

Mining: opportunities and challenges

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This presentation contains references to "cost curves". A cost curve is a graphic representation in which the total production volume of a given commodity across the relevant industry is arranged on the basis of average unit costs of production from lowest to highest to permit comparisons of the relative cost positions of particular production sites, individual producers or groups of producers across the world or within a given country or region. Generally, a producer's position on a cost curve is described in terms of the particular percentile or quartile in which the production of a given plant or producer or group of producers appears. To construct cost curves, industry analysts compile information from a variety of sources, including reports made available by producers, site visits, personal contacts and trade publications. Although producers may participate to some extent in the process through which cost curves are constructed, they are typically unwilling to validate cost analyses directly because of commercial sensitivities. Inevitably, assumptions must be made by the analyst with respect to data that such analyst is unable to obtain and judgment must be brought to bear in the case of virtually all data, however obtained. Moreover, all cost curves embody a number of significant assumptions with respect to exchange rates and other variables. In summary, the manner in which cost curves are constructed means that they have a number of significant inherent limitations. Notwithstanding their shortcomings, independently produced cost curves are widely used in the industries in which Xstrata operate.

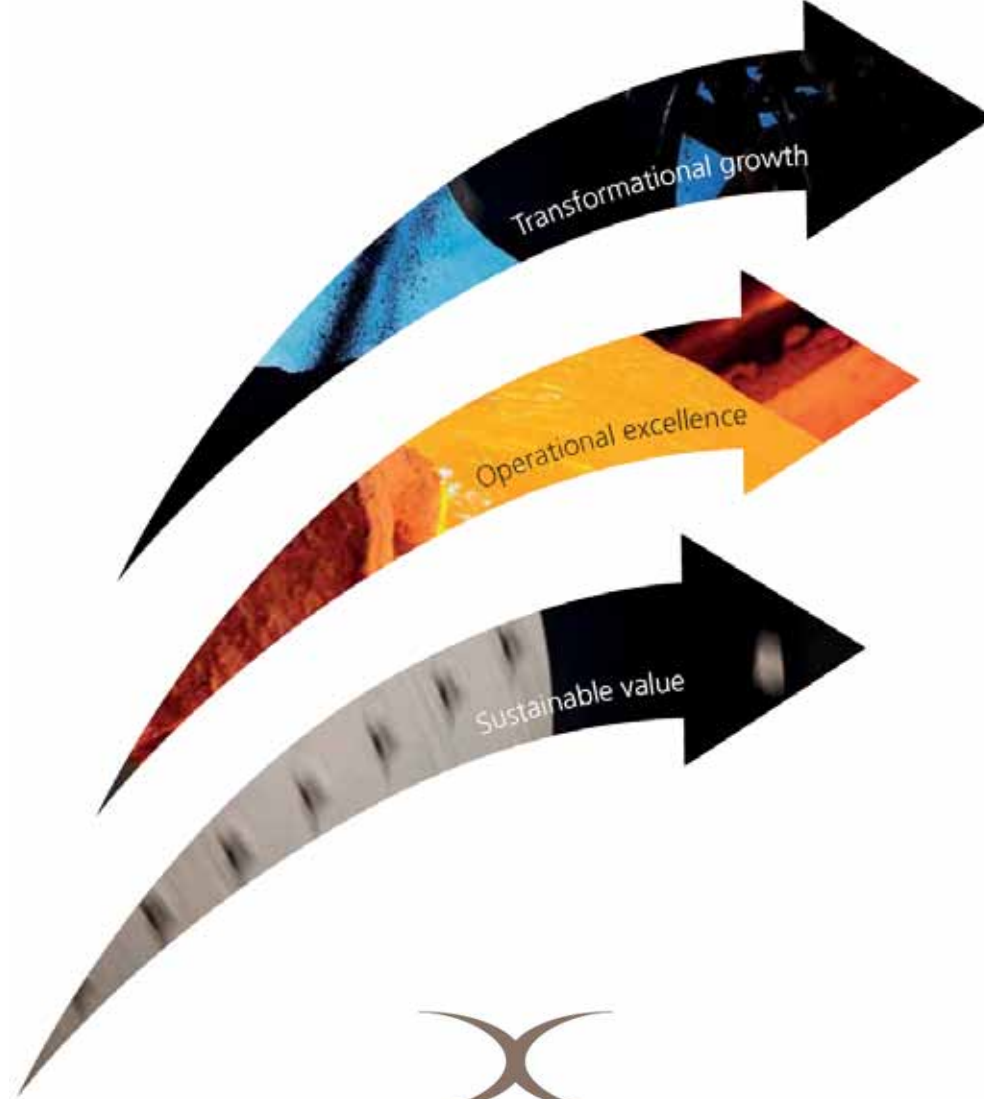
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Agenda

- § A secular trend
- § An industry transformed
- § Mining's contribution to Australia
- § Challenges ahead
- § Conclusion

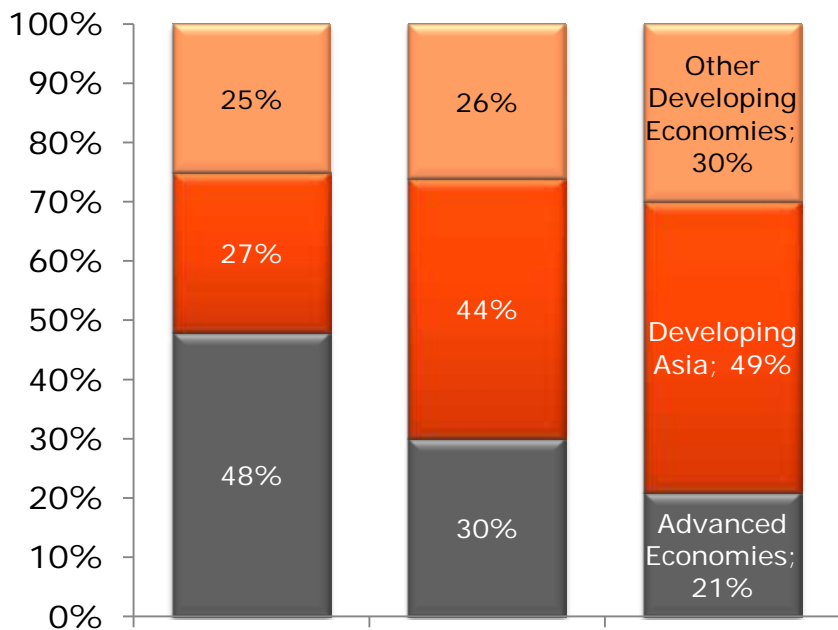


A secular trend

Multi-decade secular change...

Contribution to Global GDP

GDP in 2010 PPP \$US



Developing Economies as of total:

2010

52%

2030

70%

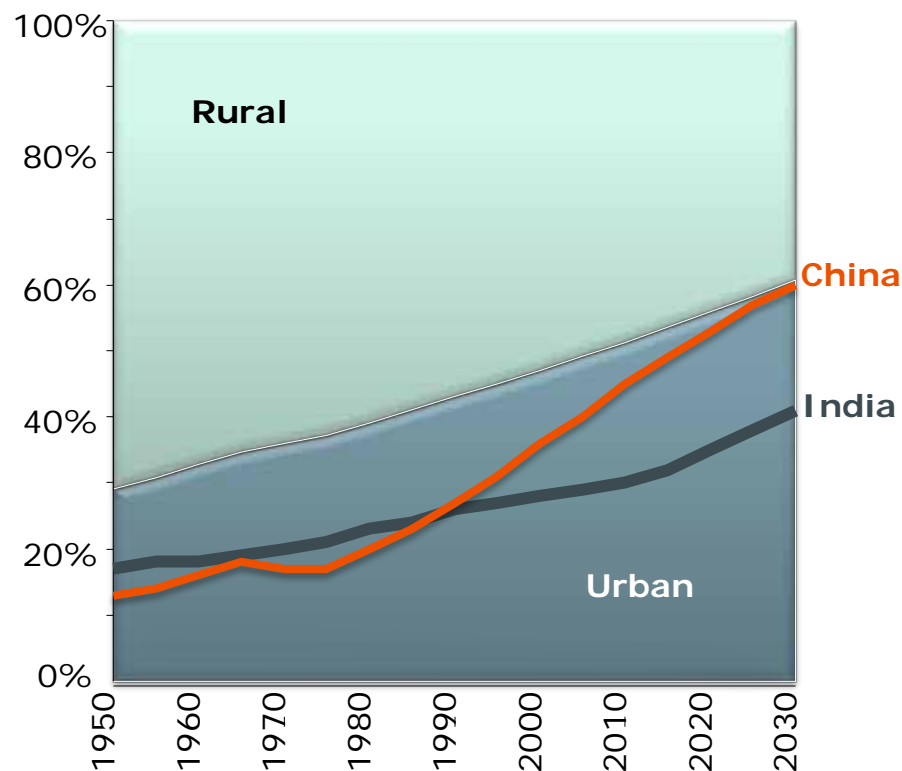
2050

79%

Developing economies are expected to account for almost 80% of global GDP by 2050

Global urban migration

% urbanised

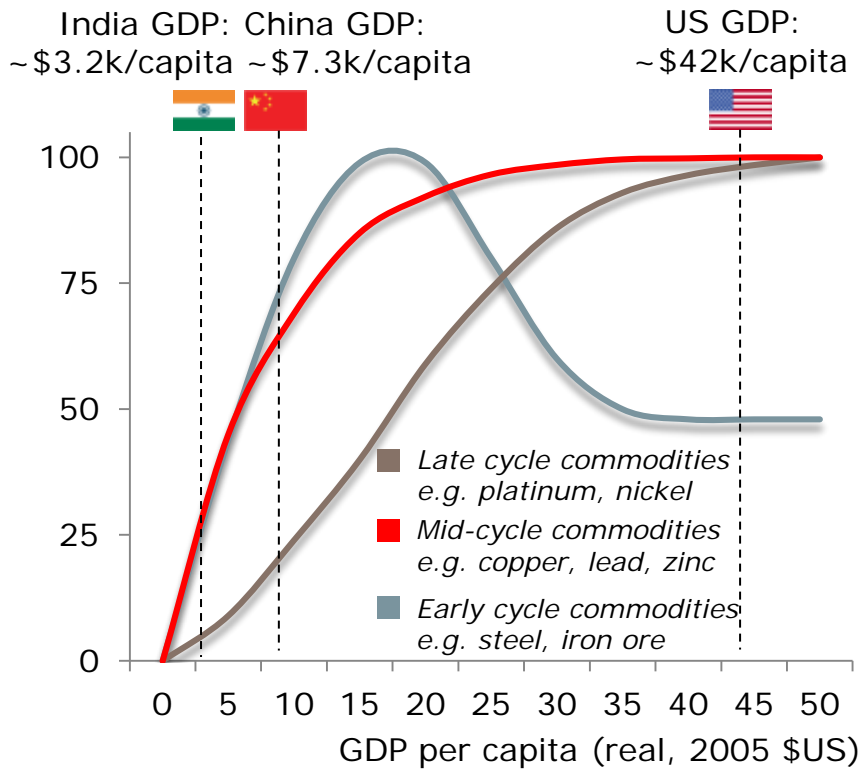


China will have 221 one million plus population cities by 2025 – compared to Europe with 35 today

...driving a structural shift in commodity demand

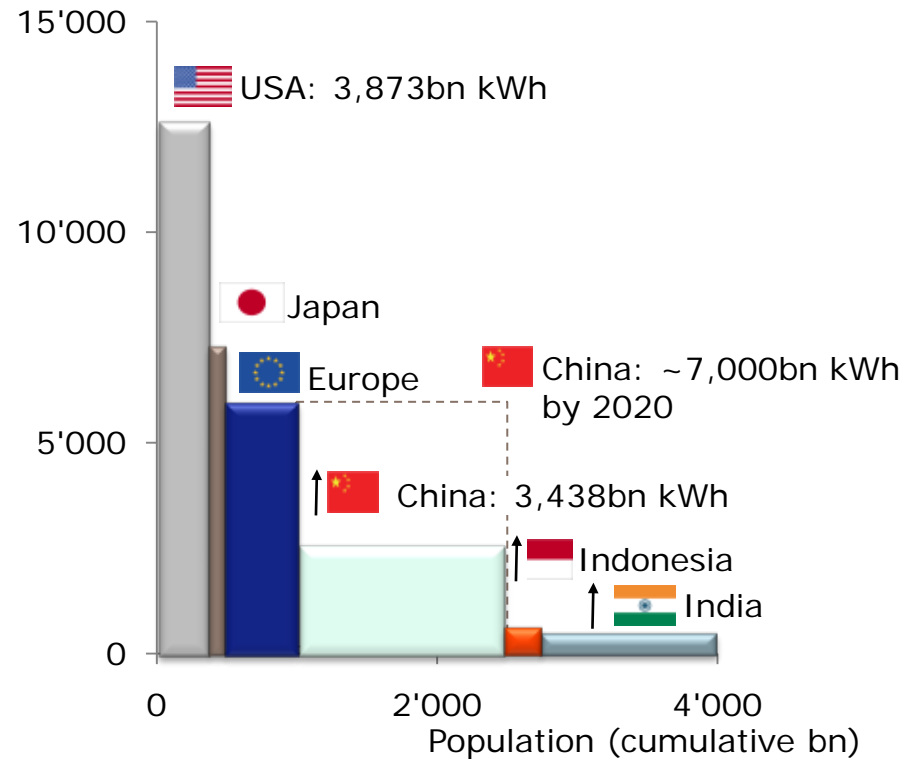
Growing populous nations have a multiplier effect on commodity demand

Commodity Intensity¹



Increasing intensities driven by a demand shift for commodities in emerging markets

Energy consumption per capita (kWh/capita)



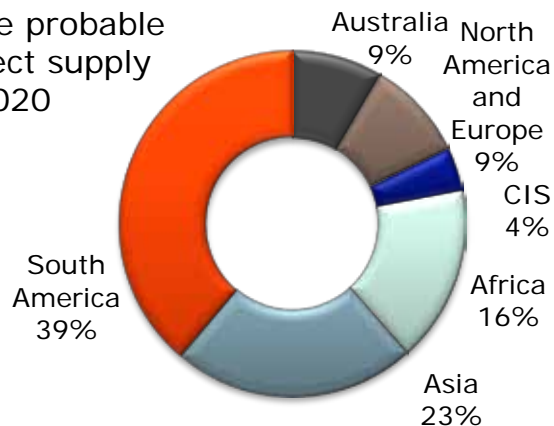
China's per capita energy consumption is expected to double by 2020

Source: IMF, USGS, CIA Factbook
Note: ¹ Stylised intensity curves based on developed countries, Indexed to 100 at maximum

Commodity supply continues to be constrained

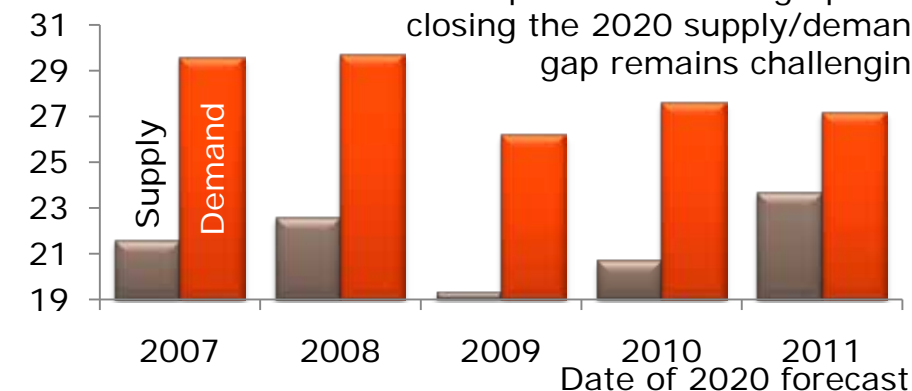
Geographic origin of new copper supply

Cumulative probable mine project supply 2011 to 2020

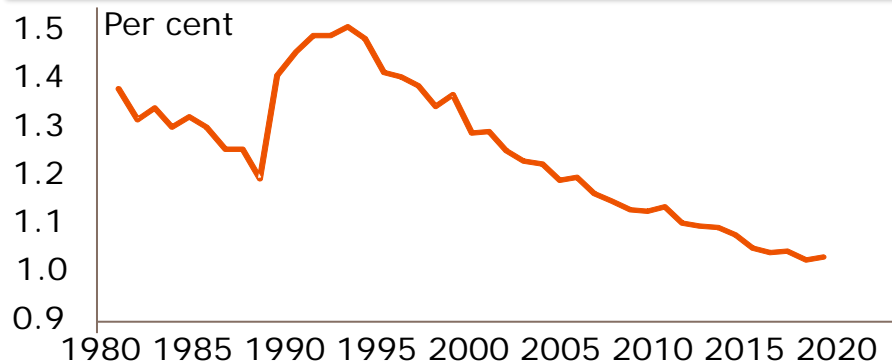


2020 Copper supply/demand forecasts

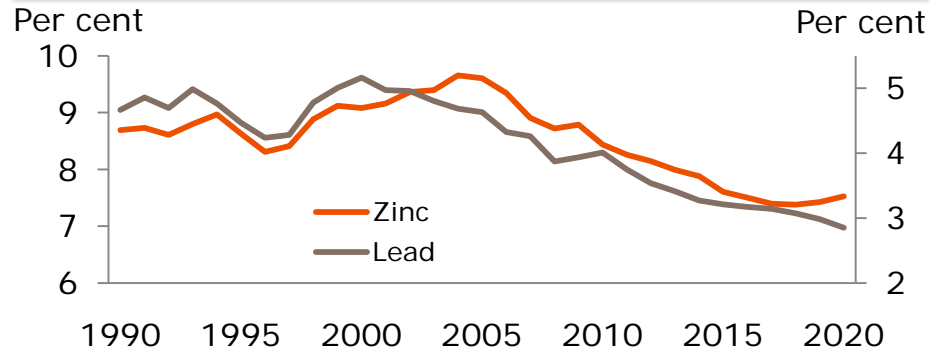
Mt Cu



Copper industry grade decline



Zinc/lead industry grade decline

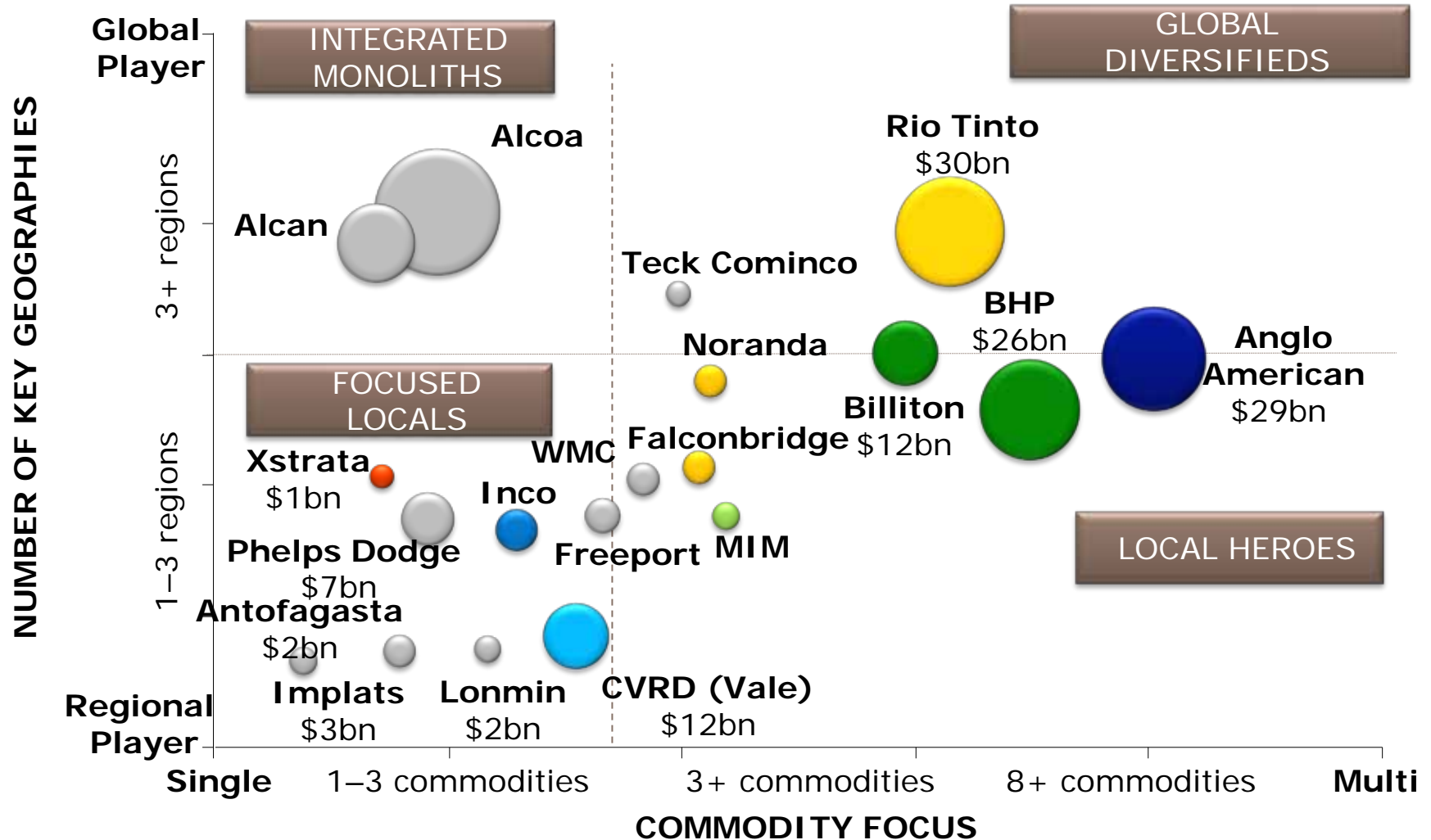


More than 80% of new copper supply is from emerging markets with more complex and challenging environments suffering from a lack of infrastructure to sovereign risk issues

A decade ago, the industry was fragmented with no clear winning business model



Global mining and metals industry - 2001

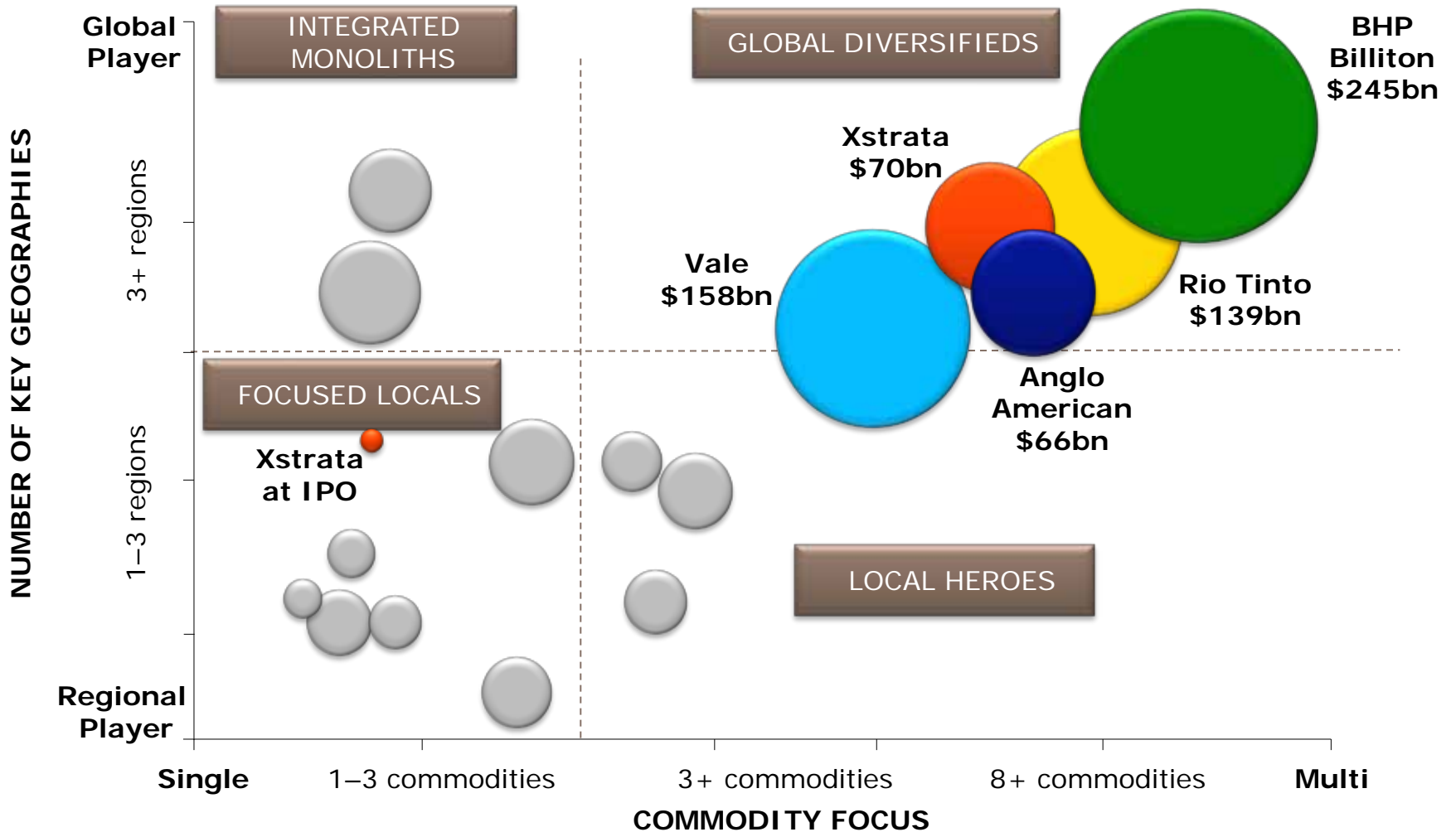


Source: Bubble sizes represent market capitalisation as 1 January 2001

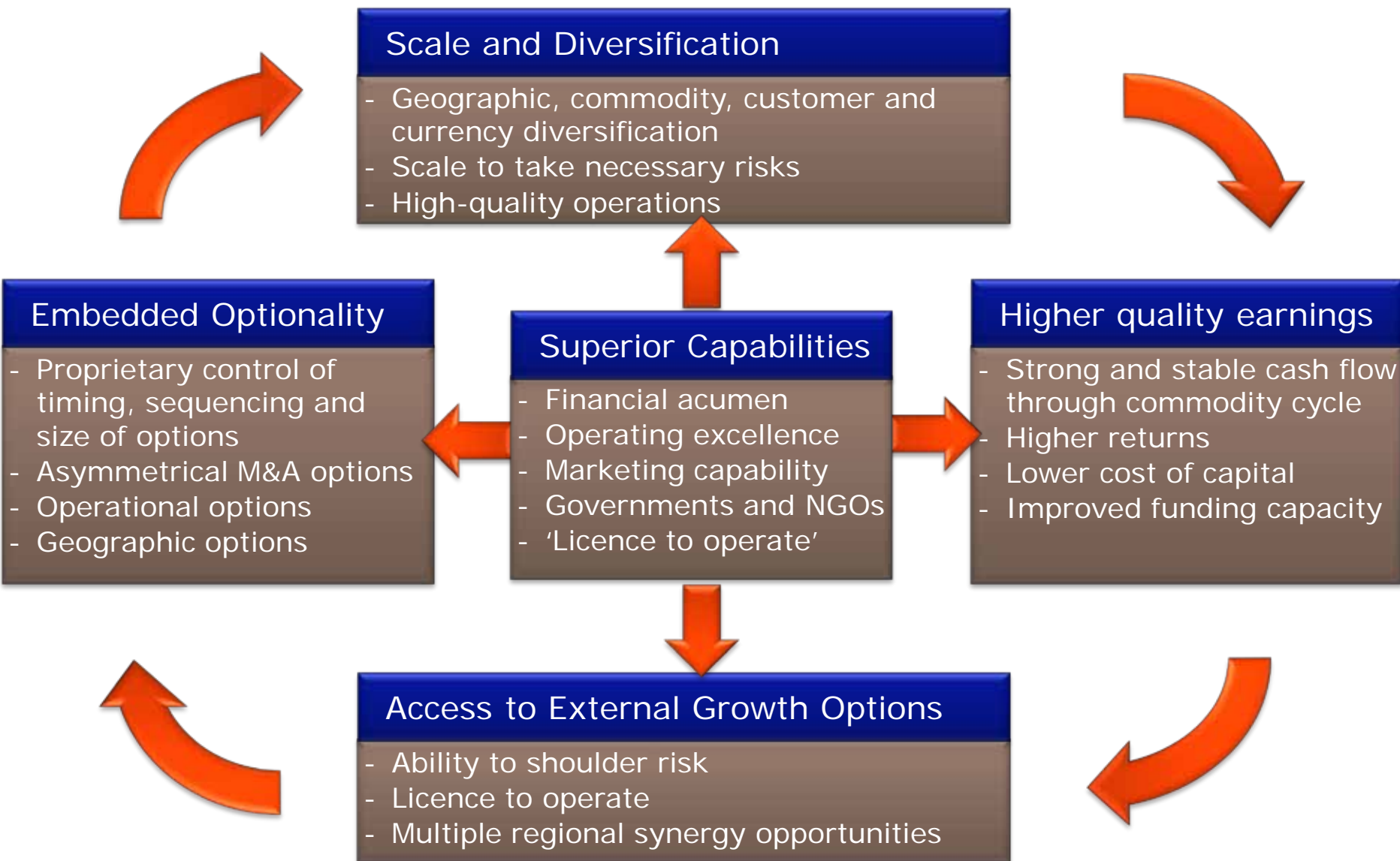
Today mining is consolidated, with the Diversified Model proving best positioned to compete into the future



Global mining and metals industry – 2011*



The Virtuous Circle

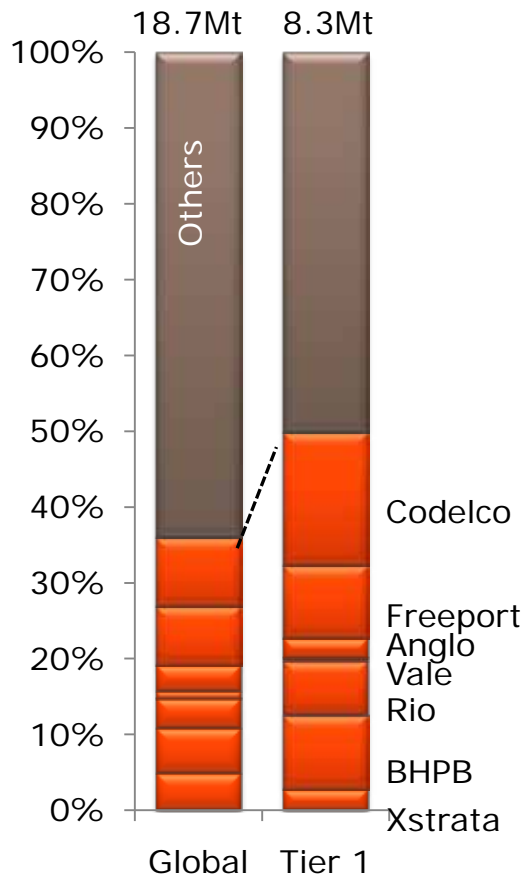


Mining majors manage the majority of large, low cost assets



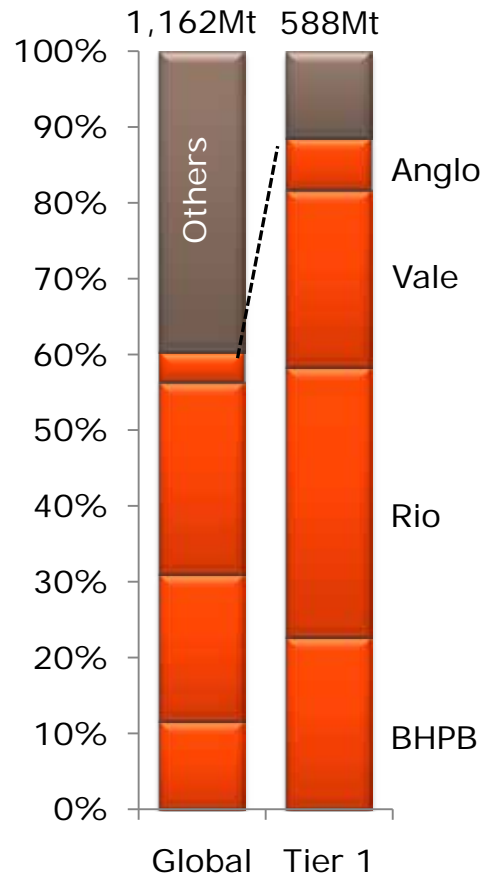
Copper

Mined Cu production (2010)



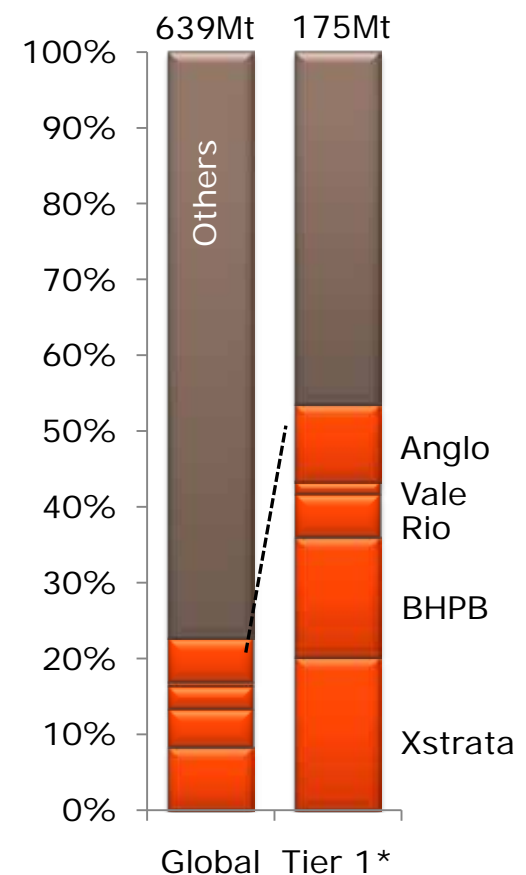
Iron Ore


Production (2010)



Thermal Coal

Thermal Coal exports (2010)



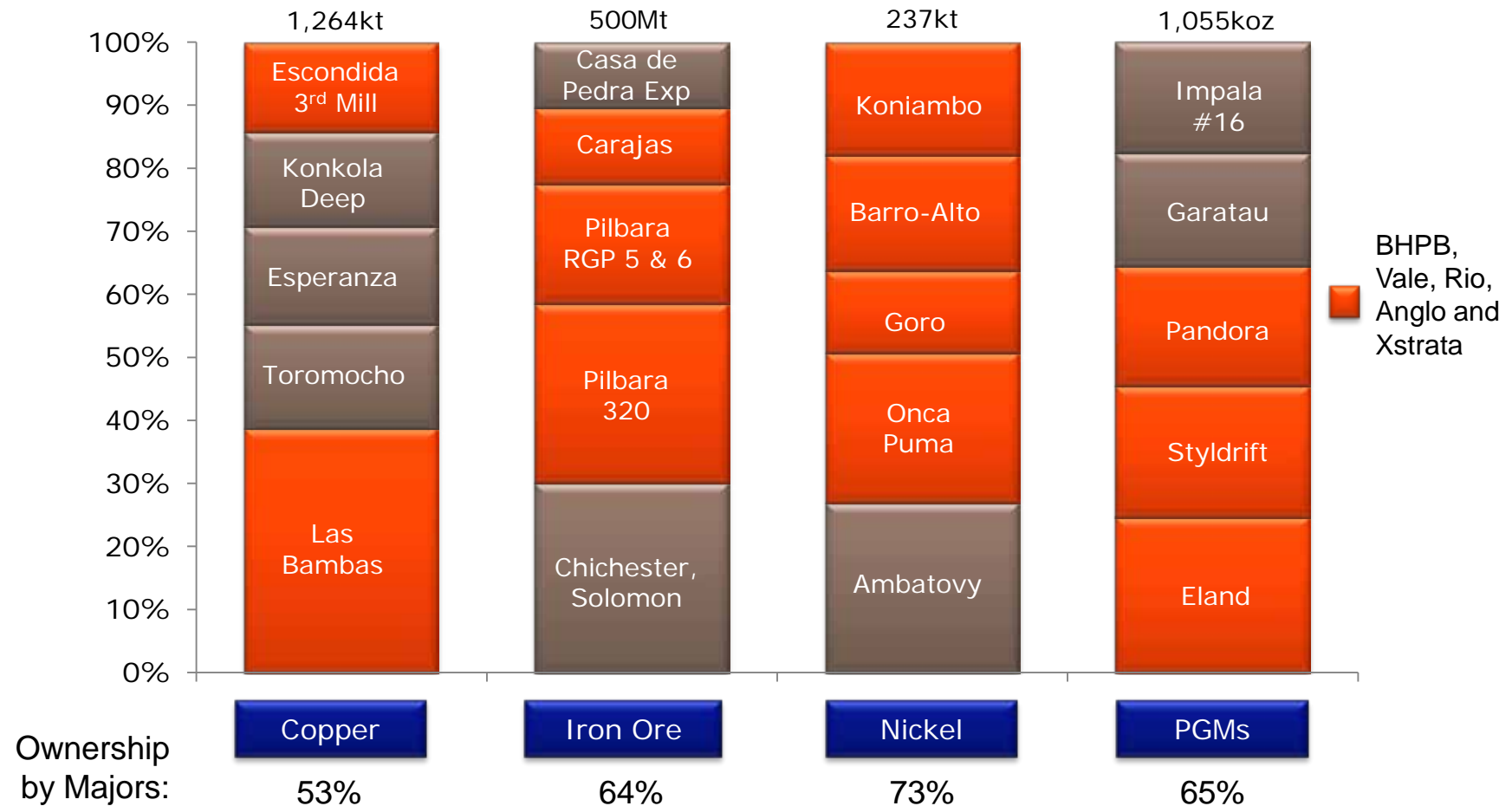
 Asset managed by the major mining companies

Note: Tier 1 is defined as being in first half of global cost ranked by C1 cost, and upper quartile of the world's mines ranked by output
 *Tier 1 is as production >1.5Mtpa and margin of >USD30 in 2010
 Source: Wood Mackenzie (2010), Metalytics (2010), Xstrata estimates

Majors own most major growth options across diverse geographic regions



Five largest mine projects by output in 2015



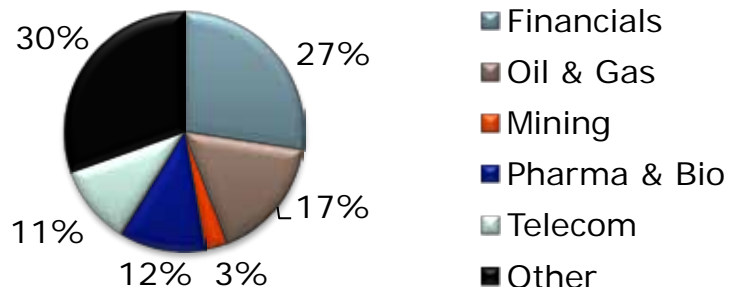
Note: 5 largest projects (greenfield and brownfield) by output in 2015. Copper: "highly probable" or "probable" in Brook Hunt, including projects ramping up in last 6 months. Nickel: CRU Group Nickel Quarterly; Iron Ore: Metalytics; PGM: Xstrata Estimates. Internal project pipeline assessment made for all Xstrata projects. Source: Brook Hunt (2011 Q1); Wood Mackenzie; Metalytics; CRU Group; Xstrata estimates

Miners are amongst the world's leading companies and a core holding for investors

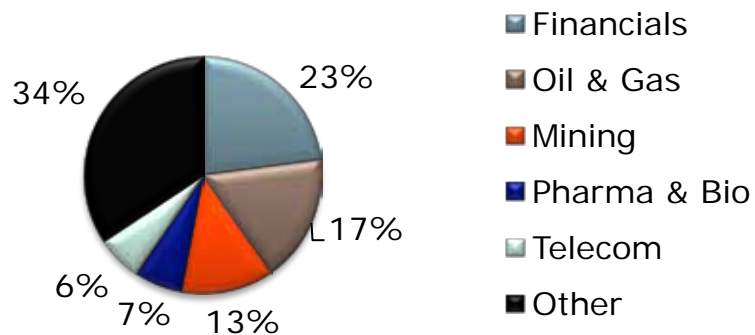


Mining as a % of UK equity markets

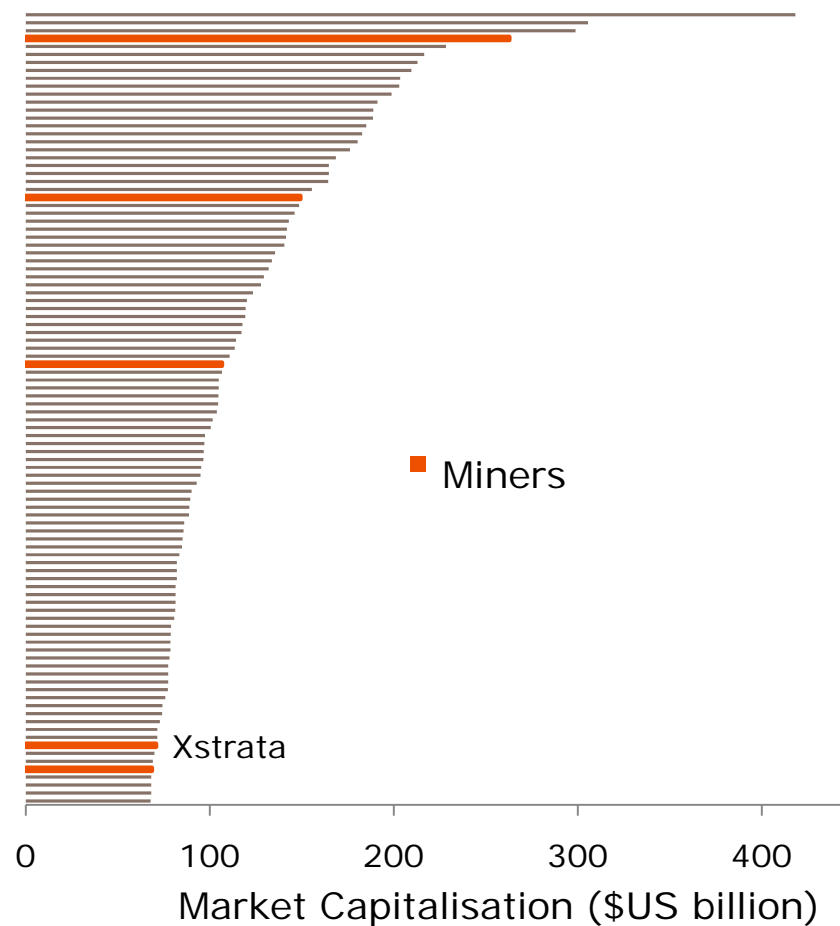
2002



2011



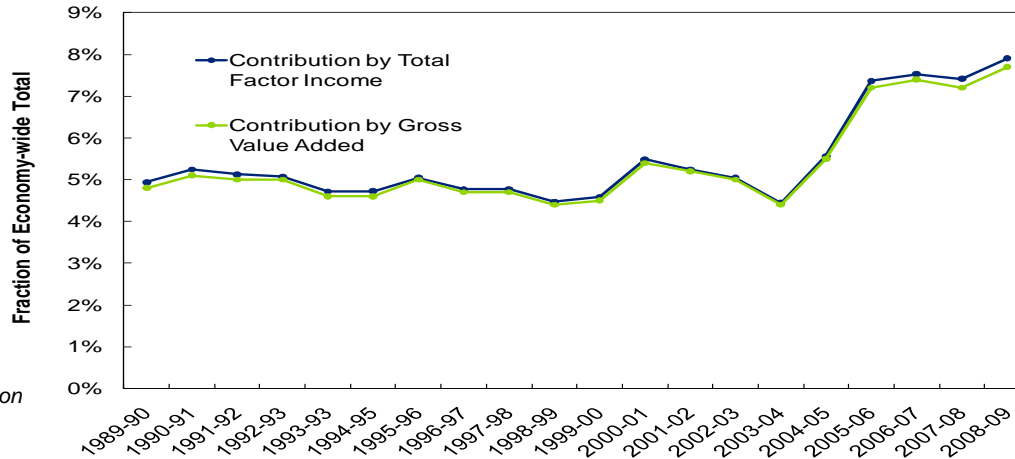
Market cap of world's largest 100 companies



Mining makes a major (and growing) contribution to Australia's prosperity



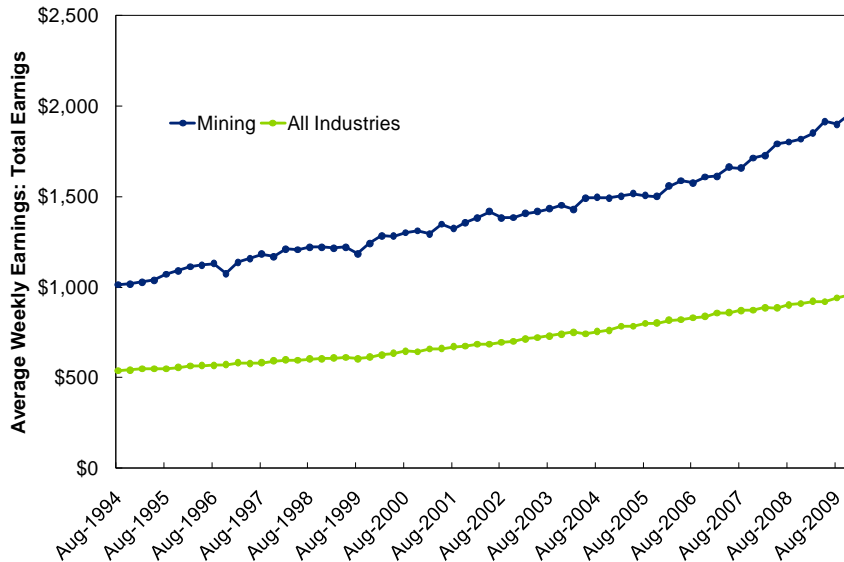
Mining sector contribution to Australian economy



Charts from *The Economic Contribution of the Australian Mining Industry*, Deloitte for the MCA, 2010

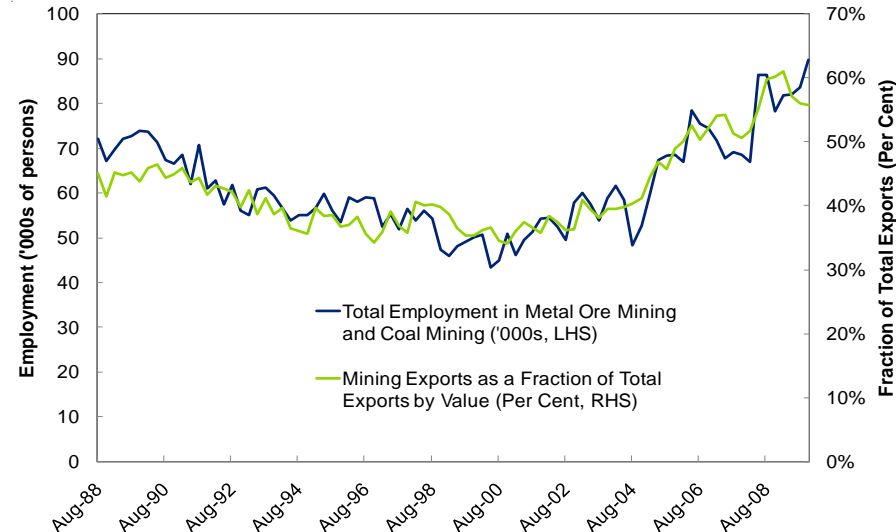
Source: Australian Bureau of Statistics

Average Weekly Earnings, Mining Sector and All other industries



Source: Australian Bureau of Statistics

Employment in Metal Ore and Coal Mining and Mining's Export Share

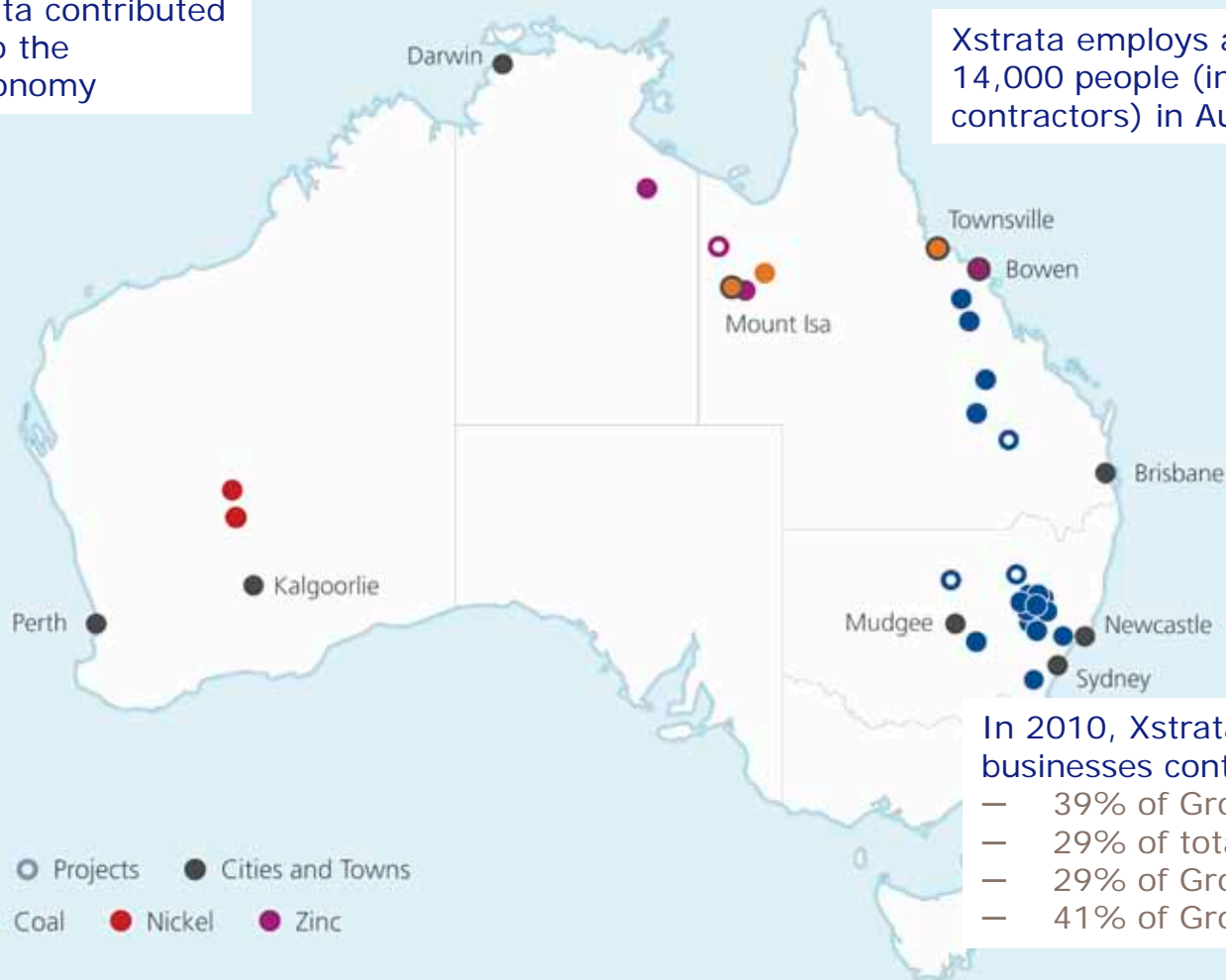


Source: Australian Bureau of Statistics, Feb 2010. ABARE, *Australian Mineral Statistics*

Xstrata in Australia

In 2010 Xstrata contributed AUD\$8.6bn to the Australian economy

Xstrata employs around 14,000 people (including contractors) in Australia



In 2010, Xstrata's Australian businesses contributed:

- 39% of Group EBITDA
- 29% of total assets
- 29% of Group revenue
- 41% of Group capex

AUD\$10bn of Australian growth projects are in feasibility or implementation

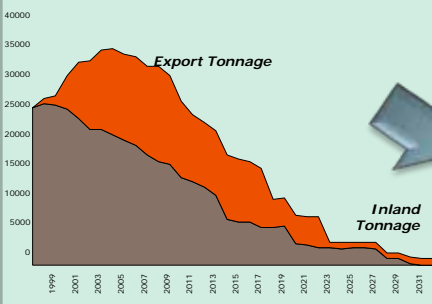
More than ever, existing miners must "run hard to stand still"



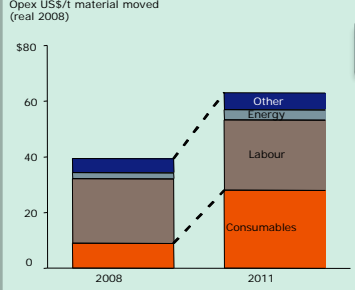
Bridging the strategic gap

Recent capex announcements

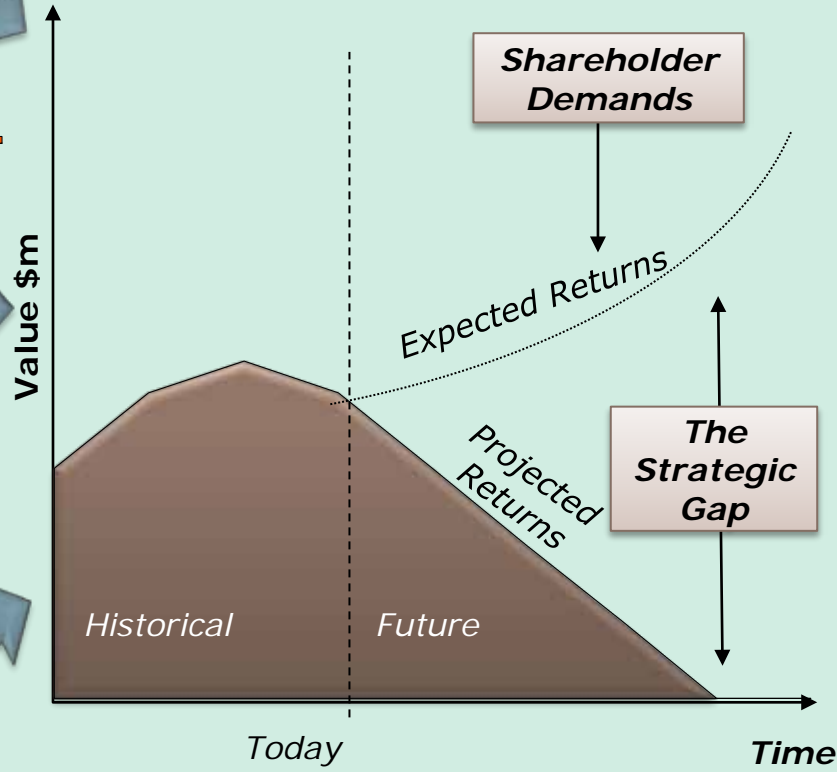
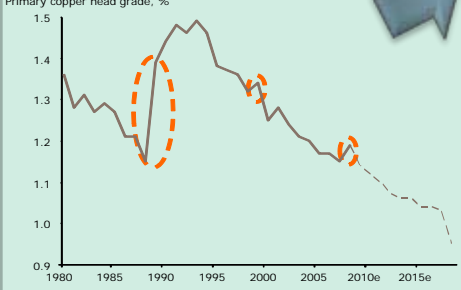
Depleting reserves



Increasing costs



Declining grades



Xstrata

- \$21bn approved or soon-to-be-approved projects

Anglo American

- \$16bn approved for next 3 years

BHP Billiton

- \$15bn in 2011

Rio Tinto

- \$12bn major capital project approvals in 2010/11

Source: Company data

Mining industry faces increasing complexity, competition and costs



| Emerging Challenges | Examples and Potential Impact |
|--|---|
| Increasing complexity of public policy | <ul style="list-style-type: none"> • Windfall taxes, royalties, carried interest, allocation of licences, mining licence reviews, etc. Potential for unintended, damaging consequences and loss of relative competitiveness. |
| Constrained inputs (especially for project development) | <ul style="list-style-type: none"> • Key engineering and project management skills, fabrication capacity, contractors, etc. – project delays and increased costs |
| Higher input costs | <ul style="list-style-type: none"> • Energy, fuel, steel, explosives, labour and contractors, strong producer currencies – higher long-term costs |
| Water shortage | <ul style="list-style-type: none"> • Potential competition with communities for water in arid areas, cost of providing alternatives (e.g. desalination) |
| Social licence to operate | <ul style="list-style-type: none"> • Rising community expectations, NGO activity - delayed mining expansion, cost of compliance, focus on community involvement |
| Growing legislation/regulation | <ul style="list-style-type: none"> • Increased legislation across the board – UK Bribery Act, transparency initiatives, anti-trust, etc., growing organisation complexity and cost of compliance |
| Environmental/Climate Change regulation impacts | <ul style="list-style-type: none"> • Growing complexity, legislation by country rather than global framework, increased costs, impact on competitiveness |
| Competition for access to new resources | <ul style="list-style-type: none"> • New 'strategic' and commercial acquirers - higher price for control, scarce resources |

Climate change principles

- Industry has a valid and important role to play in:
 - Limiting greenhouse gas emissions
 - Investing in low emissions baseload technology
 - Participating as a valid and important interlocutor in policy development
- A consensus is emerging on sound principles for climate change policy:
 - Clear, predictable and long-term price on greenhouse gas emissions
 - Single objective to reduce emissions with revenues raised applied to initiatives to support the transition to a low-carbon economy
 - Protection of trade-exposed industries; avoid 'carbon leakage'
 - Gradual, predictable legislation introduced at an appropriate level

Conclusion

- A secular shift in demand for commodities is underway
- Mining industry has consolidated giving rise to global, diversified miners with the ability to allocate capital across several jurisdictions
- Significant challenges remain for the industry, including increasingly complex legislation
- Industry has a legitimate and important role to play in policy development