

Xstrata South Africa

Presentation to the Parliamentary Portfolio Committee

9 November 2011



Agenda

Overview of Xstrata South Africa

Xstrata's progress and commitment to transformation, per each element of the Revised Mining Charter

- Ownership
- Procurement
- Enterprise development
- Employment equity
- HR development
- Mine community development
- Sustainable development
- Beneficiation

Xstrata's ongoing commitment to growth and job creation in South Africa

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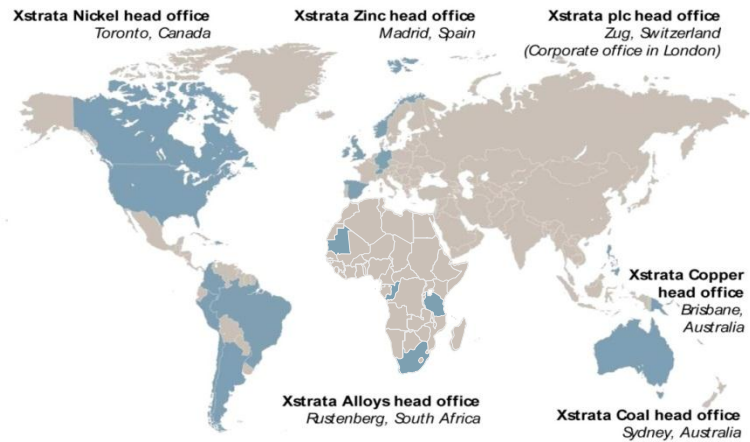
Xstrata's ongoing commitment to growth and job creation in South Africa

Brief overview of Xstrata's operations

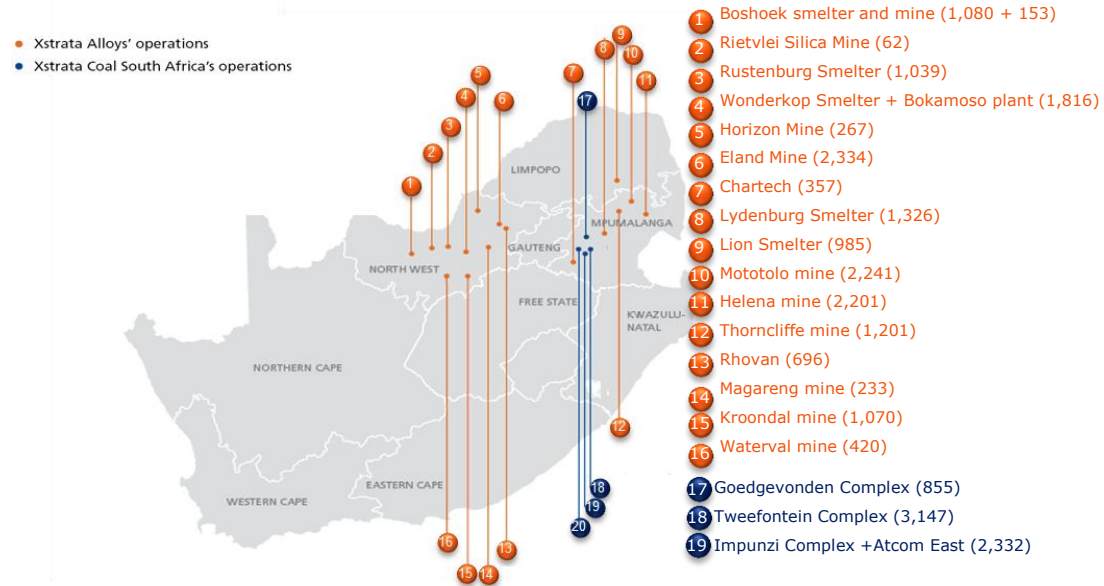
A leading global diversified mining company with a significant presence in South Africa



Xstrata around the world

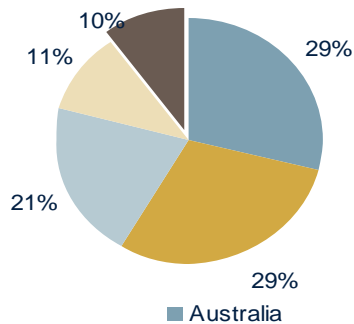


Xstrata SA operations (and number of employees per operation)

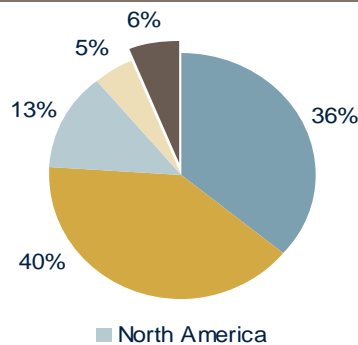


- Listed on the London Stock Exchange in 2002
- Over 70,000 employees in 20 countries
- Major producer of base metals, bulks and precious metals
- Significant and long-standing presence in South Africa for over a decade

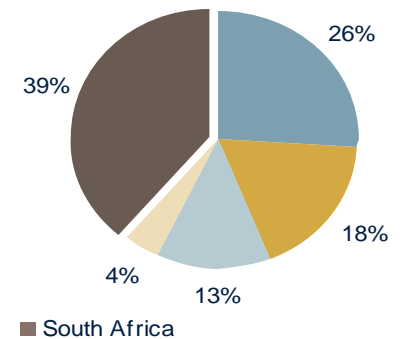
Revenue by region (2010)



EBIT by region (2010)



Employees by region (incl. contractors)



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- **Procurement**
- **Enterprise development**
- **Employment equity**
- **HR development**
- **Mine community development**
- **Sustainable development**
- **Beneficiation**

Xstrata's ongoing commitment to growth and job creation in South Africa

Xstrata transformation progress against the Mining Charter

Xstrata has played a leading role in advancing sustainable empowerment with community and broad based involvement and is fully compliant in meeting the Mining Charter targets



	Measure/Category	Targets					Alloys 2010 Progress	Coal 2010 Progress
		2010	2011	2012	2013	2014		
Ownership	Economic Participation	15%				26%	✓	✓
	Full Shareholder Rights	15%				26%	✓	✓
Procurement and Enterprise Development	Procurement of Capital Goods	5%	10%	20%	30%	40%	50%	38.2%
	Procurement of Services	30%	40%	50%	60%	70%	32%	53.6%
	Procurement of Consumables	10%	15%	25%	40%	50%	41%	41.3%
Employment Equity	Top Management	20%	25%	30%	35%	40%	37.5%	17.6%
	Senior Management	20%	25%	30%	35%	40%	23.0%	29.6%
	Middle Management	30%	35%	40%	40%	40%	50.4%	51.8%
	Junior Management	40%	40%	40%	40%	40%	45.8%	55.7%
	Core and Critical Skills	15%	20%	30%	35%	40%	82.0%	87.7%
Human Resource Development	HR Development expenditures as percentage of total annual payroll	3%	3.5%	4.0%	4.5%	5.0%	3%	5.9%
Mine Community Development	Implement approved community projects						✓ 100%	✓ 100%
Sustainable Development and Growth	Environmental Management	Annual Progress achieved against approved EMPs					✓ 100%	✓ 94.8%
	Health and Safety Performance	Annual progress against commitments in tripartite action plan					✓ 100%	✓ 100%
	Utilise SA based research facilities	Baseline	25%	50%	75%	100%	✓ 100%	✓ 100%
Beneficiation	Additional production local value addition	As per beneficiation strategy					N/A	N/A
Housing and Living Conditions	% Reduction of occupancy rate	Baseline	25%	50%	75%	100%	N/A	N/A
	% Conversion of hostels into family units	Baseline	25%	50%	75%	100%	N/A	N/A

Ownership – overview of empowerment transactions

With the implementation of the ESOP, Xstrata has achieved the 2014 minimum 26% ownership target across the entire value chain of all of its businesses in South Africa



Operation	Date	Interest	BEE partner (s)
Xstrata South Africa ESOP	November 2011	3%	Permanent A-C band employees
Alloys			
Xstrata Merafe Chrome PSV	July 2004	20.5% of PSV (option to increase to 26%)	Merafe Resources (Royal Bafokeng) - broad-based
Mototolo Platinum	July 2006	26% of JV	Kagiso - broad-based
Eland Platinum	December 2007	26% of JV	Ngazana
Xstrata Bakwena Vanadium PSV	July 2007	26% of PSV	Bakwena-Ba-Mogopa - communities
Coal division			
Xstrata Coal	July 2006 September 2006	ARM – 10% ARM Coal – 20%	ARM
Goedgevonden	July 2006	ARM Coal – 51%	ARM

Xstrata's
empowerment
transactions

- Xstrata's empowerment partners comprise a mix of BEE partners
 - Employees, communities, broad-based groups and entrepreneurs
 - Save for the ESOP, transactions concluded at an asset level
- All of Xstrata's partners actively participate in the business
 - Participation in management committees and boards with full voting rights
- Robust funding and transaction structures, with meaningful value creation for all partners
 - Significant facilitation provided - discounting, Xstrata funding on favourable terms, project guarantees
 - Cash flows from inception, with R2.1bn paid out to date

Ownership – overview of ESOP



On 2 November 2011, agreement was reached between the DMR, unions and Xstrata to implement a landmark R2.6bn ESOP that will benefit almost 12,000 employees for the full life of Xstrata's SA operations

■ Rationale for introducing the ESOP

- Align interests of Xstrata and its employees over the life of operations
- Transfer meaningful value to our employees, with access to cash flows from inception

■ Key features

	Industry*	Xstrata
% of share capital	2.2%	3%
Total face value	R1.7bn	c.R2.6bn
Term	7.8 years	Evergreen
Participants	All A to C	All A to C
Economic cost	c.R0.75bn	c.R1.6bn
Economic cost as a % of market cap	0.8%	c.1.7%

* - Represents average of 6 peer group ESOPs concluded in the mining industry since 2006

■ No downside financial risk exposure for beneficiaries – scheme can never be 'under water'

- Fully vendor-financed interest free loan with no fixed repayment term
- No capital required from beneficiaries at any point

■ Employee ownership held through an ESOP Trust, controlled by beneficiary appointed trustees

- ESOP Trust has right to appoint one Xstrata South Africa board member

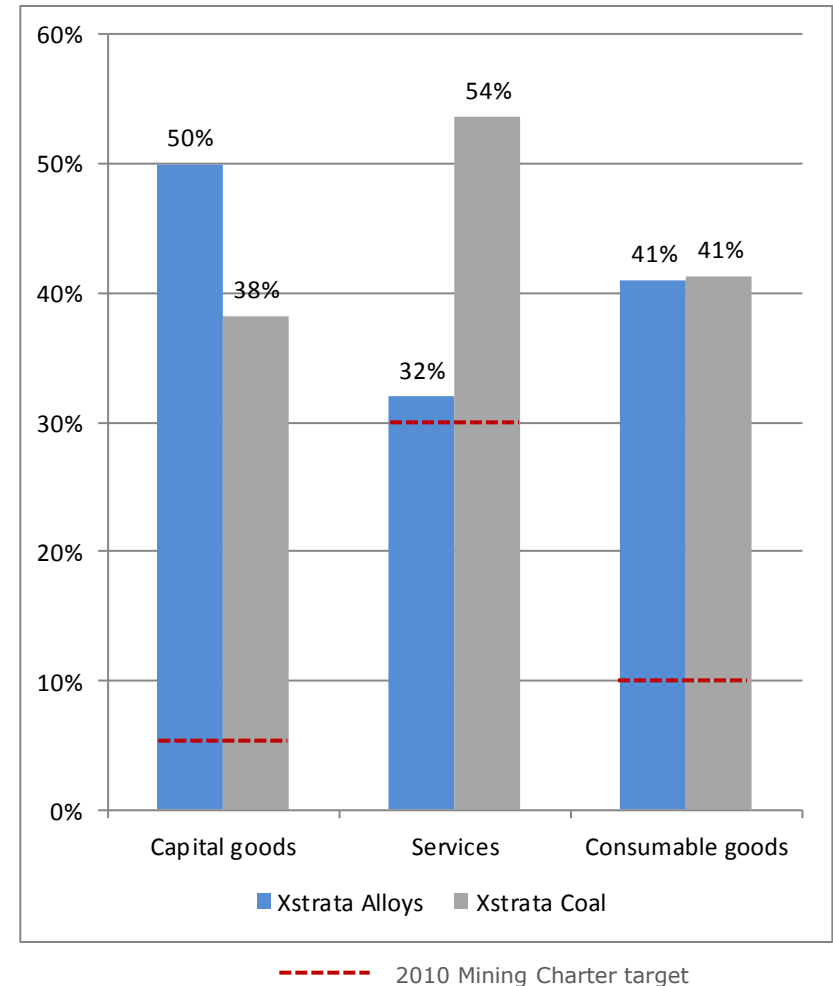
Procurement

Xstrata Alloys and Xstrata Coal have exceeded the 2010 compliance targets for procurement, and are well on track to achieve the 2014 targets



- c.40% of total discretionary spend from HDSA suppliers amounting to R7.3bn in 2010
 - Xstrata Alloys: 38% (R4.7bn)
 - Xstrata Coal : 43% (R2.6bn)
- Significant facilitation afforded to HDSA suppliers
 - Non-HDSA suppliers encouraged to partner with HDSA companies (through ring-fencing of contracts)
 - Larger suppliers encouraged to permanently partner with local HDSA suppliers and facilitate skills transfer
 - Soft loans on favourable terms
 - Business development assistance

Xstrata HDSA Procurement vs Mining Charter targets



Enterprise development

Xstrata's enterprise development strategy is aimed at assisting members of the communities to establish small to medium sized enterprises and helping smaller companies to become suppliers to Xstrata



- Xstrata assists local HDSA businesses in order to qualify as suppliers
 - Loans with preferential terms and start-up / bridging capital
 - Training and knowledge skills transfer
 - Ring-fencing of long term major contracts for HDSA suppliers
- Innovative, flagship projects facilitate sustainable enterprise development in key communities

Mining Supplier Park, Steelpoort, Limpopo

- Total commitment: R65m
- Development of local SMMEs to supply heavy current and mechanical equipment to the mining industry on the eastern limb
- 1,000 jobs to be created (phase 1)



Sebenzana Farming Project, Emalahleni, Mpumalanga

- Commercial farming training facility developed
- Total commitment: R11m plus training farm revenue
- Partnership with Dept. of Rural Development to develop commercial farmers in host communities (R15m – 2011)
- 15 farmers developed/supported – 9 more in 2012 intake
- c.150 jobs created



Employment equity

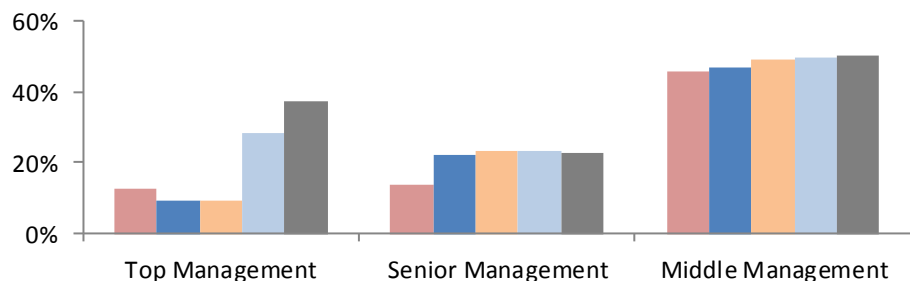
2010 workplace diversity targets largely achieved, with plans in place to achieve 2014 targets



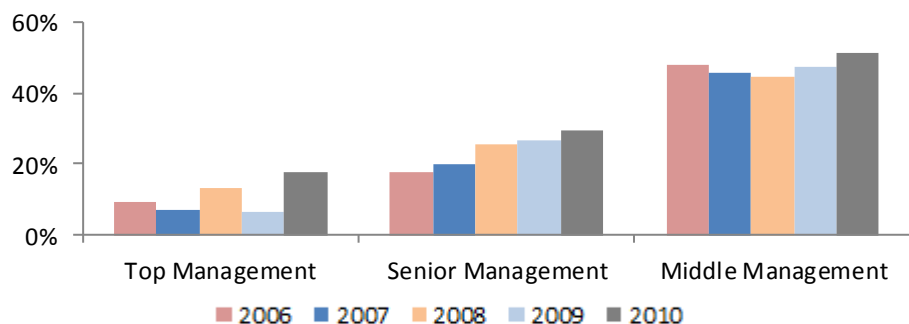
Development programmes in place to increase:

- HDSA staff in top and senior management
- Female staff (currently 15.6% of total workforce and 11.9% of total management)
- HDSA staff in engineering

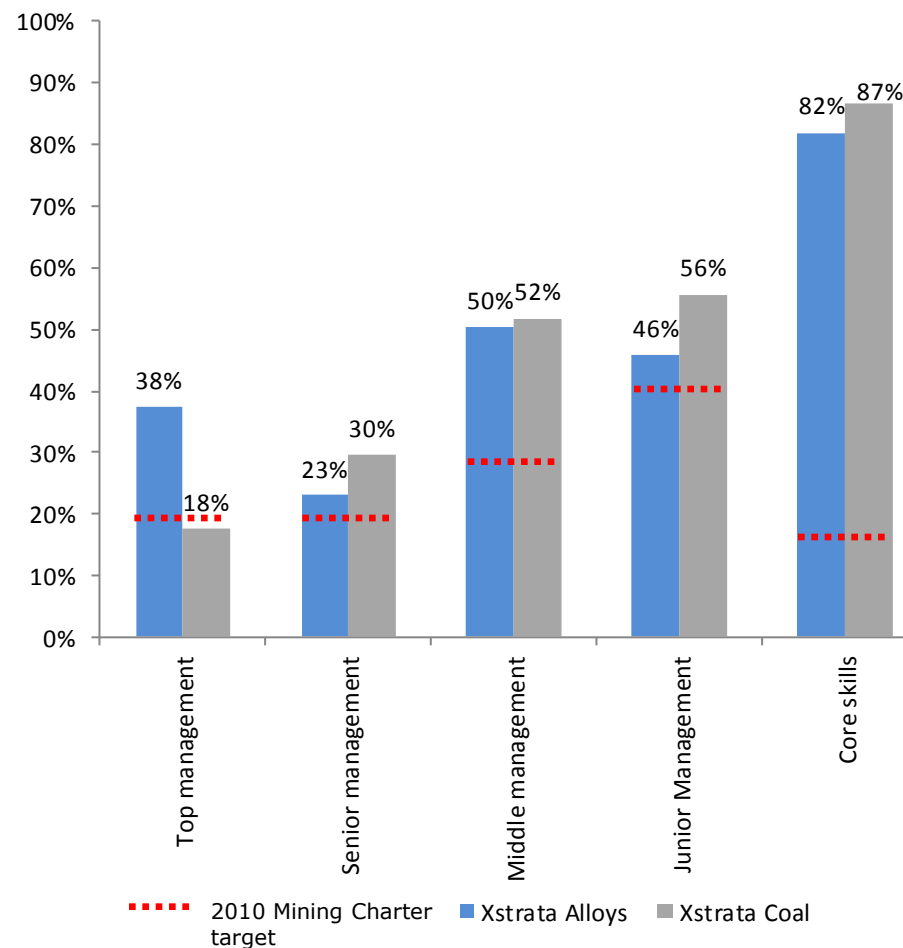
Xstrata Alloys employment equity progress (2006 - 2010)



Xstrata Coal employment equity progress (2006 - 2010)



Xstrata employment equity vs Mining Charter targets



Human resource development

Xstrata's commitment to human resource development exceeds the 2010 Mining Charter target



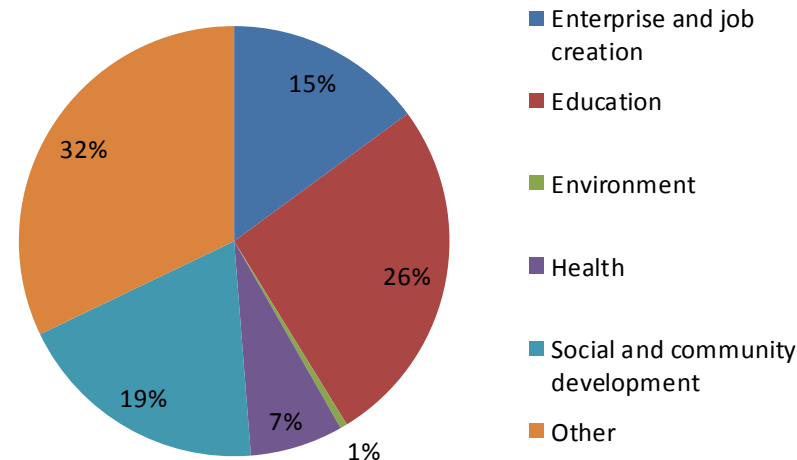
- c.R133m spent on human resource development in 2010 (excluding skills development levies)
 - Xstrata Alloys spent 3% of payroll (R66m)
 - Xstrata Coal spent 5.9% of payroll (R67m)
 - 100% increase in total training hours amounting to 41.7 hours per employee (incl. contractors)
 - Training provided on environmental, health, human rights, safety and professional development / mentorship
- Xstrata remains committed to skills development for its employees and communities
 - R30m skills training centres built in Mpumalanga and Limpopo
 - Steelpoort Artisan Training Centre
 - Kwa-Guqa Learning Centre (to develop communities' literacy and IT skills)
 - Additional skills development initiatives focusing on youth and learning
 - Apprenticeships / learnerships: 4,443
 - Bursaries: 863
 - Graduate trainees: 507
 - Student work placements: 991

Mine community development

Over R500m invested in social development initiatives since 2006, exceeding the requirements under Xstrata's Social & Labour Plans ("SLP")



CSI expenditure by type (2010) in addition to SLPs



- c.R154m spent on community projects in 2010

- Ongoing key community initiatives include:

- **Education**

- Kwa-Guqa Learning Centre for adults in Emalahleni
- E-Skills4Teachers teacher training in Rustenburg
- Ukoqonda Tertiary Bridging Programme in Rustenburg
- Teacher training and WholeSchool Programme in Mpumalanga
- Eco-Schools Programme for environmental and conservation training in Mpumalanga
- Provision of classroom building and equipment

- **Health**

- 9 HIV/AIDS wellness clinics, treating over 35,000 households in Mpumalanga
- Partnering Government to develop a 24-hour health care centre in Kriel to treat 15,000 people
- Two hospices and a trauma centre in Rustenburg

- **Community services centres**

- R22m spent on multipurpose community centres in Limpopo and Mpumalanga

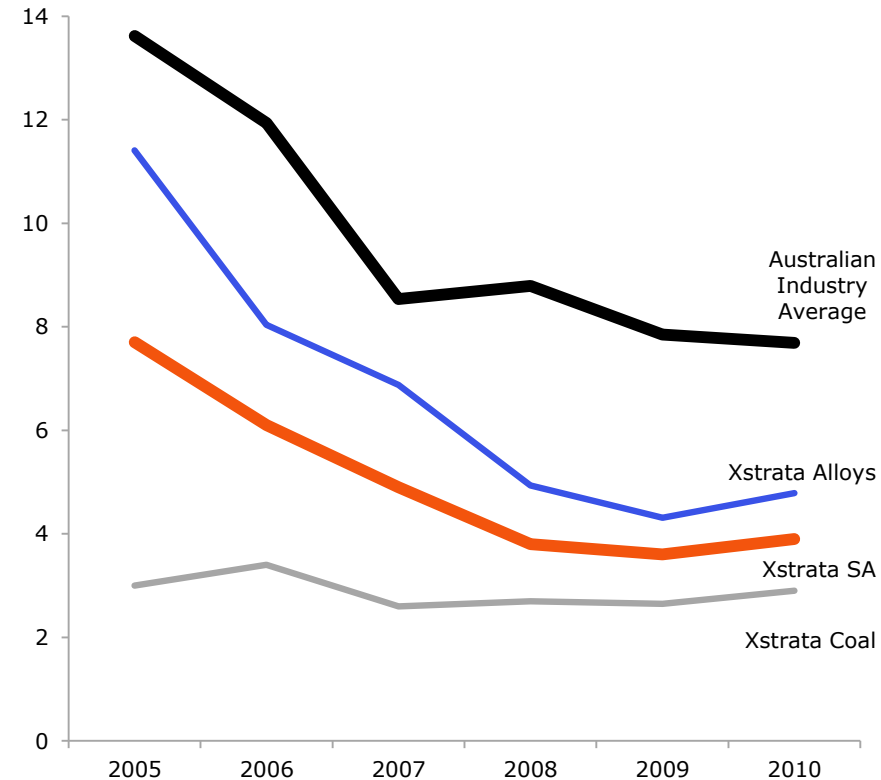
Sustainable development and growth

Xstrata continues to make meaningful progress in driving health, safety and environmental initiatives



- Safety initiatives set to achieve zero fatalities, injuries and work related illnesses
 - A 49% reduction in total recordable injury frequency rates achieved since 2005
- Health initiatives focused on prevention and treatment of occupational illnesses and health epidemics (HIV/AIDS and TB)
 - Over 90% of staff participate in Xstrata's wellness programme, which includes voluntary HIV testing and treatment
 - Three times winner of the Global Business Coalition Award on HIV/AIDS
- Xstrata has focused on reducing its carbon footprint and usage of key South African resources in accordance with its EMPs
 - 4.2% reduction in intensity of Xstrata Alloys greenhouse gas emissions per tonne
 - 25% reduction in energy use per tonne of ferrochrome produced since 2003
 - 16% reduction in fresh water consumption per tonne

Total recordable injury frequency rates



Beneficiation

c.R8.5bn spent on beneficiation initiatives to date, creating a significant number of downstream jobs



- Xstrata is a meaningful contributor to the achievement of Government's beneficiation strategy through its leadership position in the global ferrochrome industry
 - c.R8.5bn spent to date on beneficiation initiatives (listed below)
 - c.16% compound annual increase in ferrochrome production capacity expected between 1995 and 2014¹
 - Xstrata is the chief sponsor of the drive to curb unbeneficiated chrome ore exports in favour of growth in ferrochrome production and, by implication, job creation in South Africa
 - 3x more jobs created per tonne of ore beneficiated
 - 4x greater GDP contribution per tonne of ore beneficiated

- Xstrata's beneficiation initiatives to date include
 - R1.67bn Lion ferrochrome smelter in Steelpoort - phase 1 (opened in February 2008)
 - R4.9bn Lion ferrochrome smelter in Steelpoort – phase 2
 - Over R2.0bn on UG2 chromite recovery and agglomeration facilities

¹ Includes Lion II expansion at steady state in 2014

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Xstrata's commitment to South Africa

Xstrata has invested c.R68bn in South Africa since acquiring Duiker's coal assets in 2002, creating significant job opportunities



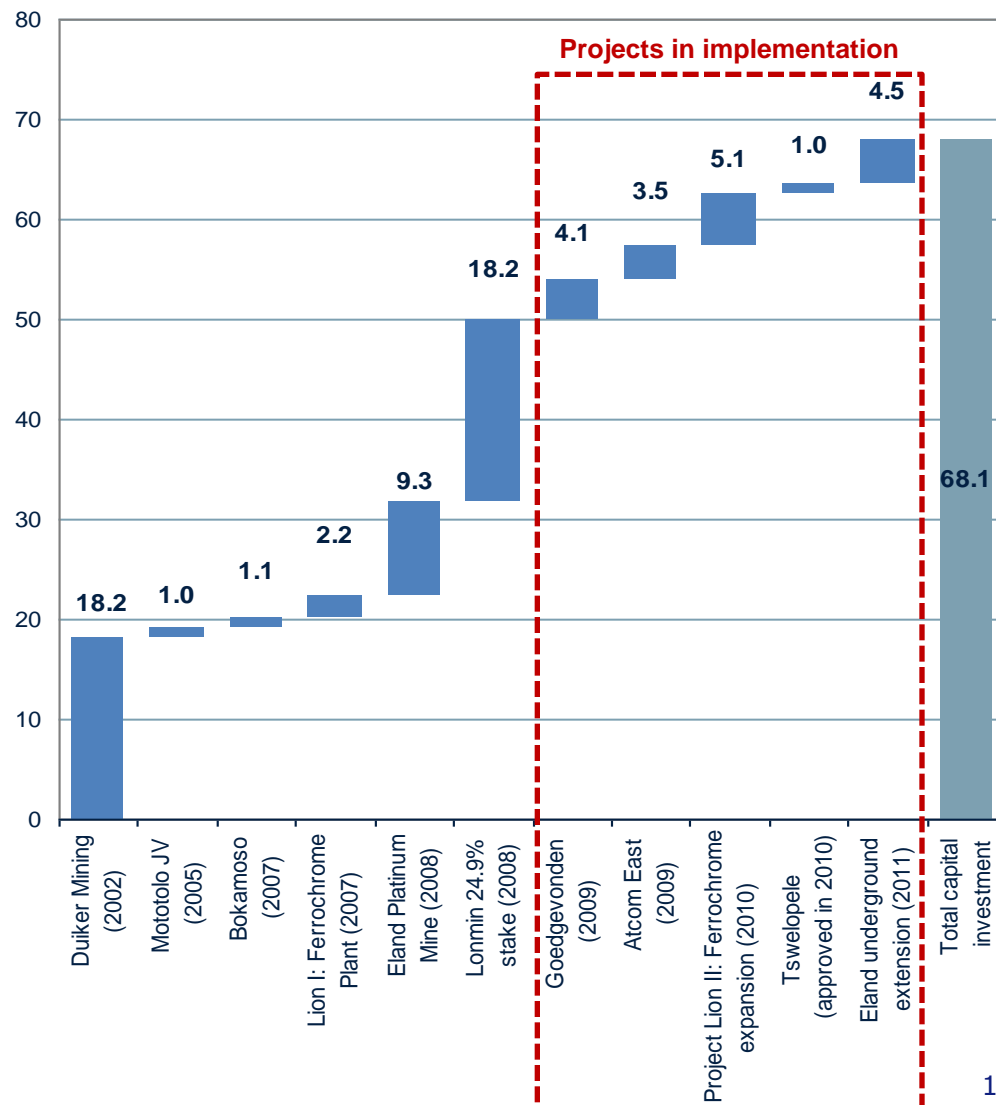
c.R68bn of capital invested in South Africa since 2002

- R18.2bn spent on new investments
- R49.9bn spent on acquisitions
- Level of investment exceeds that of many of Xstrata's peers

Significant employer and creator of new jobs

- Currently c.13,000 permanent Xstrata employees in South Africa (c.25,700 including contractors)
- 7,900 permanent jobs created from new projects

Total capital investment (Rbn in real 2011 money terms)



7,900 permanent jobs created from new projects

Increasing number of youth employed through investment in new projects



Goedgevonden

- Commodity: Coal
- 7 million tonnes per annum
- Capex: R4.1bn
- **Permanent jobs: 532 employees and 497 contractors**
- **Peak construction 2,842 jobs**
- BEE ownership: ARM Coal 51%



Atcom East

- Commodity: Coal
- 4 million tonnes per annum
- Capex: R3.5bn
- **Permanent jobs: 263 employees and 58 contractors**
- **Peak construction: 1,200 jobs**
- BEE ownership: ARM Coal 20%, ARM Ltd 10%



Lion II

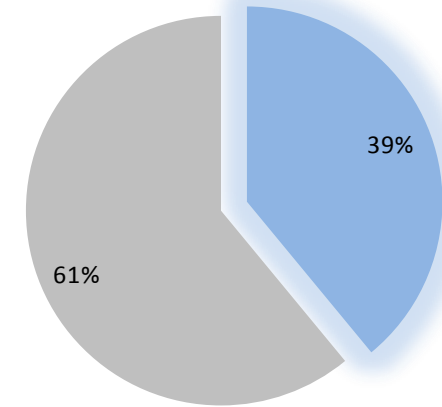
- Commodity: Ferrochrome
- 360,000 tonnes per annum
- Capex: R5.1bn
- **Permanent jobs: 1,042 employees and 619 contractors**
- **Peak construction: 1,809 jobs**
- BEE ownership: Merafe Resources 20.5%



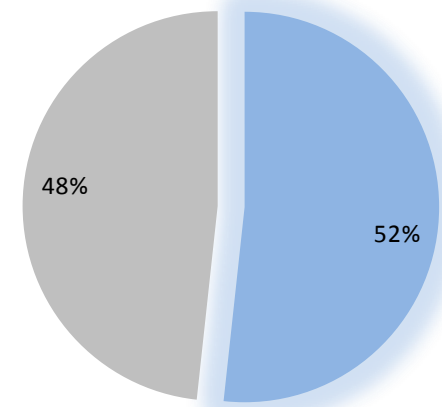
Eland

- Commodity: PGMs
- 300,000 ounces of Platinum per annum
- Capex: R4.5bn
- **Permanent jobs: 3,650 employees**
- BEE ownership: 26.01% Ngazana Consortium

Employment age profile – current operations



Employment age profile – new projects



■ Employees 34 and under ■ Employees over 34

Headwinds facing investment

Government and industry need to address key constraints impacting on continued investment and job creation



Key Investment Risks

Possible solutions

Rail Infrastructure

- Limited rail capacity constraining current operations and adversely impacting future operations
- Freight rates have increased by 138% since 2006

- Public private partnerships and competition on haulage
- Establishment of a rail regulator

Electricity Infrastructure

- Lack of security of energy supply
- Super tariff increases

- Enabling regulatory environment to support private participation in electricity generation
- Justifiable and affordable electricity price path that encourages investment whilst retaining SA industry competitiveness

Carbon taxes

- Proposed tax on the carbon content of commodities will penalise the mining industry

- Align carbon tax implementation with national imperatives of economic growth and job creation
- Alignment with trading partners to ensure SA competitiveness not jeopardised

- Xstrata has made significant progress against the requirements of the revised Mining Charter, having already met some of the 2014 targets
 - Minimum 26% ownership target met with employees, communities, broad-based groupings and entrepreneurs participating in robust transaction structures
- Xstrata is however mindful of the challenges in meeting some of the objectives of the revised Mining Charter
 - Increasing expectations from local communities require more innovative approaches to enterprise and community development
- National transformation agenda is shifting to inclusive growth and job creation
 - Continued growth and investment in new projects is required to facilitate the employment of youth
- Industry and Government need to partner to foster an investment friendly environment