



MEDIA RELEASE

17 July 2007

PROPOSED ACQUISITION OF CUMNOCK COAL

Xstrata Coal, through Helios Australia Pty Limited, a related body corporate of Xstrata Coal Pty Limited, today announces it has entered into a Merger Implementation Agreement ("MIA") with Cumnock Coal Limited ("Cumnock Coal") to acquire 100% of Cumnock Coal for a cash consideration of A\$0.57 per share, or a total of approximately A\$23 million for the shares that Xstrata Coal does not already own. Xstrata Coal currently owns 83.97% of Cumnock Coal's ordinary shares and Itochu Coal Resources Australia Pty Limited ("Itochu") owns 10.01%.

Under the terms of the MIA, Cumnock Coal will undertake an equal capital reduction to cancel all the shares in Cumnock Coal and simultaneously issue one new ordinary share to Xstrata Coal, which will pay a cash consideration to Cumnock Coal's shareholders of A\$0.57 per share, if they approve the cancellation of their shares by the requisite majorities at a General Meeting of Cumnock Coal. Xstrata Coal will then become the 100% owner of Cumnock Coal.

The proposal requires the transaction to be approved by Xstrata Coal, Itochu and 50% of the non-Xstrata and non-Itochu shareholders present in person or by proxy at the General Meeting of Cumnock Coal shareholders. A call option has been granted to Itochu, which becomes effective on Xstrata Coal owning 100% of the outstanding shares of Cumnock Coal. The option enables Itochu to buy back 10% of Cumnock No 1 Colliery Pty Limited under a joint venture agreement and to continue the marketing agreement currently in place between Cumnock Coal and Itochu.

Xstrata Coal Chief Executive, Peter Coates, said, "Xstrata Coal's proposal to acquire 100% of Cumnock Coal will provide Cumnock Coal's shareholders with the certainty of a risk-free cash payment for their shareholding now. The cash consideration of A\$0.57 per share is at a significant premium to the last trading price of A\$0.29 (Monday 16 July 2007) and provides Cumnock Coal shareholders with an opportunity to exit from a fairly illiquid stock at a time of historically high coal prices. The price reflects a fair valuation of the remaining life of mine and the residual resources.

"KPMG has prepared an independent assessment for the Independent Directors of Cumnock Coal whether the consideration of A\$0.57 is fair and reasonable. It assessed the fully diluted value of a Cumnock Coal ordinary share, inclusive of a premium for control, to be in the range of A\$0.42 - \$0.46 and has consequently advised the Independent Directors that the consideration of A\$0.57 is fair and reasonable to Cumnock Coal's non-associated shareholders."

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"The purchase of Cumnock Coal will benefit Xstrata Coal by consolidating its ownership interests in the Hunter Valley and remove governance and compliance costs associated with maintaining a separate publicly listed subsidiary for a small scale operation."

Cumnock Coal's only source of coal production is from the Cumnock No 1 mine, a single open cut mine in the Hunter Valley coalfields approximately 30 km from Singleton. Cumnock Coal is expected to exhaust its existing economic coal reserves from this pit and cease mining during the 2008 calendar year, although mining may be extended for another year if a satellite pit under the coal preparation plant is mined.

The Independent Directors of Cumnock Coal have recommended the proposal to Cumnock Coal shareholders in the absence of a superior offer.

A General Meeting for Cumnock Coal shareholders to consider and vote on the proposal will be convened in late August.

END

Further media information:

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