community**
 - Awareness of future community issues, not just today's
 - Issues such as land-use, water and rehabilitation are vital and skills are required to manage these correctly

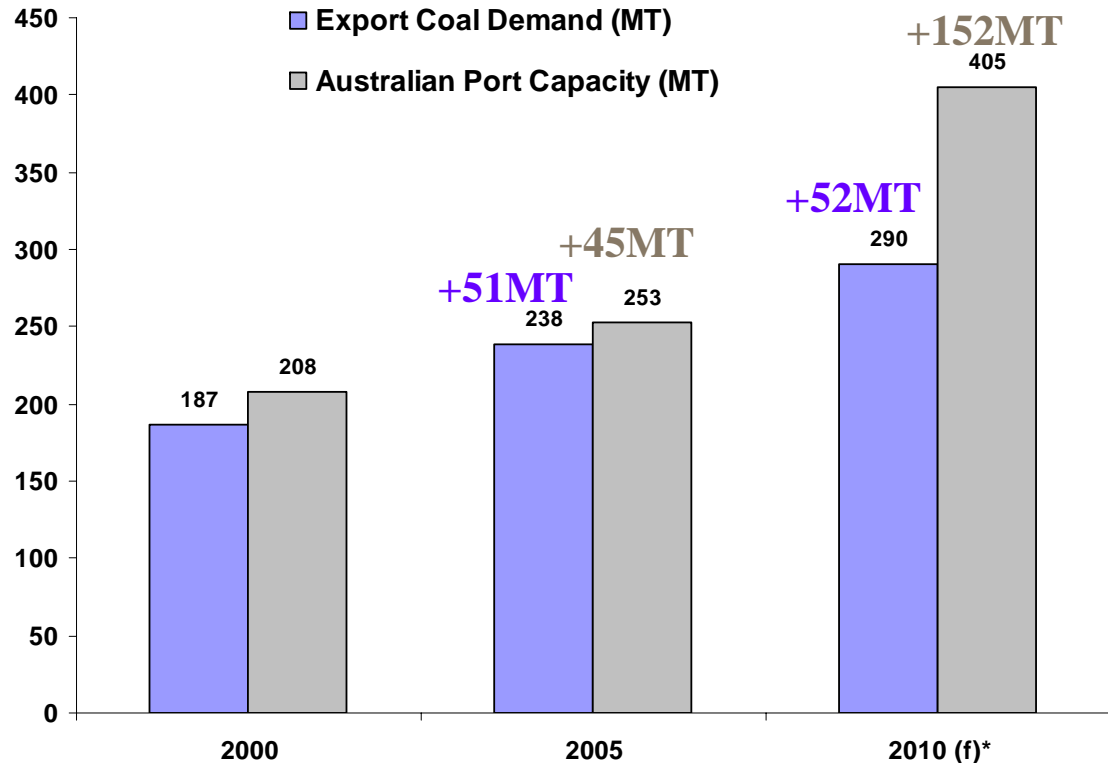
Strategic Considerations:

4. Infrastructure

- Government can not (and should not) be expected to provide significant new infrastructure and impose the cost burden across all users
- Viability of existing operations cannot be jeopardised by being saddled with infrastructure costs to satisfy new projects, or even the desire for existing players for greater flexibility
- The User must Pay!
- There is a raft of imminent Port & Rail investments currently mooted to provide additional capacity by 2010:
 - Dalrymple Bay (DBCT) Port & Rail: 33MT - \$1.3B
 - Hay Point (HPCT): 24MT - \$0.3B Rail + \$0.25B (Phase 2) + ?? (Phases 3 & 4)
 - Gladstone (RGCT only, not incl Wiggins Island): 20MT - \$0.5B
 - Abbot Point (APCT): 27MT - \$1.3B
 - Newcastle: 48MT - \$1.0B

- 
- **Total Expenditure of at least \$4.7B for over 150MT of new export capacity**
 - **Does this level of investment in capacity expansion make sense when set against likely market growth over time...**

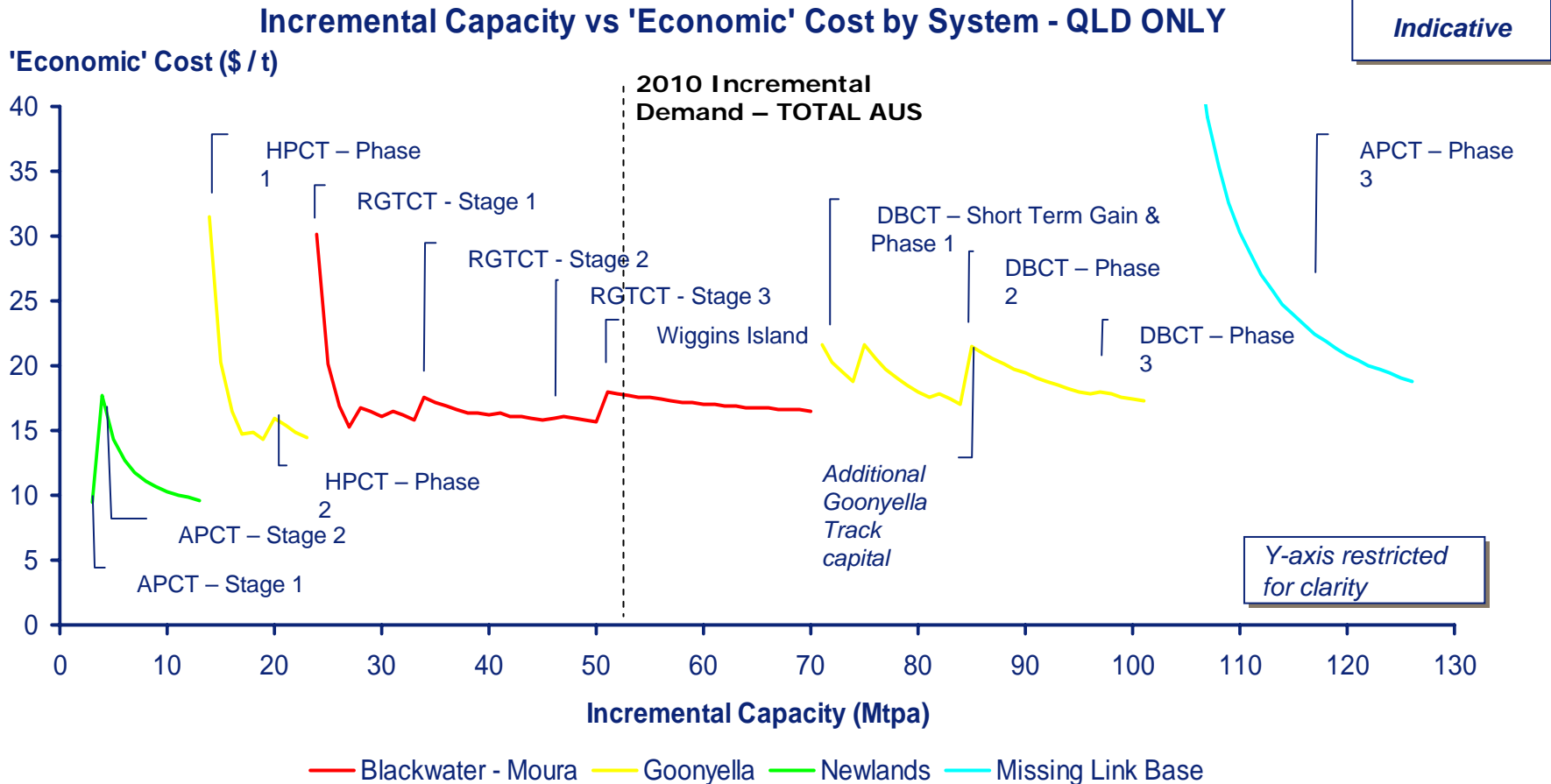
Australian Coal Exports vs Coal Corridor Export Capacity to 2010



- Current capacity expansion plans appear to be overkill
- When set against a realistic demand-based projection it is clear that some of these expansions would be money wasted

* 2000-05 Coal Export Demand figs from Customs statistics, 2010 demand estimate from ABARE
 2010 Port Capacity estimate from previously announced expansion plans – does not include potential extra 20MTpa from Gladstone/Wiggins Island

Proposed capacity expansions should be prioritised to avoid misuse of infrastructure funds – QLD Example



N.B. *Wiggins Island CAPEX does not include associated investment on track
 Required additional track capacity for Goonyella system is based on cost of additional projects
 Impact of cargo assembly on required track and rolling stock capital has not been included*

Source: *Partners in Performance Consultants*

Xstrata's Major Thermal Coal New Project Pipeline



Major Projects	Geographical Location	Targeted Output	Target Year	Development Status	Category
Rolleston	Australia (Qld)	8 Mtpa	2005	Construction	Greenfield
Glendell	Australia (NSW)	2 Mtpa	2007	Final Feasibility	Brownfield
Goedgevonden	South Africa	5 Mtpa	2007	Final Feasibility	Greenfield
Verkeerdepan	South Africa	2 Mtpa	2007	Final Feasibility	Greenfield
Rolleston Upgrade	Australia (Qld)	4 Mtpa	2007	Final Feasibility	Brownfield
Ulan West	Australia (NSW)	6 Mtpa	2009	Pre Feasibility	Brownfield
Togara North	Australia (Qld)	2 Mtpa	2009	Pre Feasibility	Greenfield
Wandoan	Australia (Qld)	+10 Mtpa	+2010	Exploration	Greenfield

Rolleston (Queensland)



- Large new QLD open-cut operation – full 8Mtpa operation by 2008
- Potential upgrade to 12MTpa shortly afterwards

Rolleston (Queensland)



- Dragline to “walk-off” end-Sept



- First commercial railing due 4 October 2005
- On time and on budget

Mt Owen Complex (NSW): Glendell Expansion



- Glendell is a 2Mtpa expansion to the Mt Owen complex in the Hunter Valley
- Production currently expected to begin in 2007

Ulan (NSW)

1. Overland Conveyor Project



- Ulan is a combined Open-cut and Underground mining complex in the Western Coalfields of NSW with 5MT of saleable production in 2004
- The overland conveyor project was an initial brownfield expansion to the Ulan mine that has added flexibility to increase capacity (in addition to cost savings) for a capital cost of AUD\$27M
- Operation currently underway

Ulan (NSW)

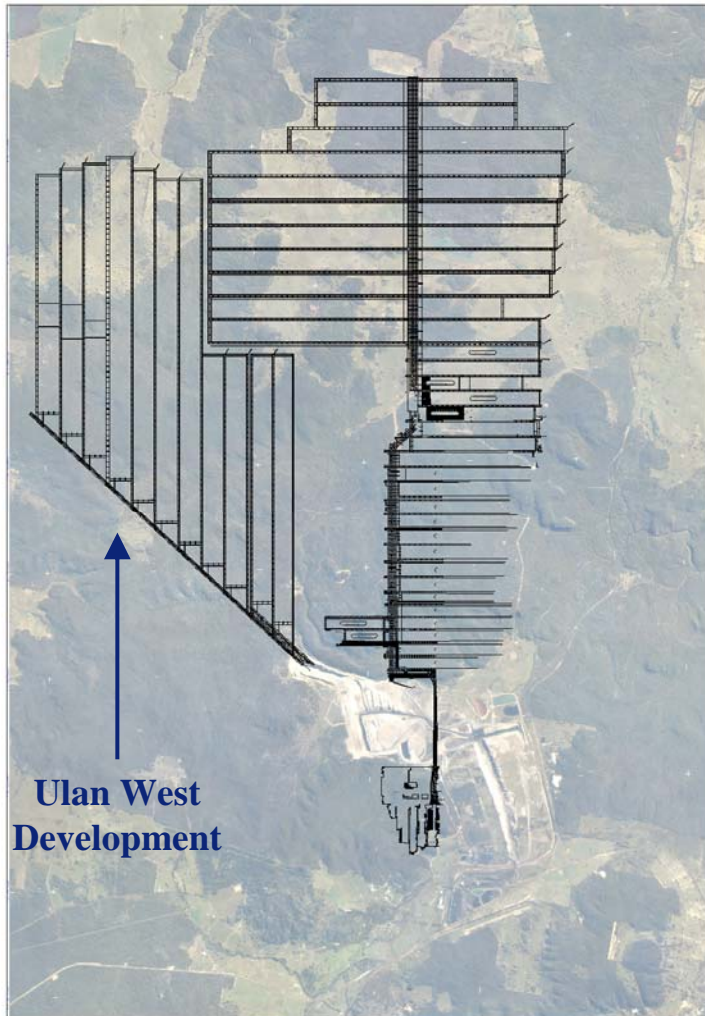
2. Ulan 400m Longwall Face



- The Ulan L/W upgrade was a more significant brownfield expansion to the Ulan mine that has added 1.5Mtpa of capacity for a cost of AUD\$90M. Operation begins in 2006.

Ulan (NSW)

3. Ulan West Development



- Ulan West is a new 6Mtpa underground development next to the current Ulan operation
- Target year for operation in 2009
- Currently at the pre-feasibility stage

Goedgevonden & Verkeerdepan (Xstrata Coal South Africa)



- Goedgevonden is a 5Mtpa project in the Witbank
- Currently producing on a small scale and awaiting final approval for full-scale development. (Subject to rail capacity)
- Likely to start 2007

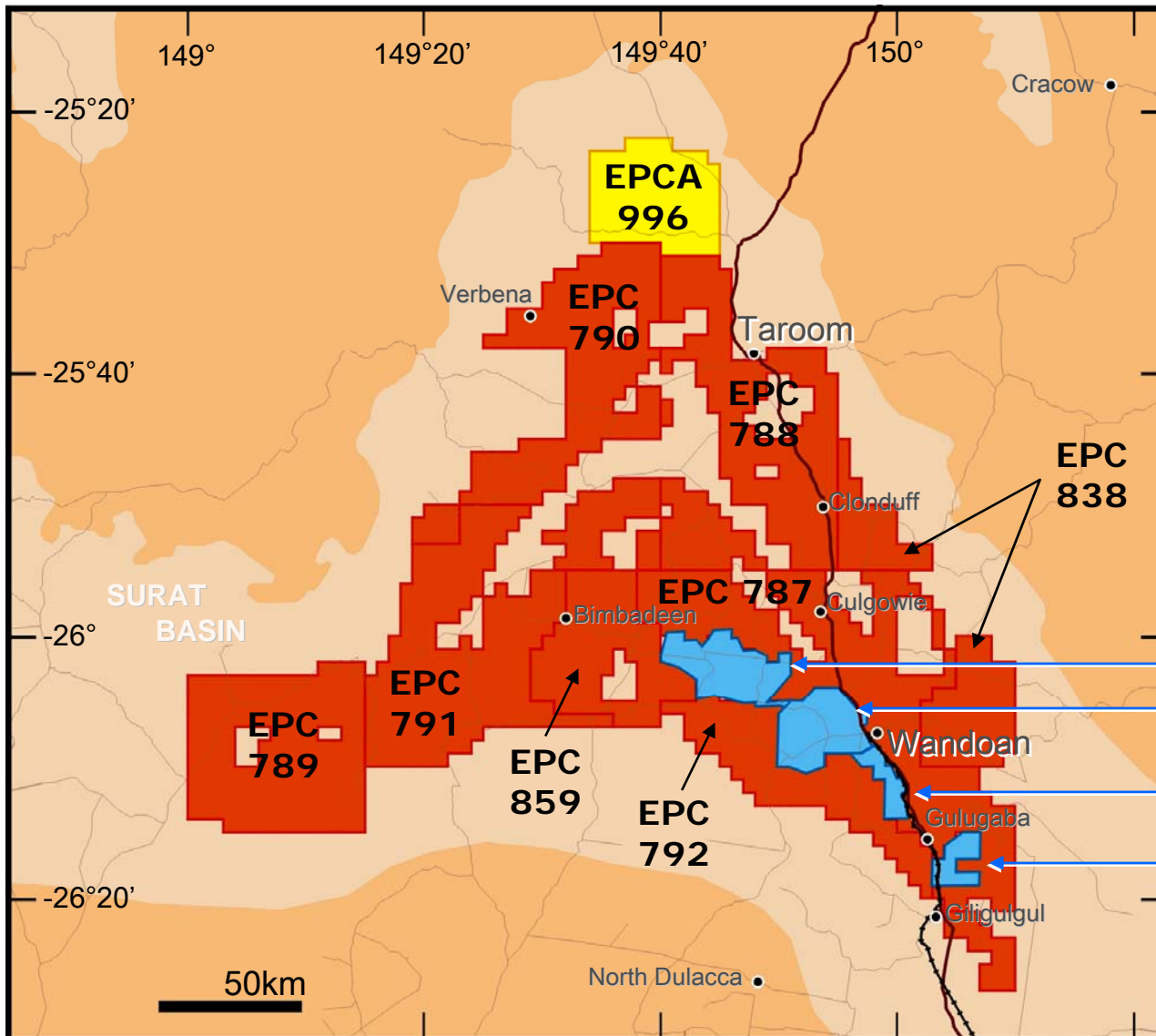


- Verkeerdepan is a 2Mtpa project near Ermelo
- Currently in final feasibility stage also – slated for operations in 2007

Wandoan (Queensland)

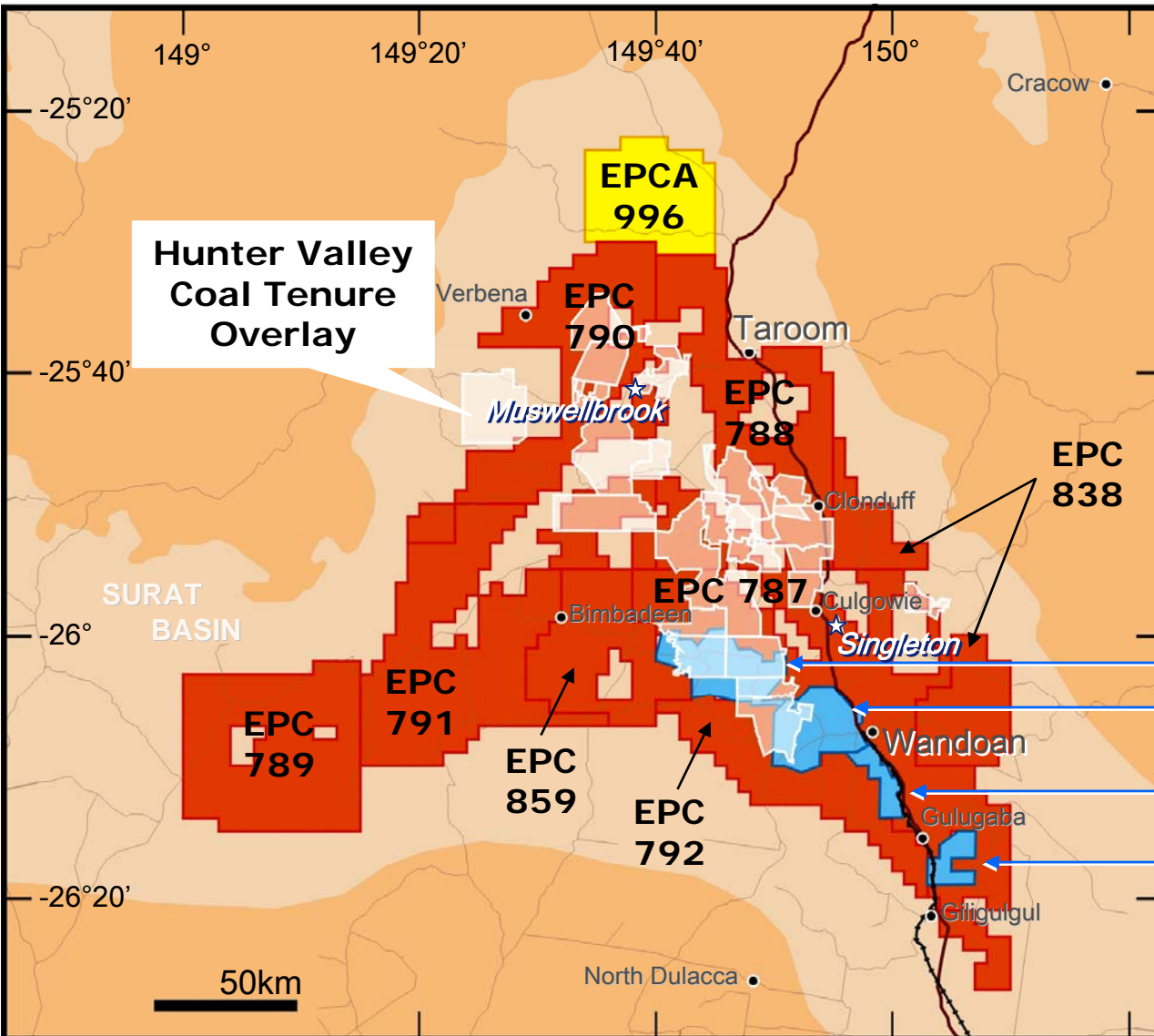


- Xstrata Coal's Wandoan Project (located in QLD's Surat Basin) has huge potential
- It is a large lease containing vast reserves (approx 1Bt)



- MDL 222**
- MDL 221**
- MDL 223**
- MDL 224**

Wandoan (with Hunter Valley overlay)



- The size of the Wandoan lease can be better appreciated when we overlay the Hunter Valley mining leases for scale comparison
- Wandoan is an important strategic resource to Xstrata and will be brought on-stream at an appropriate time

MDL 222

MDL 221

MDL 223

MDL 224

Rolleston – A Case Study

1. Timing

- Feasibility study conducted in 2003, during the market trough
- From “go-ahead” to “first coal” has taken 20 months
- Full 8Mtpa production by Q4 2007

2. Market Positioning and Product Attributes

- Rolleston will be in the lowest cost quartile of export producers
- Costs benchmarked vs Indonesia, not Australia
- Low-ash product, does not require washing
- Strong JV partners (Itochu, Sumitomo) to help place the product

3. Political and Environmental Setting

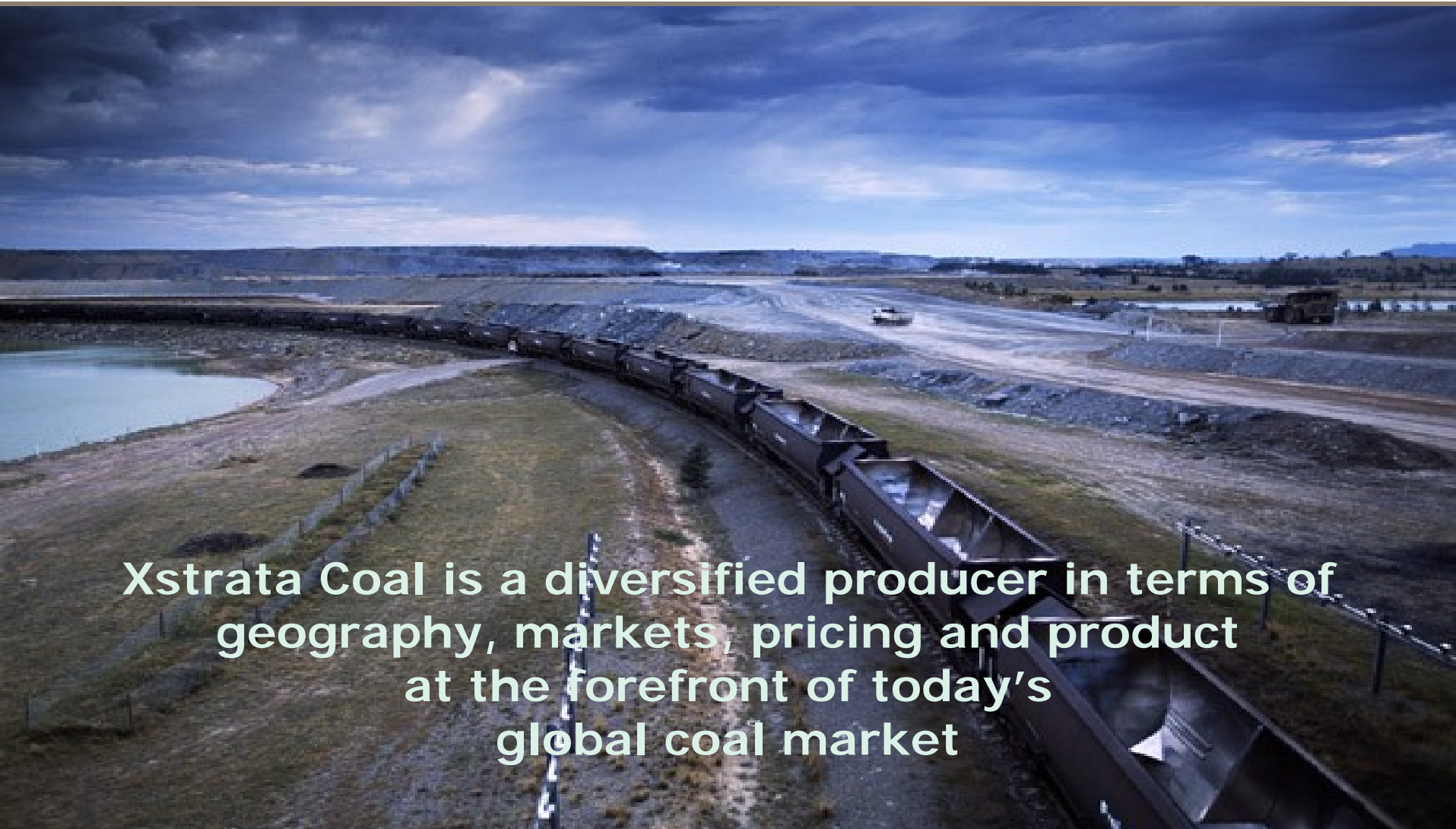
- Project strongly supported by the QLD government
- Rolleston coal participating in the IHI Oxy-fuel testing program for potential use in new Clean Coal Technology plants in Japan
- Low-ash gives environmental as well as economic benefit

4. Infrastructure

- Infrastructure requirements coordinated to match production profile
- Built own rail line – on time and on budget
- Contracts in place early with GPA for port capacity and dedicated stockpile space

Summary

- Capacity expansion via Acquisition, Greenfield and Brownfield should be held to differing internal justification criteria
- Greenfield Developments need to:
 - Be “armour-plated’ in terms of market cycles
 - Offer a clear & sustainable advantage over the relevant competition
 - Occur in a favourable political climate
 - Work towards a greater environmental offering
 - Coordinate development with infrastructure
- Current infrastructure plans reflect “irrational exuberance”
 - Estimates of future requirements must be based on demand-driven market forecasts, not supply-driven idealism
- Xstrata Coal has a strong and well-developed thermal coal project pipeline with exceptional optionality.
- Rolleston is a good example of a project that meets the strategic considerations for development greenfield capacity



Xstrata Coal is a diversified producer in terms of geography, markets, pricing and product at the forefront of today's global coal market