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SUPPL

Wednesday, March 05, 2003

Xstrata file number 82-34660

Please find attached all company announcement released by Xstrata during the month of February 2003.

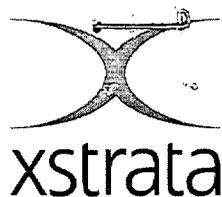
Yours sincerely,

Brigitte Mattenberger  
Corporate Affairs

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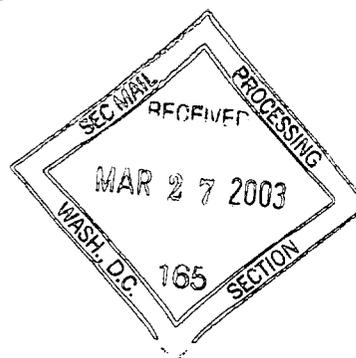
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FINANCIAL



Xstrata File  
Number 82-34660

from Brigitte Mattenberger  
date 10 February 2003  
number of pages (including coversheet) 112



I attach Xstrata's Preliminary Financial Results for the Year Ended 31 December 2002.

### Key Financial Results

<b>US\$m</b>	<b>Proforma*</b>	<b>Proforma**</b>	
	<b>12 months</b>	<b>12 months</b>	<b>%</b>
	<b>to 31.12.02</b>	<b>to 31.12.01</b>	<b>change</b>
Turnover	<b>1,991.3</b>	1,874.9	6.2
EBITDA	<b>481.7</b>	577.5	(16.6)
<b>EBIT (pre-exceptionals)</b>	<b>314.9</b>	<b>424.8</b>	<b>(25.9)</b>
EBIT	<b>264.1</b>	379.3	(30.4)
<b>Attributable profit (pre-exceptionals)</b>	<b>225.4</b>	<b>272.8</b>	<b>(17.4)</b>
Attributable profit	<b>174.6</b>	227.3	(23.2)
<b>Earnings per share (pre-exceptionals)</b>	<b>US\$0.90</b>	<b>US\$1.08</b>	<b>(16.7)</b>
Earnings per share	<b>US\$0.70</b>	US\$0.90	(22.2)
Net operating cash flow	<b>521.1</b>	***	-
Net debt to equity % (statutory)	<b>16.1%</b>	84.7%	81.0
Attributable net assets	<b>3,566.1</b>	2,515.9	41.7
Attributable net assets per share	<b>US\$14.19</b>	US\$10.01	41.8
<b>Dividends per share</b>	<b>US\$0.20</b>	-	-

(\* Proforma 12 months to 31.12.02 includes Coal acquisition from 01.01.02)

(\*\* Proforma 12 months to 31.12.01 includes Coal and Asturiana de Zinc acquisitions from 01.01.01)

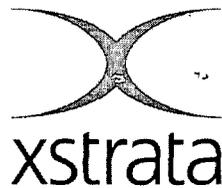
(\*\*\* The financial information in the Listing Particulars did not include a 2001 proforma cash flow statement)

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## HIGHLIGHTS

- Successful IPO in March 2002, creation of Xstrata plc and seamless integration of Duiker and Enx coal businesses
- Attributable profit, pre-exceptionals, of US\$225.4 million, in the face of weaker commodity prices and inflation, particularly in South Africa
- Free cash flow of US\$362 million, representing 63% of net debt
- Margins protected by cost savings and efficiencies of over US\$79 million in real terms (4.7% of operating costs)
- Incremental acquisitions of US\$230m in coal and zinc set to contribute to 2003 earnings
- Net debt of US\$573.9 million at 31 December 2002, with gearing reduced to 16.1% from 84.7%
- US\$804 million undrawn financial capacity within US\$1.4 billion loan facility
- Equity capital management programme established, allowing up to 10% of Xstrata's shares to be bought back while maintaining financial capacity
- Dividend of US\$0.20 (equivalent to a notional annual dividend yield of 3.39%)

Chief Executive Mick Davis commented:

"Progress in the ten months from the IPO to the end of the financial year has affirmed the investment thesis we set out for prospective shareholders, and the fundamental quality and strength of Xstrata's assets. In the period since our listing, we have pursued growth across three fronts: incremental acquisitions, company transforming acquisitions and the development of opportunities within our existing portfolio.

Despite harsh and complex market conditions, Xstrata's businesses showed their resilient cash flow profile, generating US\$362 million of free cash. Margins were protected by significant efficiencies and productivity gains, which reduced costs in real terms by US\$79 million or nearly 5%.

Xstrata's operations are in excellent shape and we will benefit from the investments made in 2002, a growing demand for ferrochrome and a more stable coal market. Xstrata is well positioned to meet the challenges and to seize the opportunities of the year ahead."

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## XSTRATA PRELIMINARY RESULTS

FOR THE 12 MONTHS ENDED 31 DECEMBER 2002

### Key Financial Results

US\$m	Proforma 12 months to 31.12.02*	Proforma 12 months to 31.12.01**	% Change
Turnover	<b>1,991.3</b>	1,874.9	6.2
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<b>EBIT (pre-exceptionals)</b>	<b>314.9</b>	<b>424.8</b>	<b>(25.9)</b>
EBIT	<b>264.1</b>	379.3	(30.4)
<b>Attributable profit (pre-exceptionals)</b>	<b>225.4</b>	<b>272.8</b>	<b>(17.4)</b>
Attributable profit	<b>174.6</b>	227.3	(23.2)
<b>Earnings per share (pre-exceptionals)</b>	<b>US\$0.90</b>	<b>US\$1.08</b>	<b>(16.7)</b>
Earnings per share	<b>US\$0.70</b>	US\$0.90	(22.2)
Net operating cash flow	<b>521.1</b>	***	-
Net debt to equity % (statutory)	<b>16.1%</b>	84.7%	81.0
Attributable net assets	<b>3,566.1</b>	2,515.9	41.7
Attributable net assets per share	<b>US\$14.19</b>	US\$10.01	41.8
<b>Dividends per share</b>	<b>US\$0.20</b>	-	-

(\* Proforma 12 months to 31.12.02 includes Coal acquisition from 01.01.02)

(\*\* Proforma 12 months to 31.12.01 includes Coal and Asturiana de Zinc acquisitions from 01.01.01)

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## HIGHLIGHTS

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## **SECTION ONE: CHIEF EXECUTIVE'S REPORT**

It is a little less than a year, 21 February 2002, since we announced the transactions that launched the dramatic transformation of Xstrata, and we have made significant progress in the short period since then.

The strategic rationale for the creation of Xstrata plc was set out in detail in my interim report. In this report I wish to focus on four main areas:

- a review of Xstrata's progress since the IPO;
- an overview of this year's results;
- opportunities for growth; and
- the issue of mineral and mining rights in South Africa.

### **Progress Against Our Strategic Objectives**

The progress we have made in the nine months from the IPO to the end of the financial year has affirmed the investment thesis we set out for prospective shareholders, and the fundamental quality and strength of our assets:

- We have successfully – and speedily – integrated the Duiker and Enx coal businesses: implementing a new business model, augmenting new management capacity where necessary and establishing new structures, systems and procedures, without any disruption to the smooth operation of our businesses.
- We have established Xstrata plc as a nimble new player in the London mining arena, with a new culture and energy, and a focused management team. We have developed a clear mission for the new Group, and taken the time to define, for ourselves and our stakeholders, the principles that will guide how we work.
- We have vigorously protected our margins, in the face of harsh and complex market conditions, and secured significant efficiencies and productivity gains in each of our major businesses.
- We have maintained a focused programme of internal capital investment, expending over US\$103 million in 2002 to ensure the on-going strength of our operations. At the same time, we have accelerated the pursuit and development of new projects within our existing portfolio, that we expect will deliver growth and/or enhanced returns in the future, spending over US\$58 million on expansionary capex in 2002.
- As set out in more detail below, we have made real progress in respect of the acquisition-led portion of our growth strategy, in terms of both incremental and company-transforming opportunities. We have completed three bolt-on transactions to our current businesses, whose positive impact will flow into 2003's numbers: the US\$ 72 million acquisitions of the Narama and Ravensworth coal assets in 2002, the Nordenham zinc smelter for US\$100 million at the end of 2002 and an increased stake in the Oakbridge coal group for US\$58 million at the start of 2003.

- We have developed and put in place an equity capital management programme, which enables up to 10% of the Company's issued share capital to be purchased, with all the benefits of a share repurchase, while maintaining the Group's financial firepower for possible acquisitions.
- We successfully rationalized the Group's financial structure to provide optimum access to cash flows and to maximise the benefit of our Swiss tax residency. The latter was a strong contributor to the resilience of our attributable profit in 2002. We have also taken the opportunity presented by the success of the IPO to restructure the Group's debt facilities and have continued to pay down our debt from robust cash flows.
- We have successfully engaged with the South African government, and with a wide range of potential black empowerment groups, to develop meaningful industry participation by those who were historically disadvantaged and to secure the value and integrity of our assets in that country.
- We have moved quickly to assess the on-going viability of those operations that have under-performed and, in the case of Windimurra and the magnesium recycling plant, we are taking the hard decisions required to optimise the quality of the portfolio and to end leakage of cash in the future.
- We have improved our performance in the areas of health, safety and the environment and have affirmed our strong commitment to this critical area, by setting higher targets for the year ahead. On the community front, we have committed ourselves to expending 1% of our profit before tax to provide support for local communities in areas associated with our operations.

## **2002 Results**

The progress above has been made in a year which was characterised by pervasive weakness in commodity prices, sluggish economic activity in the countries of our major customers (with the important exception of China), volatility in exchange rates, a severe and negative reassessment of investor confidence in South Africa and turmoil and distrust in the global equity markets.

Including ferrochrome, where prices increased in the third and fourth quarters of 2002, the average 2002 prices of our commodities were lower than the previous year, reducing operating profit by some US\$200 million. Spot prices for thermal coal – a key driver for Group profitability – fell sharply from the second quarter (with the European price dropping over 30% to US\$20.50/tonne), and the Japanese reference price for Australian coal supply to Chubu Electric Power Company in Japan declined 7.7% to US\$31.85 per tonne. The significant industry-wide cut-backs of coal production in the second quarter, particularly the 7.5 million tonnes withdrawn from the Atlantic market, achieved their aim of aligning output more closely with demand. This helped to ensure partial recovery in spot thermal coal prices, to reflect the return of demand, at the year end.

**INDICATIVE PRICES FOR COMMODITIES**

	average 2002	average 2001	Indicative price: end- December 2002
Coal – spot thermal FOB Richard’s Bay <i>SA Coal Report (US\$/t)*</i>	26.08	32.55	27.86
Coal – spot thermal FOB Newcastle <i>BJI</i> <i>(US\$/t)**</i>	25.70	31.50	25.00
Coal – Chubu Electric reference contract <i>(US\$/t)***</i>	31.85	34.50	31.85
Ferrochrome – published: <i>Metal Bulletin (US\$/lb)</i>	30.00	32.35	33.50
Vanadium V <sub>2</sub> O <sub>5</sub> – published: <i>Metal Bulletin (US\$/lb)</i>	1.34	1.38	1.60
Zinc – LME (US\$/t)	779.0	886.0	749.5

\* Spot Richard’s Bay to Europe based on 6,000 kcal/kg NAR

\*\* Spot Newcastle sales to Japan based on 6,700 kcal/kg GAD

\*\*\* Chubu Electric reference price is not an average and applies from 1 April each year

In response to these difficult market conditions, the businesses have performed well, and continue to do so. Our attraction to the strong cash-flow profile of the coal assets, which complements the resilient earnings of our alloys and zinc businesses, is well founded. After deductions for net interest, tax and the capital required to maintain the operations, the Group had access to free cash of US\$362 million in 2002.

Group turnover rose some 6% to US\$1,991.3 million, on the back of acquisitions (Ravensworth and Narama in coal), expansions (San Juan in zinc, and Ulan, Mt Owen and the new longwall at United in coal), and the 25% improvement in sales volumes in ferrochrome, which necessitated the restart of idled production capacity.

At the operating level, earnings before exceptional items decreased US\$109.9 million, or 26%, to US\$314.9 million, primarily due to the negative impacts of lower prices (US\$197 million) and inflation, mostly in South Africa (US\$58.1 million). These were offset by the positive impact of higher volumes (US\$68 million) and exchange rates (US\$30.5 million), and cost efficiencies as set out below.

**COST REDUCTIONS IN REAL TERMS: 2002**

	Proforma* US\$m	% Operating Costs
Ferrochrome	12.5	0.8
Vanadium	2.3	0.1
Alloys	14.8	0.9
Coal	37.3	2.2
Zinc	25.3	1.5
Other businesses	1.7	0.1
<b>Total</b>	<b>79.1</b>	<b>4.7</b>

(\* Proforma year ended 31.12.02 includes coal results in the P&L from 01.01.02)

Management in our operations succeeded in reducing costs in real terms by over US\$79 million (or 4.7% of the operating cost base), through a combination of cost efficiency programmes, productivity improvements and expansion projects. These included:

- the seamless 35% expansion of the San Juan de Nieva smelter, which was accompanied by a highly effective and sustainable cost-cutting programme across our entire zinc business, which improved the utilisation rate of the plant, reduced the costs of inputs and supplies, and optimised metallurgical processes;
- efficiency programmes at our alloys business, which reduced real costs by nearly US\$15 million, in the face of increases in the local cost of reductants and other raw materials;
- the expansions at the Mt Owen opencast mine and Ulan, together with the commencement of longwall mining at United have helped reduce costs at Xstrata Coal Australia (XCA) by over 7% in local terms. At Ulan, in particular, the higher productivity achieved since XCA acquired the mine in January 2001 has been significant: with productivity improving 25% and 15% at the opencast and underground mines respectively by end 2002;
- at Xstrata Coal South Africa (XCSA), the technologies and systems which have helped to reduce South Witbank's free on rail costs to around US\$6/tonne are being systematically implemented at other XCSA operations, such as Arthur Taylor Colliery, which achieved a 40% increase in underground section productivities over the course of 2002. In addition, the 13% reduction in total employee numbers resulted in a 14% year-on-year increase in productivity (run of mine tonnes per employee, including contractors).

Even after the US\$58.1 million impact of inflation, these initiatives represent a net gain across our business of US\$21 million in 2002, equivalent to 1.25% of operating costs. This is testimony to the dedicated effort and quality of the management teams at our operations, and I pay tribute to them for this outstanding achievement.

Net debt was US\$573.9 million at 31 December 2002, with some US\$804 million undrawn within our US\$1.4 billion debt facility. Free cash flow of US\$362 million represents 63% of net debt at the year end. Since the IPO, repayments against our debt facility have amounted to US\$152 million. The Gross debt to trailing 12 month EBITDA ratio under the Group's syndicated loan facility continues to be below 1.5 times resulting in a reduced drawn margin and commitment fee payable under this facility to the lowest applicable rate. The net debt to equity percentage improved from 84.7% to 16.1% at 31 December 2002.

### **Xstrata's Pipeline For Growth**

One of the key investment propositions set out at the time of the IPO was that there existed a niche in our industry for a fourth, London-listed, diversified metals and mining company, with headroom to grow. It was our strong conviction that if Xstrata were to leverage the advantages of its size, momentum

and financial structure to grow its portfolio, through steps that were in themselves value creating, then the market, in time, would reward the subsequent diversification of commodity, currency and earnings risk, by re-rating upwards the multiples on which we trade.

In the eleven months since our listing, we have pursued growth across three fronts. In each, we have been clear about the financial criteria we apply. We seek opportunities that ensure risk-adjusted returns above our weighted average cost of capital, without the application of aspirational assumptions on synergies or long-run prices, currencies and commodities, and which are accretive to earnings and cash flow in their first full year of ownership. All of the projects currently under review, including potential transformational acquisitions, meet these criteria.

#### *Incremental growth*

Almost simultaneously with the closing of the IPO, we purchased the Narama and Ravensworth coal operations in Australia for US\$72.4 million. In addition to increasing our attributable production capacity by some three million tonnes, the mines hold significant strategic value, given their proximity to other Xstrata mines.

In early December, we announced the acquisition of the Nordenham zinc smelter from Metaleurop for US\$100 million. The acquisition is wholly consistent with our strategy to leverage our current balance sheet strength opportunistically, to acquire quality assets at the bottom of their commodity cycle. Nordenham is an efficient plant, which complements the highly profitable San Juan smelter in terms of both operational and marketing synergies. Given its robust cash generation profile, the acquisition, which closed early in January 2003, will be cash and earnings accretive from day one.

Early in January 2003, we announced the acquisition of a further 11.5% of the Oakbridge group of coal companies in Australia from Tomen Corporation for US\$58 million. The transaction, effective from 1 January, increases our shareholding in Oakbridge from 66.5% to 78%, and adds over a million tonnes of attributable export coal capacity to our Australian business from operations we know well and which we believe hold significant future potential.

In the eleven months of its existence, the Group has thus invested US\$230 million on incremental acquisitions to its existing businesses, all of which are earnings accretive and all of which are expected to deliver returns comfortably in excess of our cost of capital.

We continue to assess further opportunities in this category. In South Africa, one of the consequences of the introduction of the new mining legislation has been a number of discussions with Black Economic Empowerment groups regarding joint ventures, which could entail the expansions of or acquisitions to our existing alloys and coal businesses.

### *Company transforming acquisitions*

Recognising the "universe of the possible" in which we operate, we have focused our energies on a small number of key potential transactions which, because of their scale, would have a dramatic impact on the size, diversity and rating of Xstrata. In each case, our aim has been to assess whether the combination of businesses would create value for our shareholders.

Our approach to negotiations of this scale is deliberate and unhurried. Our smaller size enhances the proportionate benefits of any acquisition, but also heightens its risks. Given the progress we have already made, and the robust performance of our asset base, we do not feel undue pressure to deliver a transaction, and while we are confident that we have the momentum and flexibility to move quickly when we need to, we are also confident enough to move slowly, or not at all, when this will create or protect value.

At the end of last year, we made an announcement confirming that one of the companies with which we were in discussion was MIM Holdings. At the time, we made a point of stressing that these talks were at an early-stage. We have continued to progress our contact with MIM, with appropriate diligence and with due regard for the uncertain outcome of our interaction. Should matters develop to the point at which we either withdraw from discussions or conclude an agreement, we will immediately inform the market.

Irrespective of the outcome of discussions with MIM, I remain convinced of our capacity to create growth even – perhaps especially – in these difficult environments from acquisitions executed at the right price and right time.

### *Growth arising from our existing businesses*

Almost inevitably, any assessment of Xstrata's growth by commentators has focused on potential acquisitions. However, during the year the Executive Committee has given impetus and attention to the development of opportunities within our own portfolio. These extend across each of our businesses:

#### *Alloys*

In our Alloys business, immediate, highly flexible growth is provided by the two idled ferrochrome furnaces, with a combined 120,000 tonnes of annual production capacity (9.2% of total capacity), which can quickly be brought back to meet demand in 2003 (one of these furnaces is under lease to AngloPlatinum until end-April 2003).

In addition to working with Black empowerment groups regarding possible JVs in ferrochrome (FeCr) and vanadium, Xstrata Alloys has been approached and is working with a consortium in South Africa that is pursuing a major initiative to utilise unexploited mineral reserves that become available as part of the new Minerals Bill. Xstrata's proven record for low-cost capital development and operational management, particularly

(but not exclusively) in respect of ferroalloys, has made us an attractive JV partner.

Xstrata Alloys holds rights over a reserve, holding some 20 million tonnes of platinum group metal (PGM) bearing UG2 ore, alongside our Thorncliffe Mine in the Eastern Bushveld. Clearly, the ore is also attractive for the chromite it contains. We are in discussions focussed on unlocking this reserve, in joint venture with one of the major platinum producers and a Black economic empowerment (BEE) partner.

#### *Coal - Australia*

One of the attractions of our coal business is the flexible and low-cost growth opportunities inherent in the assets, especially in Australia, where some 12 million tonnes of new annual production capacity exist over the next 10 years. These projects are being planned and developed, against stringent business criteria, to enable the business to grow in a manner consistent with our market projections.

Xstrata Coal has a firm pipeline of expansion projects to increase consolidated annual saleable production by approximately four million tonnes over 2002 levels, by 2005, for a capital investment of some US\$60m. Production in 2003 is likely to increase some 0.7 million tonnes, primarily due to a full year of operation at Ravensworth East and Narama. Capacity exists to increase production and sales volumes by a further three million tonnes in 2004, with the first full year of production at Beltana (around 1.4 million tonnes), the commencement of Glendell (500,000 tonnes) and increases at Mt Owen, West Wallsend and Ulan Opencast.

Underground mining at the Bulga complex will move from South Bulga to Beltana in 2003. Beltana's reduced manning levels and advanced work practices, compared to conventional underground longwall mines, provide a highly competitive cost structure, which is thought to be among the lowest in Australia. Beltana is expected to be a high productivity, low-cost operation that will further increase XCA's productivity and reduce the average unit cost of the business. Furthermore, with its recent increased stake in the Oakbridge Group, Xstrata is well placed to benefit from this.

The Glendell project, which will contribute approximately two million tonnes of annual consolidated production, is scheduled to commence operations in 2004. It will benefit from a low capital cost due to its development as a satellite pit linked to the Mt Owen infrastructure achieving flexibility and synergies for both operations.

In addition, a number of other low cost, low risk opportunities are being assessed including a second longwall at Ulan, development of the synergistic opportunities that exist around the Mt. Owen/Ravensworth projects and development of the Mitchell's Flat opencast mine.

Further opportunities to optimise reserve extraction and realise cost synergies across adjacent Xstrata operations are being pursued. In addition, Xstrata has a number of innovative projects in various stages of investigation and development, such as coal bed methane extraction,

longwall top coal caving and various power generation offtake agreements, which contribute to the Group's sustainable development.

#### *Coal - South Africa*

Xstrata Coal South Africa (XCSA) is entering a strategically significant period of export growth, improved operating efficiencies and cost reductions. The expansion of throughput at the Richards Bay Coal Terminal, from its current capacity of 72 million tonnes to 82 million tonnes by 2007, will enable high margin exports to be increased by 21% over the same period. XCSA's 21% share in this increase in export volumes (2.1 million tonnes) will be sourced from low-cost, brownfield expansions of our existing high productivity/cost-efficient mines, from the development of new capacity at the Goedgevonden and Verkeerderpan projects and from the switching of some lower margin domestic sales to the export market. The low-cost profile and scale of the new expansion projects also provide the opportunity to phase out some higher cost production capacity.

This business improvement is further underpinned by reserve optimisation exercises that will increase reserves at Boschmans, Witcons, South Witbank, Tavistock, Phoenix and Douglas. In addition, a pilot plant testing new technology for beneficiating fine coal is operating at one of the XCSA's collieries and we are confident that this will deliver a meaningful step improvement in product yield at most of the XCSA operations.

A significant business opportunity exists in the outcome of discussions with industry partners regarding strategic reserve swaps, which could significantly reduce cost profiles at some of our operations, and the joint development of adjoining resources, which would substantially reduce the capital costs involved in bringing on additional production.

#### *Zinc*

San Juan de Nieva completed a successful 35% expansion of annual production capacity to 460,000 tonnes in the second half of 2001. A further 25,000 tonnes per annum expansion started in November 2002, taking annual capacity at San Juan to 485,000 tonnes. This project, which has a capital cost of US\$6.2 million, is expected to be commissioned early in the third quarter of 2003. As a consequence, San Juan is likely to increase production to between 470,000 and 475,000 tonnes in 2003.

In addition, Xstrata Zinc is working on two further projects at San Juan. The first, which comprises a de-bottlenecking of the roasting stage and modifications to the electrodes, could increase annual production capacity to 492,000 tonnes. The second, which centres on the use of direct leaching, could increase annual capacity by a further 45,000 tonnes to 537,000 tonnes - nearly 17% above its current output.

Some of the operational synergies between San Juan and Nordenham are already reaping benefits for our zinc business: the transfer of calcine from Spain to de-bottleneck Nordenham is likely to increase the latter's production by over 6,000 tonnes in 2003.

It is clear from the above, that while the further development of a world-class organic pipeline of growth is still an important outcome from any company transforming acquisition, the Group as it stands currently is well positioned to grow and add value from its current portfolio.

### **The South African Minerals Bill**

The observations I made regarding the South African Minerals Bill in my interim report remain wholly relevant, and our confidence in Xstrata's ability to manage the increased complexity associated with doing business in South Africa remains intact, if not enhanced. In the period since our report, the Department of Minerals and Energy Affairs (DMEA) has issued its Empowerment Charter, setting out government's targets for the transformation of the mining industry, and it is now working on a framework (or "scorecard") which will enable it to assess the progress and plans of mining companies towards achieving these targets.

From Xstrata's side, we have not stood still. Since July:

- we have established a high-level Transformation Committee, which I chair, comprising the chief executives of our South African businesses, a senior historically disadvantaged South African (HDSA), who drives the process within the Group, four other senior executives and an external advisor;
- we have developed a broad transformation strategy, which clarifies the current status of our South African businesses and sets out how we propose to achieve the targets specified in the Charter. This is now being refined into a comprehensive and detailed plan, which will be submitted to the DME in order to secure the transfer of our rights, as provided for under the legislation. We are confident that the Company already meets many of the social and employee targets set by the Charter;
- we have met the Minister and her advisors on several occasions to advance specific issues and to keep her informed of our progress. In addition, we have presented an overview of our transformation plan to the Minister and members of the DME team, and we have been encouraged by the positive response we have received, and by the congruence of our approaches and ultimate objectives; and
- we have entered into substantive discussions with a number of credible black empowerment groups, regarding their potential participation in our assets. As part of this process, we have devised transaction structures at the asset level, which embrace meaningful ownership or partnerships, providing genuine and comprehensive participation in the business, and which include realistic options for facilitating appropriate financing that preserve Xstrata's access to cash-flows and advantageous financial and tax structure.

In all of this, Xstrata enjoys a number of structural and other advantages, which provide further protection for our assets and earnings. The provisions of the Act, Charter and Money Bill (which will deal with the issue of royalties) do not apply to all our South African assets. Our non-mining chrome and vanadium plants are excluded, as is our shareholding in Richards Bay Coal Terminal. In addition, as we already pay royalties on the supply of ore into our alloys business, we do not

anticipate that the Money Bill will have any material impact on our alloys business.

A number of issues remain to be resolved, including the detail of the 'scorecard' and practical questions associated with its application, and the critical matter of the royalty fee to be paid to government in respect of the mineral rights now leased from the State. The process is taking longer than some commentators have expected. I believe this reflects the seriousness with which all parties are engaging on this issue, the complexities associated with balancing commercial and political imperatives as well as the sheer scope of work involved in policy change of this magnitude and importance. This was clearly anticipated in the creation of the five-year period of grace for the transfer of rights, which is provided for in the legislation.

Based on the significant progress we have already made, I remain confident that Xstrata will secure the transfer of its rights, with shareholder value intact, in a much shorter time-frame. There is a strong and genuine commitment by all stakeholders – the government, the Black empowerment groups, the unions and the mining companies – to achieve a satisfactory outcome, which transforms the industry without destroying its existing strengths or South Africa's investment appeal.

### **Equity Capital Management Programme**

The Group has given considerable thought to implementing a share repurchase programme and has developed and put in place an innovative equity capital management programme (ECMP) that secures all the economic benefits of a share buy-back, while conferring all the advantages of a conventional treasury stock programme.

The ECMP, which enables the purchase of up to 10% of Xstrata's shares in the market, is expected to deliver a number of significant benefits to the Xstrata Group. These include:

- providing economic exposure of up to 10% of the issued share capital of the Group, without cancelling the shares in Xstrata plc;
- enhancing earnings per share in a tax efficient manner;
- providing additional flexibility in financing future acquisitions; and
- improving balance sheet efficiency.

I believe that the ECMP will be an important, strategic tool for the Group in these volatile markets. Further details on its structure and application are set out in the Financial Review.

### **Write-downs: Magnesium Plant and Windimurra**

Two projects, initiated by the old Xstrata AG prior to the IPO, have failed to deliver their promise. In the case of the Windimurra Vanadium plant, in Western Australia, management's outstanding achievement in cutting costs by over 56%

in the last two years was defeated by the chronic oversupply (and consequent low prices) in the Vanadium industry and by the plant's debilitating exposure to a strengthening Australian dollar. The Magnesium Recycling Facility, in Indiana, which came on stream last year, has not been able to source adequate quantities of magnesium scrap or to penetrate the vital US automobile market – a situation exacerbated by the exceptionally depressed prices for magnesium alloys.

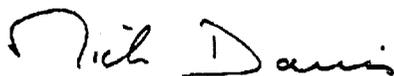
Following the IPO, the Executive initiated a process, not complete at the time of the interim results in July, to assess the on-going viability of these projects, and their appropriateness to the Group's strategy. Having reviewed the results, the Directors of Xstrata have decided to write off the carrying value of both assets in the financial statements of the Group at 31 December 2002, giving rise to impairment charges, totalling US\$50.8 million in the 2002 accounts. Production will cease and operations be suspended at Windimurra, and options will be pursued to divest the Magnesium recycling facility.

## Outlook

It would be brave (and perhaps foolish) to predict the development of the global economy in 2003. Much will depend on renewed growth in the United States, the continued strength of the Chinese economy, the resolution of the impasse in Iraq and – decisively – a return of investor confidence and trust. However, as I noted at the half-year, great opportunities to create value are often to be found in times, like these, of complexity and market weakness. I have set out our thrust in this regard and I am confident of our ability to deliver.

In the meantime, Xstrata's operations are in excellent shape and we will benefit from the investments made in 2002, a growing demand for ferrochrome and a more stable coal market. While we do not believe that 2003 will herald a recovery of the Zinc price, we expect to place all our product at satisfactory, if not heroic, margins.

In sum, 2003 holds greater challenges and greater opportunities than 2002. Xstrata is well positioned to meet the challenges and to seize the opportunities of the year ahead.



**M L Davis**

## **SECTION TWO: FINANCIAL REVIEW**

### **2.1 Basis of presentation of financial information**

The financial information is presented in accordance with UK generally accepted accounting principles (UK GAAP). The majority of the Group's commodities are sold in US Dollars. The reporting currency is US Dollars however the financial statements of subsidiaries are maintained in their functional local currencies and converted to US dollars on consolidation of the Group results.

The statutory merger of Xstrata AG with Xstrata plc has been accounted for using the merger method of accounting under which the results and cash flows of Xstrata AG are included in the financial statements from 1 January 2002 and its assets and liabilities are included at the amounts at which they were previously recorded, after adjusting to the Group's accounting policies. The comparatives for the Group balance sheet, profit and loss account and statement of cash flows have been restated to take account of the merger despite the fact that the holding company was incorporated on 31 December 2001 and the merger was not completed until March 2002 in order to compare meaningfully the performance of the underlying Group.

As per the acquisition agreement, the cash flow from the coal business is to the benefit of Xstrata as from 1 January 2002. However, under UK GAAP (FRS2), the results of operations of an acquired business may be reflected in the income statement only from the date on which control is transferred. As control over the coal business was transferred during March, the results of operations of the coal business are reflected in the Group statutory income statement from 1 March 2002. The attributable profit from operations of the coal business from 1 January 2002 to 28 February 2002 was accounted as an adjustment to the fair value of the acquired assets in the statutory financial statements.

The Group's 20.9% interest in the Richards Bay Coal Terminal has been recorded in accordance with FRS9 "Associates and Joint Ventures" as a "Joint Arrangement not creating an Entity", on the basis that it is an extension of Xstrata Coal's own business, providing coal shipping and export services to the participants. As such, Xstrata Coal's share of Richards Bay Coal Terminal's assets and liabilities is included in the consolidated balance sheet and the excess of the fair value is included in intangible assets. The intangible asset is carried at cost subject to an annual impairment test and is not amortised, as management regard it as having an indefinite useful economic life.

The annual results for the year ended 31 December 2002 include both UK GAAP statutory figures (from 1 March 2002 as discussed above) and proforma figures (assuming the results of operations from the coal business had been taken through the income statement since 1 January 2002).

Unless indicated to the contrary, all data and commentary in the Chief Executive's Report and the Financial and Operating Reviews relate to the proforma results for the year ended 31 December 2002.

## 2.2 Summary: operational results

### SUMMARY RESULTS

US\$m	Statutory Year ended 31.12.02	Proforma Year ended 31.12.02*	Proforma Year ended 31.12.01**
Coal	1,037.3	<b>1,219.3</b>	1,144.6
Alloys	366.6	<b>366.6</b>	321.2
Zinc	400.0	<b>400.0</b>	383.3
Other businesses	5.4	<b>5.4</b>	25.8
<b>Total Group Turnover</b>	<b>1,809.3</b>	<b>1,991.3</b>	<b>1,874.9</b>
Coal	278.7	<b>346.7</b>	416.0
Alloys	73.2	<b>73.2</b>	73.5
Zinc	88.4	<b>88.4</b>	101.5
Other businesses	(4.5)	<b>(4.5)</b>	(3.3)
Corporate	(22.1)	<b>(22.1)</b>	(10.2)
<b>Total Group EBITDA</b>	<b>413.7</b>	<b>481.7</b>	<b>577.5</b>
Coal	(97.3)	<b>(116.5)</b>	(104.5)
Alloys	(10.3)	<b>(10.3)</b>	(11.1)
Zinc	(34.1)	<b>(34.1)</b>	(34.4)
Other businesses	(4.0)	<b>(4.0)</b>	(1.2)
Corporate	(1.9)	<b>(1.9)</b>	(1.5)
<b>Depreciation &amp; Amortisation</b>	<b>(147.6)</b>	<b>(166.8)</b>	<b>(152.7)</b>
Coal	181.4	<b>230.2</b>	311.5
Alloys	62.9	<b>62.9</b>	62.4
Zinc	54.3	<b>54.3</b>	67.1
Other businesses	(8.5)	<b>(8.5)</b>	(4.5)
Corporate	(24.0)	<b>(24.0)</b>	(11.7)
<b>Total Group EBIT (pre-exceptionals)</b>	<b>266.1</b>	<b>314.9</b>	<b>424.8</b>

(\* Proforma 12 months to 31.12.02 includes Coal acquisition from 01.01.02)

(\*\* Proforma 12 months to 31.12.01 includes Coal and Asturiana de Zinc acquisitions from 01.01.01)

Turnover increased by US\$116.4 million or 6% to US\$1,991.3 million. The Coal turnover increased US\$74.7 million or 7% primarily due to increased production capacity in Australia from acquisitions and expansions. However, a comparison between the periods is impacted by two factors which affect the 2001 proforma figure in coal. Coal South Africa's ATC and ATCOM operations were accounted for as joint ventures and Douglas Tavistock was accounted for as an associate (for 11 months) in 2001. Had these entities been reported as "joint arrangements not creating an entity" ("JANES") in 2001, as they are in 2002, reported turnover for 2001 would have been higher by US\$138.2 million. In addition, comparison between the two years is affected by the unusually large revenue generated in 2001 from third party purchased coal (US\$153.6 million in 2001 compared to US\$98.8 million in this year). If the turnover numbers for Coal are amended to remove the impact of both these factors, then the US\$1,120.5 million coal turnover from own production for 2002 is in line with the adjusted US\$1,129.2 million turnover for the corresponding period in 2001. Increased sales volume of coal in 2002 compared to 2001 has been offset by lower realised coal prices.

Despite a decline in ferrochrome average prices, Alloys turnover increased US\$45.4 million, or 14%, due to a 25% increase in ferrochrome sales volume from the abnormally low sales in 2001 and to 20% higher ferrovanadium sales volumes, following the commissioning of the Rhovan production facility. Zinc turnover increased by US\$16.7 million or 4%, despite a 12% decline in the LME zinc price, due to the expansion at the San Juan de Nieva smelter, which increased production by 69,223 tonnes to over 460,000 tonnes in 2002. Other

turnover decreased by US\$20.4 million due to the disposal of the forestry trading business in 2001.

EBITDA decreased US\$95.8 million or 17% to US\$481.7 million. Coal decreased by US\$69.3 million or 17% due to the reduced thermal export coal prices, particularly in the second half of the year, offset in part by the increased sales volumes and reduced US Dollar unit operating costs of 2% in Australia and 9% in South Africa. Alloys maintained EBITDA at US\$73 million despite the reduced ferrochrome and ferrovanadium prices through increased sales volumes and lower US Dollar operating costs of 9% for ferrochrome. Zinc decreased US\$13.1 million or 13% due to the decline in LME zinc prices, partially mitigated by increased sales volumes and a combination of cost efficiency programs, productivity improvements and expansion projects.

EBIT before exceptional items decreased US\$109.9 million or 26% to US\$314.9 million. Coal's depreciation and amortisation, both of which are linked to rates of production, rose on the back of higher production levels and a stronger Australian Dollar.

## 2.3 EBIT analysis

### EBIT VARIANCES

	<b>Proforma US\$m</b>
<b>EBIT 31.12.01</b> (pre-exceptionals) **	<b>424.8</b>
Sales price variance	(197.0)
Volume variance	68.0
Cost reductions in real terms	79.1
Inflation impact on costs	(58.1)
Change in exchange rates	30.5
Commencement of Magnesium operations	(3.0)
Other variances	(17.9)
Depreciation and amortisation	(11.5)
<b>EBIT 31.12.02</b> (pre-exceptionals) *	<b>314.9</b>

(\* Proforma 12 months to 31.12.02 includes Coal acquisition from 01.01.02)

(\*\* Proforma 12 months to 31.12.01 includes Coal and Asturiana de Zinc acquisitions from 01.01.01)

The sales price variance primarily reflects the reduction in prices received across all business units, mainly coal. The volume variance relates in the main to increased production in zinc from the 120,000 tonne annual capacity expansion of the San Juan de Nieva zinc smelter, commissioned in July 2001, the 25% improvement in sales volumes of ferrochrome and increased production from the Australian coal business unit.

As set out in the Chief Executive's report, cost efficiency programmes and productivity improvements across the operations reduced costs in real terms by US\$79.1 million, equivalent to 4.7% of the operating cost base. Inflation increased costs by US\$58.1 million, US\$53.1 million of which reflected the impact of the 14% increase in South Africa's 2002 producer price index.

The major constituent in the positive exchange rate variance was the South African Rand, which weakened 22% against the US Dollar from an average rate of ZAR8.6 in 2001 to ZAR10.5 in 2002, whereas the Australian Dollar and Euro

both strengthened by 5%. The significant strengthening of the South African Rand during the last quarter of 2002 resulted in a negative translation impact on Alloys EBIT of US\$21.3 million, due to foreign exchange losses arising from US Dollar denominated trade debtors. The positive impact of the weakening currencies on operating costs, stripped of this translation impact, was therefore US\$51.8 million.

Other variances of US\$17.9 million include an increase in costs at the corporate centre of US\$11.8 million, mainly relating to a new London office associated with the listing on the London stock exchange, implementation of the Combined Code and new business development activities. The balance of US\$6.1 million mainly relates to a one-off increase in costs in the zinc business associated with a breakdown in a tank house transformer and lower production of acid and germanium.

**EBIT SENSITIVITIES FOR 2003**

	<b>Impact on 2003 EBIT US\$m</b>
US\$1/tonne movement in Australian Thermal FOB coal price	<b>15.0</b>
US\$1/tonne movement in Richards Bay FOB coal price	<b>7.0</b>
US\$50/tonne movement in Zinc price	<b>10.0</b>
US\$10 movement in Zinc treatment charge price	<b>3.0</b>
1Usc/lb movement in Ferrochrome price	<b>11.0</b>
US\$1/kg movement in Ferrovandium price	<b>8.0</b>
10% movement AUD *	<b>1.0</b>
10% movement EUR	<b>12.0</b>
10% movement ZAR	<b>50.0</b>

(\*After impact of currency hedging)

## 2.4 Earnings

**EARNINGS SUMMARY**

US\$m	<b>Proforma Year ended 31.12.02*</b>	Proforma Year ended 31.12.01**	% Change
EBIT (pre-exceptionals)	<b>314.9</b>	424.8	(25.9)
Impairment of assets	<b>(50.8)</b>	(45.5)	(11.6)
EBIT	<b>264.1</b>	379.3	(30.4)
Net interest & similar items	<b>(39.7)</b>	(60.8)	34.7
Tax on profit	<b>(42.6)</b>	(75.7)	43.7
Minority interests	<b>(7.2)</b>	(15.5)	53.5
Attributable profit (pre-exceptionals)	<b>225.4</b>	272.8	(17.4)
Attributable profit	<b>174.6</b>	227.3	(23.2)
Earnings per share (pre-exceptionals)	<b>0.90</b>	1.08	(16.7)
Earnings per share	<b>0.70</b>	0.90	(22.2)
ROCE (pre-exceptionals)***	<b>8.4%</b>	10.2%	(17.6)

(\* Proforma 12 months to 31.12.02 includes Coal acquisition from 01.01.02)

(\*\* Proforma 12 months to 31.12.01 includes Coal and Asturiana de Zinc acquisitions from 01.01.01)

(\*\*\* ROCE % based on average exchange rates for the period)

The group has recorded a provision for asset impairments in respect of the carrying value of the Windimurra Vanadium operation in Australia and Magnesium recycling operation in the United States reducing the carrying value of both operations to nil at 31 December 2002. An impairment of US\$45.5 million had previously been recorded for the Windimurra operation in 2001. There is no tax effect in relation to these impairment provisions.

Net interest and similar items decreased from US\$60.8 million to US\$39.7 million primarily due to lower debt levels compared to the 2001 proforma figures. This is mainly due to the successful outcome of the London IPO in March 2002 where an additional 25 million shares were issued as a result of the exercise of the Manager's Option. On a proforma basis, the EBITDA/net interest cover improved from a multiple of 9.5x in 2001 to 12.1x in 2002, and the pre-exceptional items EBIT/net interest cover improved from a multiple of 7.0x to 7.9x.

The tax charge at US\$42.6 million represents an effective tax rate, pre-exceptionals, of 15.5% against 20.8% for the corresponding period in 2001. The 2002 tax charge includes a US\$ 27.3 million net benefit arising from the new Australian fiscal consolidation regime which came into effect in late 2002. A residual portion of this benefit has been deferred in terms of UK GAAP and will accrue in subsequent years depending on taxable profits.

Minority interest share of profits decreased following reductions in the minority shareholdings in zinc and lower earnings from the Oakbridge Group (Xstrata Coal Australia) in 2002.

Attributable profit (pre-exceptional items) decreased US\$47.4 million or 17% to US\$225.4 million. Basic pre-exceptional attributable earnings per share decreased from US\$1.08 to US\$0.90. The Group's return on capital employed, based on average exchange rates for the period, was 8.4%, reflecting the lower earnings for the year.

## **2.5 Dividends**

The Directors have declared a dividend in respect of the year ended 31 December 2002 of 20 US cents per share, which will be presented for shareholder approval at the AGM on 8 May 2003. The key dates are set out in the table below. As explained in the Listing Particulars, the dividend represents two-thirds of a notional total 2002 dividend. Future dividends will be paid on a one-third interim and two-third final basis. No dividend was paid during 2002 or 2001. The total dividend declared by the Directors for 2002 is US\$50.3 million in aggregate.

As Xstrata plc is, for tax purposes, a Swiss resident company, the dividend payment will be taxed at source in Switzerland at the rate of 35%. A full or partial refund of this tax may be available in certain circumstances, and a general guide to the tax reclaim procedure will be circulated to shareholders with the Annual Report and Accounts in early April 2003.

**DIVIDEND DATES: 2003**

	<b>2003</b>
Posting of Annual Report and currency election forms	4 April
Ex-dividend date	30 April
Deadline for return of currency election forms	2 May
Record date	2 May
AGM	8 May
Applicable exchange rate date	16 May
Payment date	23 May

As Xstrata publishes its accounts in US dollars, this dividend will be declared and paid in US dollars. The company has made arrangements for shareholders who elect to receive this dividend in pounds sterling, Euros or Swiss Francs. The pound sterling, Euro or Swiss Franc amount payable will be determined by reference to the exchange rates applicable to the US dollar 7 days prior to the dividend payment date. Dividends can be paid directly into a UK bank or building society account to shareholders who elect for their dividend to be paid in pounds sterling. Currency election and dividend mandate forms are available from Xstrata's website or from the Company's Registrars (details in Section Five).

**2.6 Cash Flow, Net Debt and Financing Summary**

**CASH FLOW SUMMARY**

US\$m	<b>Proforma Year ended 31.12.02*</b>
<b>Net cash inflow from operating activities</b>	<b>521.2</b>
Net interest payable and similar items	(32.6)
Taxation	(35.4)
<b>Cash flow before capital expenditure</b>	<b>453.2</b>
Sustaining capital expenditure	(104.2)
Disposal of fixed assets	12.9
<b>Free cash flow</b>	<b>361.9</b>
Expansionary capital expenditure	(67.1)
<b>Cash flow before acquisitions</b>	<b>294.8</b>
Purchase of Coal operation	(1,120.9)
Cash acquired with Coal operation	54.0
Purchase of Ravensworth and Narama coal operations	(72.4)
<b>Net cash flow before financing</b>	<b>(844.5)</b>
Issue of ordinary shares	1,335.3
Foreign exchange adjustment	(17.7)
Amortisation of loan arrangement fees	(4.7)
Debt acquired with Coal operation	(585.8)
<b>Movement in net debt</b>	<b>(117.4)</b>
Net debt at the start of the year	(456.5)
<b>Net debt at the end of the period</b>	<b>(573.9)</b>

**RECONCILIATION OF EBITDA TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

US\$m	<b>Proforma Year ended 31.12.02*</b>
<b>EBITDA</b>	<b>481.7</b>
Increase in stocks	(68.2)
Decrease in debtors	45.5
Increase in creditors	99.7
Movement in provisions and other non-cash items	(37.5)
<b>Net cash inflow from operating activities</b>	<b>521.2</b>

(\* Proforma 12 months to 31.12.02 includes Coal acquisition from 01.01.02)

Proforma net cash inflow from operating activities includes the coal operations from 1 January 2002. The foreign exchange adjustment is due to the impact of strengthening local currencies against the US dollar on local currency denominated loans and finance leases.

Cash flow before capital expenditure was US\$453.2 million, 18% lower than the estimate of US\$555.1 million in Part VI of the IPO Listing Particulars. This variance is principally due to reduced coal prices partially offset by operating cost savings, lower cost of borrowing and lower taxation. Net capital expenditure, including the acquisition of Ravensworth and Narama coal operations in Australia, was US\$230.8 million, some US\$30.8 million lower than the estimate of US\$ 261.6 million in the Listing Particulars.

The cash component of the coal acquisition (excluding transaction costs) is US\$1,121 million. This includes US\$20 million prepaid to the vendors by the Duiker Group in January 2002. The cost of the acquisition as set out in the Listing Particulars of US\$1,351 million excluded the impact of Glencore International AG's share of the Manager's Option (US\$124 million) but included transaction expenses of US\$113 million, resulting in a net US\$1,114 million. The remaining difference of US\$7 million is due to reallocation of acquisition costs.

A summary of the March 2002 IPO proceeds and application of funds is as follows:

**NET PROCEEDS**

US\$m	
Net cash proceeds for issue of shares to the market	1,335.3
Net proceeds of syndicated loan facility	716.6
Shares issued to vendor	974.0
Cash on hand	16.2
<b>Total</b>	<b>3,042.1</b>

**APPLICATION OF NET PROCEEDS**

US\$m	
Consideration paid for the Coal operations	2,074.9
Repayment of debt within the Coal operations	505.1
Repayment of Euro 600 million debt facility	462.1
<b>Total</b>	<b>3,042.1</b>

The proceeds of the London IPO and drawdown of the US\$1.4 billion syndicated loan facility were used to refinance the Xstrata EUR 600 million facility, Enx Resources Limited's US\$300 million facility and shareholder indebtedness of US\$205.1 million.

The US\$2,074.9 million consideration paid for the coal operations comprises the US\$1,994.9 million acquisition price, plus an agreed amount of US\$ 73.0 million relating to working capital and acquisition costs of US\$7.0 million.

**NET DEBT SUMMARY**

US\$m	Statutory As at 31.12.02	Statutory As at 31.12.01
Cash	<b>88.7</b>	45.9
External borrowings	<b>(671.9)</b>	(502.4)
Arrangement fees	<b>27.0</b>	-
Finance leases	<b>(17.7)</b>	-
Net debt	<b>(573.9)</b>	(456.5)
By currency:		
Australian dollars	<b>2.4</b>	0.7
Euros	<b>3.3</b>	16.4
South African rands	<b>(35.4)</b>	(25.4)
United States dollars	<b>(545.9)</b>	(448.7)
Other	<b>1.7</b>	0.5
Net debt by currency	<b>(573.9)</b>	(456.5)

Net debt immediately following the IPO was US\$698.4 million including external borrowings of US\$870.3 million. External borrowings have reduced by US\$198.4 million since the IPO, with principal loan repayments on the US\$1.4 billion loan facility totalling US\$152.4 million. Net debt at 31 December 2002 was US\$573.9 million, with US\$804 million undrawn within the facility. Arrangement fees of US\$27 million, relating mainly to the US\$1.4 billion loan facility, are capitalised and classified within external borrowings as required by UK GAAP. Free cash flow for 2002 represents 63% of net debt at 31 December 2002.

The Gross debt to trailing 12 month EBITDA ratio under the Group's loan facility continues to be below 1.5 times resulting in a reduced drawn margin and commitment fee payable under this facility to the lowest applicable rate. The increase in the South African Rand denominated debt from 2001 relates to the coal acquisition in March 2002 and the strengthening of the South African Rand against the US Dollar at year end.

As a result of the success of the IPO, robust operating cash flows and a strengthened balance sheet, the net debt to equity percentage improved from 84.7% on a statutory basis at 31 December 2001 to 16.1% at 31 December 2002.

**2.7 Working capital**

US\$m	As at: 31.12.02	As at 31.12.01
Stocks	<b>294.4</b>	226.2
Debtors: amounts falling due within one year	<b>277.3</b>	322.8
Creditors *	<b>(369.7)</b>	(270.0)
Net working capital	<b>202.0</b>	279.0

(\* Excludes short-term debt, declared dividends and accruals for acquisitions)

Stocks have increased by US\$68.2 million due to increased production levels compounded by strengthening local currencies.

Debtors decreased by US\$45.5 million due primarily to US\$25.7 million of capital government grants in relation to the San Juan de Nieva smelter expansion project receivable at 31 December 2001 and abnormally high Australian coal export sales during December 2001.

Creditors have increased by US\$99.7 million. Employee entitlement provisions at year end were US\$33.2 million whereas these were classified as non-current liabilities at 31 December 2001 in the Listing Particulars. Trade and other creditors represent the balance of the increase as a result of increased production levels and strengthening local currencies.

## 2.8 Exchange rates used in the report

**CURRENCY TABLE TO US\$**

	<b>average 31.12.02</b>	<b>average 31.12.01</b>	<b>At 31.12.02</b>	<b>At 31.12.01</b>
AUD	0.5434	0.5167	0.5618	0.5114
CHF	1.5553	1.6884	1.3836	1.6749
EUR	0.9430	0.8946	1.0495	0.8849
GBP	1.5013	1.4407	1.6100	1.4545
ZAR	10.5035	8.6249	8.5702	12.0900

## 2.9 Hedging

**FORWARD CONTRACTS – NOT LATER THAN ONE YEAR**

US\$m	Bought Currency	<b>Forward sale of USD 31.12.02</b>	Weighted average exchange rate	<b>Fair value USD 31.12.02</b>
Coal	AUD	635.1	0.5280	28.8

Currency hedging is used to reduce the Group's short term exposure to fluctuations in the Australian Dollar and Euro exchange rate to the US Dollar. The unrealised mark-to-market gain on the Australian Dollar hedging in place at year end was US\$ 28.8 million. In 2002, the remaining Euro forward contracts were closed out resulting in a gain of US\$ 2.4 million. The Australian Dollar hedging gains reflected in the 2002 Profit and Loss Account amounted to US\$ 34.3 million. The Australian Coal operations' hedging programme substantially covers the exposure to Australian Dollar operating costs for 2003, at a weighted average exchange rate of AUD 0.528 per US Dollar.

## 2.10 Capital Expenditure

### CAPEX SUMMARY

US\$m	Proforma Year ended 31.12.02*	Proforma Year ended 31.12.01**
Coal	<b>33.4</b>	32.5
Alloys	<b>7.3</b>	30.0
Zinc	<b>16.0</b>	83.7
Other businesses	<b>1.7</b>	21.8
Corporate	-	13.0
<b>Total Expansionary</b>	<b>58.4</b>	<b>181.0</b>
Coal	<b>85.2</b>	42.3
Alloys	<b>1.1</b>	4.5
Zinc	<b>14.2</b>	23.6
Other businesses	<b>0.6</b>	3.7
Corporate	<b>2.1</b>	0.4
<b>Total Sustaining</b>	<b>103.2</b>	<b>74.5</b>
Coal	<b>118.6</b>	74.8
Alloys	<b>8.4</b>	34.5
Zinc	<b>30.2</b>	107.3
Other businesses	<b>2.3</b>	25.5
Corporate	<b>2.1</b>	13.4
<b>Total</b>	<b>161.6</b>	<b>255.5</b>

(\* Proforma 12 months to 31.12.02 includes coal acquisition from 01.01.02)

(\*\* Proforma 12 months to 31.12.01 includes Coal and Asturiana de Zinc acquisitions from 01.01.01)

Capital expenditure as reflected above is determined on an accrual basis, whereas the Cash Flow Summary (section 2.6) reflects capital expenditure on a cash basis.

Capital expenditure decreased by US\$93.9 million or 37% to US\$161.6 million. Coal Australia totalled US\$ 71.5 million, mainly relating to the commissioning of longwall mining at United and development of the Beltana underground mine. Coal South Africa totalled US\$47.1 million and included the acquisition of the Zaaiwater property, the development of new mining areas in the Douglas Tavistock JV, a new continuous miner at the Boschmans Colliery and upgrading the Tavistock plant.

Capital expenditure is forecast to increase to around US\$200 million for 2003. Xstrata Coal will continue development of Beltana underground in Australia (total cost of US\$38 million), with South African expenditure including the contribution to the Phase V expansion of Richard's Bay Coal Terminal, expansion of capacity at WitCons and Tavistock and the development of new mining areas at ATCOM, Boschmans and Goedgevonden. Capital expenditure at Xstrata Alloys will focus on the development of the Waterval West chrome mine and the Rhovan furnace project, and the construction of an additional pelletising plant at the Wonderkop JV.

## 2.11 Acquisitions

The Duiker and Enex Group was acquired in March 2002 from Glencore International AG, for a consideration comprising US\$974.0 million of Xstrata plc shares and cash of US\$ 1,100.9 million.

### ACQUISITION SUMMARY (including acquired debt)

US\$	Year ended 31.12.02	Year ended 31.12.01
Duiker and Enex Group*	2,580.0	-
Ravensworth and Narama operations	72.4	-
<b>Total Coal</b>	<b>2,652.4</b>	<b>-</b>
Nordenham zinc smelter**	100.0	-
Asturiana de Zinc SA	-	453.3
<b>Total Zinc</b>	<b>100.0</b>	<b>453.3</b>
<b>Total</b>	<b>2,752.4</b>	<b>453.3</b>

(\* Includes an agreed amount relating to working capital of US\$73 million and debt of US\$505 million)  
(\*\*Includes US\$13 million for zinc related inventories)

Ravensworth and Narama operations were also acquired in March 2002 and settled entirely in cash.

The Nordenham zinc smelter was acquired in December 2002 for US\$100 million, which included US\$13 million for zinc related inventories, and was settled in cash in January 2003. Due to the proximity of the acquisition to year end, there was insufficient time to allow a detailed analysis of the fair value of net assets acquired, consequently the acquisition is included in Investments and Creditors in the balance sheet at 31 December 2002.

Asturiana de Zinc SA was acquired in May 2001.

In January 2003, Coal Australia purchased a further 11.5% in Oakbridge Pty Ltd from Tomen Corporation for US\$58 million to take its shareholding to 78%.

## 2.12 Equity Capital Management Programme

The Xstrata Group has put in place an equity capital management programme (ECMP). Under the ECMP up to 10% of the issued share capital of Xstrata Plc can be purchased in the market by Batiss Investments (Batiss), a Guernsey registered entity owned by a charitable trust, which is independent of the Xstrata Group.

### *Purchasing Activity*

Under the proposed structure, Batiss will enter into an option agreement with Xstrata Capital Corporation A.V.V. ("Xstrata Capital"), a wholly owned subsidiary within the Xstrata Group, whereby Batiss grants to Xstrata Capital a right to require Batiss to sell the Xstrata shares purchased to a third party (other than a

subsidiary of Xstrata plc), as nominated by Xstrata Capital, at an exercise price of 1p per share.

Under the option agreement, Xstrata Capital will pay Batiss a premium for this right, the premium being the equivalent of the market price paid by Batiss for the shares plus associated costs less the 1p exercise price. This premium payment, together with funds from a subscription by Xstrata Capital for non-voting redeemable preference shares in Batiss, will provide the funding for Batiss to acquire the shares in the market. These payments will be sourced from the existing and future cash resources of Xstrata Capital.

Xstrata Capital will be able to exercise its right under the option agreement for a period of six years from the date of each purchase. Batiss will waive its right to receive dividends on the shares which it holds.

#### *Conduct and Disclosure of Purchases*

Purchases of shares under the ECMP will be made in the market at prices not exceeding 105% of the average middle market closing price of the shares over the previous five days, as derived from the London Stock Exchange Daily Official List. The purchasing activity of Batiss will be conducted and disclosed in keeping with existing regulation governing UK corporate share repurchases.

#### *Future Application of Xstrata Shares Held by Batiss*

Xstrata Capital intends that the shares held by Batiss will either be used by the Group as a source of financing for future acquisitions, in keeping with the Group's growth strategy, or placed in the market.

If the share price rises, Xstrata Capital would profit on a placing to the extent that the price realised for the shares in the market exceeds the original market price paid plus associated funding costs.

Xstrata Capital and Xstrata plc will consider in the future whether any shares held by Batiss will be acquired by Xstrata plc. Any repurchase of shares by Xstrata plc would be subject to the approval of Xstrata plc shareholders and to appropriate clearance being obtained from the Swiss tax authorities.

The decision when to place the shares in the market, use the shares to assist the Group in facilitating future transactions, or to repurchase shares for cancellation will be considered in light of the Group's funding requirements and capital structure at the time.

#### *Accounting Treatment*

For so long as the shares continue to be held by Batiss they will be disregarded for the purposes of calculating the earnings per share of Xstrata plc. Batiss will be consolidated by Xstrata as a quasi-subsiidiary, and the shares held by it will be

accounted for as a deduction from shareholders funds in the consolidated balance sheet of the Group.

If Xstrata shares held by Batiss are subsequently disposed of by way of a placing or as consideration for an acquisition by the Group, any gain or loss will be taken directly to the Group's reserves to the extent that the market value of the shares so disposed is above or below the cost of those shares. No gain or loss would be recognised in the consolidated profit and loss account of the Group.

If shares held by Batiss are repurchased and cancelled by Xstrata, this would be accounted for in the consolidated financial statements of the Group as though it had occurred at the time of the purchase of the shares by Batiss.

## 2.13 Share Data

### SHARE PRICE: 2002

	XTA LSE (p)	XTA SWX (CHF)
Opening price 01.01.02	-	21.60
IPO issue price	870	20.60
Closing price 31.12.02	649	13.60
Period high	1050	25.40
Period low	490	12.50

### PUBLICLY DISCLOSED MAJOR SHAREHOLDERS

	% of Ordinary Issued Share Capital at 08.02.03
Glencore International AG	40.0
The Capital Group	15.3
Standard Life Investments Ltd	3.0
Fidelity Group	3.0

### SHARES IN ISSUE

Weighted Average for year ended 31.12.02 Used for 2002 proforma eps calculations	251,350,880 shares
Weighted Average for year ended 31.12.02 Used for statutory eps calculations	219,534,226 shares
Weighted Average for year ended 31.12.01 Used for 2001 proforma eps calculations	251,400,570 shares
Total Issued Share Capital	252,601,000 shares

The difference between the proforma and statutory weighted average number of shares for the year end 31 December 2002 used for the earnings per share (eps) calculations is due to the Listing on the London Stock Exchange occurring in March 2002 whereas for the proforma it is assumed that the IPO took place on 1 January 2002. Own shares are deducted from the total issued share capital when calculating earnings per share.

## SECTION THREE: OPERATIONAL REVIEWS

### 3.1 Xstrata Alloys

#### 3.1.1 Chrome

##### 3.1.1.1 Financial and Operational Data

US\$m	Proforma Year ended 31.12.02	Proforma Year ended 31.12.01	Proforma Six months to 30.06.02
Turnover	290.2	257.7	136.0
EBITDA	62.8	64.3	30.7
Depreciation and amortisation	(7.0)	(5.0)	(2.7)
EBIT	55.8	59.3	28.0
Attributable net assets	245.3	188.0	249.4
Capital Employed	334.9	252.2	275.3
% Share Group EBIT	17.7%	14.0%	14.7%
% Share Group Net Assets	6.9%	7.5%	7.7%
% Return on Capital Employed*	20.4%	16.8%	21.7%
Capex	7.3	30.5	4.1
Expansionary	6.5	27.2	3.8
Sustaining	0.8	3.3	0.3
Attributable Saleable Production (kt)	957.5	860.6	435.7
Indicative Average Published Price (US\$/lb) (Metal Bulletin)	30.00	32.32	30.00

(\* ROCE % based on average exchange rates for the period)

##### 3.1.1.2 Markets

Demand for ferrochrome continued to grow through the year, as the market moved out of a destocking phase, which had reduced global ferrochrome stocks to below normal levels by the end of the first quarter, and as stainless steel producers struggled to source sufficient stainless steel scrap at economic levels.

Western world stainless steel production increased to an estimated 19.1 million tonnes in 2002, some 5.8% up on 2001, excluding over 600,000 tonnes produced in the rapidly expanding Chinese market. Europe accounted for over 8 million tonnes (or 43% of western world production) in 2002, an increase of some 6% over 2001. Expansions at AvestaPolarit, ALZ (Arcelor) and AST in Italy are expected to increase European stainless production to some 8.5 million tonnes in 2003.

Based on stronger demand in the automotive and housing sectors, North American stainless steel production rose to 2.2 million tonnes in 2002, a recovery to 2000 levels and over 20% up on 2001 (1.8 million tonnes). Stainless steel production in Japan, Korea and Taiwan remained strong in 2002 at around 6.7 million tonnes. While concerns exist regarding deflationary pressures in the US, European and Japanese economies, rapidly increasing demand for stainless steel in China continues to provide major support to the industry, particularly in

the Far East. Korean production is expected to grow by more than 18% in 2003, primarily to feed the continuing increase in Chinese consumption, which was up 17% to 2.8 million tonnes in 2002 and which is estimated to increase a further 11% to over 3 million tonnes in 2003.

To meet the increased ferrochrome demand, estimated at around 4.4 million tonnes in 2002, western world supply of ferrochrome increased from approximately 3.8 million tonnes in 2001 to 4.2 million tonnes. Ferrochrome stocks continued to reduce through the year and were at low levels by the end of 2002. Reflecting the strong demand and the improved performance of the South African Rand against the US Dollar, two successive 3USc/lb benchmark increases were negotiated for delivery of material in the third and fourth quarters of the year.

Given stainless steel growth of between 4% and 7%, the supply and demand balance for ferrochrome should tend towards a shortage in 2003. The strength of the South African Rand will place upward pressure on prices, and the on-going situation in Zimbabwe, which accounts for around 5.5% of global ferrochrome production, may impact on supply into the market.

### 3.1.1.3 Operations

<b>EBIT VARIANCE: Chrome</b>	
	<b>Proforma US\$m</b>
<b>EBIT 31.12.01</b>	<b>59.3</b>
Sales price variance	(21.6)
Volume variance	11.8
Cost reductions in real terms	12.5
Inflation impact on costs	(20.6)
Change in exchange rates	13.5
Other variances	2.9
Depreciation and amortisation	(2.0)
<b>EBIT 31.12.02</b>	<b>55.8</b>

The growth in sales volumes, up 25% year on year, reflected the stronger demand for ferrochrome in the market. During the first and second quarters of the year, production capacity was contained in favour of inventory correction. As a consequence, annual sales volumes exceeded annual production and inventories reduced to lower than average levels.

In response to demand, Xstrata Chrome began a measured process of capacity restarts from the second quarter onwards, bringing back four of its idle ferrochrome producing furnaces during the course of the year: two furnaces at the Wonderkop plant (annual capacity 170,000 tonnes) and two at the Rustenburg operation (annual capacity 140,000 tonnes). Two furnaces, with a total combined annual capacity of 120,000 tonnes remain shut, one of which is under contract to AngloPlatinum. The mining operations responded to the improved smelter activities producing some 2.9 million tonnes run of mine chrome ore.

Operational costs were well controlled in both the mining and smelting divisions in 2002. The rapidly rising cost of reductants in the third and fourth quarter did however impact negatively on cost performance. Despite this, management succeeded in limiting cost increases to 7.5% in Rand terms, compared to 2001, against the backdrop of a 14% increase in the producer price index. Average production costs in US dollar terms were down 5.8% compared to 2001.

In addition to its impact on costs, successfully mitigated by management's efficiency programmes, the significant strengthening of the Rand during the last quarter of 2002 resulted in a negative translation impact on EBIT of US\$16.6 million, due to foreign exchange losses arising from US Dollar denominated trade debtors. EBIT before the impact of foreign exchange on net working capital increased US\$20.4 million year on year.

Additional cost cutting initiatives in 2003 include a project to reduce the reliance on coke as a primary reductant source and the renegotiation of electricity supply agreements to provide the operations with a more flexible tariff structure, thus reducing power costs. Progress is also being made on the development of the "Mega-Mine" concept at the Kroondal mine, which will reduce fixed cost structures in the mining division.

#### **3.1.1.4 Health, Safety & Environment**

All the ferrochrome plants and the mining division have health and safety management systems in place that are based on the Occupational Health and Safety Management System standard (OHSAS) 18001. All mines and plants are working towards attaining these specifications. The loss time injury frequency rate (LTIFR) for the business (both employees and contract workers) improved from 9.4 in 2001 to 9.1 in 2002. The target for 2003 is to reduce this to below 5.0. Notwithstanding this progress, two employees and two contract workers were fatally injured during 2002. Full investigations were conducted and remedial measures put in place to prevent similar unfortunate incidents. In addition, a comprehensive safety audit commenced in January 2003.

In respect of environmental management, all of Xstrata Alloys' ferrochrome production plants are certified in terms of International Organisation for Standardisation (ISO) 14001. The mining division's strategic environmental target is to achieve certification as well. The process is well under way, with an on-going programme throughout mining operations. Key environmental issues being addressed by the mining division include the rehabilitation of old opencast workings, of rock dumps and of tailings dams, and continual improvement of water, noise and air quality management.

At the Rustenburg ferrochrome plant, approval was obtained from the relevant authorities for the construction and commissioning of a pelletising plant. During a tri-annual South African Bureau of Standard's (SABS) ISO 14001 audit, there were no findings recorded against the plant. Successful modifications to the bag filter plants resulted in increased availabilities of the plants: from 96.80% in 2000 to 99.25% in 2001 to 99.72% in 2002.

The Lydenburg plant's environmental achievements include modifications to the bag filter plants, which have resulted in improved efficiencies and availabilities, and the management of storm water, dust and noise as elements of their Environmental Management System.

The Wonderkop plant also had zero findings recorded during the second bi-annual SABS ISO 14001 audit. Key environmental issues addressed as part of the environmental management system include air pollution, water, waste disposal and noise.

### **3.1.1.5 Developments**

Capital expenditure for the year at US\$7.3 million predominantly comprised expenditure on the continuing development of the Waterval West chrome mine at Rustenburg, which will come on stream in 2004. Other capex programmes included the construction of a second ore pelletising line at the Wonderkop joint venture, and a partial simulation of the Lydenburg pre-reduction technology at the Rustenburg works, both of which will improve efficiencies and reduce costs.

The furnace lease agreement with AngloPlatinum, which was due to expire at the end of 2002, has been extended until the end of April 2003. Thereafter, the furnace will be reconverted at no cost to Xstrata, in order to be available for ferrochrome production.

Capital expenditure in 2003 is likely to be around US\$30 million. Projects for the year include the scheduled refurbishment of four furnaces, which, in the light of the expected strength in ferrochrome demand, has been planned to ensure that utilisation of Xstrata's operating capacity exceeds 90% for the year.

### 3.1.2 Vanadium

#### 3.1.2.1 Financial and Operational Data

US\$m	Proforma Year ended 31.12.02	Proforma Year ended 31.12.01	Proforma Six months to 30.06.02
Turnover	76.4	63.5	38.8
EBITDA	10.4	9.2	6.6
Depreciation & Amortisation	(3.3)	(6.1)	(1.2)
EBIT (pre-exceptionals)	7.1	3.1	5.4
Attributable net assets	122.6	106.6	125.1
Capital Employed	122.8	106.9	125.3
% Share Group EBIT	2.3%	0.7%	2.8%
% Share Group Net Assets	3.4%	4.2%	3.9%
% Return on Capital Employed*	7.1%	2.6%	9.2%
Capex	1.1	4.0	0.6
Expansionary	0.8	2.8	0.5
Sustaining	0.3	1.2	0.1
Attributable Saleable Production			
V <sub>2</sub> O <sub>5</sub> (k lbs)	41,333	38,909	20,393
Ferrovanadium (k kg)	6,458	6,118	3,008
Indicative Average Published Prices			
V <sub>2</sub> O <sub>5</sub> (US\$/lb) ( <i>Metal Bulletin</i> )	1.34	1.38	1.25
Ferrovanadium (US\$/kg V) ( <i>Metal Bulletin</i> )	7.69	7.83	7.27

(\* ROCE % based on average exchange rates for the period)

#### 3.1.2.2 Markets

The December 2002 results published by the International Iron & Steel Institute (IISI) indicate that global crude steel production (which accounts for some 87% of vanadium use) has grown by 6.4% year-on-year. Together with the continued growth in the proportion of vanadium used in steel production, this led to a marked increase in demand for vanadium products. However, the vanadium market remained in a situation of chronic oversupply for most of the year, which kept market prices for vanadium pentoxide (V<sub>2</sub>O<sub>5</sub>) and ferrovanadium (FeV) at historically low levels throughout most of the period.

Market sentiment improved at the end of the year, with a corresponding increase in prices, due to a number of factors. In the short-term these included a significant decrease in Russian production, which even ceased completely for short periods, due to legal disputes between producers and raw material suppliers, and the strengthening of prices in the United States, in expectation of the imposition of anti-dumping duties on FeV produced in South Africa and China. Other factors supporting prices throughout the year included the on-going reduction in the quantity of V<sub>2</sub>O<sub>5</sub> being offered in the spot market, as new integrated FeV producers came on stream, and the continued low-level of Chinese exports, due to the growth in domestic demand and on-going quality and environmentally driven reductions of capacity. Driven by these factors, and the strengthening South African Rand at the end of the year, prices at end of

2002 were up on 2001's year-end price by 42% for V<sub>2</sub>O<sub>5</sub> (US\$1.60/lb versus US\$1.12/lb) and 61% for FeV (US\$10.15/kg versus US\$6.30/kg).

The return of the Russian vanadium units would have led to an unavoidable return to chronic oversupply and a significant fall in prices. While the suspension of operations at Windimurra, which produced some 12 million pounds of V<sub>2</sub>O<sub>5</sub> in 2002, will constrain supply and provide some upward pressure on prices in 2003, price increases will depend on other producers closing the large number of uneconomic production units still in the market.

### 3.1.2.3 Operations

<b>EBIT VARIANCE: Vanadium</b>	
	<b>Proforma US\$m</b>
<b>EBIT 31.12.01</b> (pre-exceptionals)	<b>3.1</b>
Sales price variance	(0.5)
Volume variance	3.1
Cost reductions in real terms	2.5
Inflation impact on costs	(6.1)
Change in exchange rates	3.0
Other variances	(1.0)
Depreciation and amortisation	3.0
<b>EBIT 31.12.02</b> (pre-exceptionals)	<b>7.1</b>

Ferrovandium sales volumes were 61% higher and V<sub>2</sub>O<sub>5</sub> sales 13% lower in 2002 than 2001. This reflects Xstrata's on-going strategy to switch output to the higher value FeV product, and follows the commissioning of new FeV production facilities at Rhovan during the second half of 2001.

To accommodate increased sales volumes, 2002 FeV production, at 6.5 million kilograms, was some 6% higher than 2001 (6.1 million kilograms). V<sub>2</sub>O<sub>5</sub> production increased to 41.3 million pounds in 2002, 6% higher than 2001's total of 38.9 million pounds.

Efforts to penetrate the vanadium chemical market began slowly. However, better sales results were achieved as 2002 progressed, and contracts signed to date should ensure that the chemical plant will be running at full capacity (approximately 1.6 million pounds) during 2003. Production increased by 118% from 214,000 pounds in 2001 to 466,000 pounds in 2002.

Unlike much of the industry, Xstrata's South African vanadium operations have remained profitable, notwithstanding significant increases in raw material input prices, as a result of on-going efficiency programmes, which reduced the average unit cost of V<sub>2</sub>O<sub>5</sub> production in US Dollar terms by over 7% period on period.

Xstrata's vanadium operations continued to benefit from an off-take agreement with Glencore International AG, which provided a guaranteed minimum price of US\$3.80 per pound for 7 million pounds of V<sub>2</sub>O<sub>5</sub> produced during 2002. This agreement concluded at the end of 2002, and revenues in 2003 will be based purely on market prices.

The profitability of Xstrata's Australian operation, Windimurra, is strongly affected by two factors: the United States Dollar/Australian Dollar exchange rate and the price of V<sub>2</sub>O<sub>5</sub>. Notwithstanding an impressive year on year cost reduction of some 39% in Australian Dollar terms (30% in US Dollar terms), Windimurra was not profitable in 2002, impacting EBIT negatively by some US\$6.2 million. The outlook for the plant remains poor due to the growing strength of the Australian dollar, the conclusion of the attractive offtake agreement with Glencore and the on-going weakness in the vanadium price, which remains depressed by the structural oversupply within the industry. Given these factors, and Xstrata's commitment to respond rationally to supply-side excess in its markets, the decision has been taken to stop production and suspend operations at the Windimurra plant as soon as possible, and to assess options, which include permanent closure.

At the time of Xstrata plc's IPO and listing, an impairment provision was recorded which reduced the carrying value of Windimurra on Xstrata's books to US\$28.6 million. The Board of Xstrata has now decided to reduce the carrying value of Windimurra at 31 December 2002 to nil.

#### **3.1.2.4 Health, Safety & Environment**

Both Rhovan and Vantech have implemented Codes of Practice as prescribed by the Mining Health and Safety Act, 1996 (Act 29 of 1996). There were no fatalities during the year. The LTIFR for Xstrata Vanadium in 2002 was slightly higher, at 17.8, than the 17.5 recorded in 2001. Rhovan's safety management system has been in place since 1996 and is based on the National Occupational Safety Association of South Africa (NOSA).

The inquiry into health and safety at the Vantech operation, conducted by the South African Department of Minerals and Energy (DME), was concluded during 2002. The DME's final report confirmed that:

- Vantech has complied fully with the Mine, Health and Safety Act and was not negligent;
- no person had ever died due to exposure to vanadium;
- exposure to vanadium can cause occupational asthma, which is a reversible condition;
- no non-employees were affected at all by the mine's operations; and that
- Vantech was in full compliance with all permits held at the various government departments.

Following the investigation, Vantech has initiated additional measures in order to improve further the working conditions at the operation.

During May 2002, Rhovan obtained certification in terms of ISO 14001. Vantech initiated its programme of ISO 14001 certification in September 2002, with

implementation of OHSAS 18001 scheduled for the fourth quarter 2003. The key environmental issue for both Rhovan and Vantech is water management, and systems to monitor groundwater quality are in place at both plants. At Vantech contaminated groundwater is abstracted into specially designed ponds for evaporation and re-use. The project, which will be completed in July 2003, reduces the need for clean water at the plant. During 2002, 44 000cbm of water was re-used. Both plants have conducted ambient air dispersion modelling of emissions from the plants to determine the effects on the environment and surrounding communities.

### **3.1.2.5 Developments**

The major portion of 2002's US\$1.1 million capital expenditure related to exploration drilling to firm up the geological data available for the Rhovan ore reserve. The balance concerned smaller projects to update equipment and improve efficiencies. Capital expenditure for 2003, estimated at around US\$6 million, is earmarked for the V<sub>2</sub>O<sub>3</sub>/FeV furnace project at Rhovan.

In 2002, the US Department of Commerce and International Trade Committee both issued final rulings, effectively levying an antidumping duty on ferrovanadium sales into the United States of 116% on Xstrata and Highveld Steel and Vanadium Corporation Limited products. However, it is not anticipated that the ruling will have any material impact on earnings.

Xstrata is also in advanced stages of discussion with manufacturers and/or suppliers of vanadium bearing batteries for the supply of their raw material requirements. Studies by the vanadium bearing battery developers suggest potential for a strong growth market for vanadium within the next two years. Given its potential impact on the heavily oversupplied vanadium market, Xstrata Alloys continues to pursue opportunities in this area.

## 3.2 Xstrata Coal

### 3.2.1 Financial Data

US\$m	Proforma Year ended 31.12.02*	Proforma Year ended 31.12.01**	Proforma Six months to 30.06.02
<b>Turnover: own production</b>	<b>1,120.5</b>	<b>991.0</b>	<b>545.3</b>
Australia	767.2	663.6	370.9
South Africa	353.3	327.4	174.4
<b>Turnover: third party purchased coal</b>	<b>98.8</b>	<b>153.6</b>	<b>29.4</b>
Australia	72.9	109.7	17.9
South Africa	25.9	43.9	11.5
<b>Total Turnover:</b>	<b>1,219.3</b>	<b>1,144.6</b>	<b>574.7</b>
Australia	840.1	773.3	388.8
South Africa	379.2	371.3	185.9
<b>EBITDA</b>	<b>346.7</b>	<b>416.0</b>	<b>193.6</b>
Australia	214.2	199.2	116.6
South Africa	132.5	216.8	77.0
<b>Depreciation &amp; amortisation</b>	<b>(116.5)</b>	<b>(104.5)</b>	<b>(54.0)</b>
Australia	(86.9)	(67.0)	(35.7)
South Africa	(29.6)	(37.5)	(18.3)
<b>EBIT</b>	<b>230.2</b>	<b>311.5</b>	<b>139.9</b>
Australia	127.3	132.2	80.8
South Africa	102.9	179.3	59.1
<b>Attributable net assets</b>	<b>3,096.5</b>	<b>2,087.9</b>	<b>2,840.9</b>
Australia	1,686.6	995.4	1,592.2
South Africa	1,409.9	1,092.5	1,248.7
<b>Capital employed</b>	<b>3,109.6</b>	<b>2,593.0</b>	<b>2,870.7</b>
Australia	1,688.4	1,500.5	1,652.9
South Africa	1,421.2	1,092.5	1,217.8
<b>% Share Group EBIT</b>	<b>73.1%</b>	<b>82.1%</b>	<b>73.3%</b>
Australia	40.4%	34.8%	42.3%
South Africa	32.7%	47.3%	31.0%
<b>% Share Group Net assets</b>	<b>86.8%</b>	<b>83.0%</b>	<b>87.9%</b>
Australia	47.3%	39.6%	49.3%
South Africa	39.5%	43.4%	38.6%
<b>% Return on capital employed***</b>	<b>8.2%</b>	<b>10.2%</b>	<b>10.3%</b>
Australia	7.8%	8.7%	10.3%
South Africa	8.9%	11.7%	10.4%
<b>Capex</b>	<b>118.6</b>	<b>74.8</b>	<b>45.6</b>
Australia	71.5	33.5	33.1
South Africa	47.1	41.3	12.5
Expansionary	33.4	32.5	25.9
Sustaining	85.2	42.3	19.7

(\* Proforma 12 months to 31.12.02 includes Coal acquisition from 01.01.02)  
(\*\* Proforma 12 months to 31.12.01 includes Coal acquisition from 01.01.01)  
(\*\*\*) ROCE % based on average exchange rates for the period)

### 3.2.2 Production Data

(million tonnes)	<b>Proforma Year ended 31.12.02*</b>	Proforma Year ended 31.12.01**	Proforma Six months to 30.06.02
<b>Total Consolidated Production</b>	<b>44.0</b>	<b>41.2</b>	<b>21.6</b>
Australia	<b>27.6</b>	23.4	13.5
South Africa	<b>16.4</b>	17.8	8.1
<b>Consolidated Australian Sales Total (***)</b>	<b>27.5</b>	<b>22.7</b>	<b>13.0</b>
Semi-soft coking export	<b>5.4</b>	4.6	2.5
Thermal export	<b>17.4</b>	15.2	8.5
Domestic	<b>4.7</b>	2.9	2.0
<b>Consolidated South African Sales Total (***)</b>	<b>16.8</b>	<b>17.0</b>	<b>7.8</b>
Thermal export	<b>12.5</b>	12.7	5.7
Thermal domestic	<b>4.2</b>	4.3	2.1
<b>Attributable Australian Sales Total (***)</b>	<b>24.6</b>	<b>19.7</b>	<b>11.6</b>
Semi-soft coking export	<b>4.7</b>	4.0	2.2
Thermal export	<b>15.3</b>	13.2	7.5
Domestic	<b>4.6</b>	2.5	1.9
<b>Attributable South African Sales Total (***)</b>	<b>16.8</b>	<b>17.0</b>	<b>7.8</b>
Thermal export	<b>12.5</b>	12.7	5.7
Thermal domestic	<b>4.3</b>	4.3	2.1
<b>Average received export coal price (US\$/t) (FOB)</b>			
Semi-soft coking	<b>32.2</b>	32.3	33.1
Australian thermal	<b>27.6</b>	30.3	29.0
South African thermal	<b>24.6</b>	30.3	27.4

(\* Proforma 12 months to 31.12.02 includes Coal acquisition from 01.01.02)  
(\*\* Proforma 12 months to 31.12.01 includes Coal acquisition from 01.01.01)  
(\*\*\*) All Sales data is ex-mine i.e. does not include sale of third party purchased coal)

### 3.2.3 Markets

#### *European and Domestic South African Markets*

The spot market for thermal coal in the Atlantic basin was characterised by a high degree of volatility in 2002, with prices starting the year at a high of US\$29.5/tonne FOB, pulling back to a low of US\$20.5/tonne in August and then recovering sharply to around US\$27.0/tonne in the final quarter of the year. First half year volumes suffered from weakening demand, particularly in the second quarter, due to the cumulative impact of a mild European winter, lower gas prices in the United Kingdom, increased competition from Russian, Indonesian and Australian imports into Europe, and higher than average hydro-generation, all of which contributed to create an oversupplied market, resulting in depressed spot prices.

The second half of the year saw a resurgence in sales volumes on the back of reduced competition from Russia, Indonesia and Australia (linked to the lower,

more competitive FOB prices out of South Africa and high ocean freight rates from Australia to Europe), a lack of hydro reserves particularly in the Iberian peninsula and re-stocking by generators prior to the onset of the European winter. The increase in demand, together with the impact of production cuts estimated at 7.5 million tonnes, in South Africa, Colombia and Russia in the face of falling prices and oversupply, facilitated a rapid recovery in prices at the end of the third quarter. The absence of Asian supply into the European market, as a result of significantly higher freight rates, and the tight availability of supply from South Africa and Colombia continue to provide support for prices in the first quarter of 2003.

Xstrata Coal South Africa (XCSA) exported 12.5 million tonnes through Richards Bay Coal Terminal (RBCT) in 2002, some 200,000 tonnes less than export volumes in 2001. Average annual prices received for RBCT exports fell some 19%, from US\$30.3/tonne in 2001 to US\$24.6/tonne for the 2002 year, before recovering to US\$27.86/tonne at the end of December 2002. As a result of the dramatic increase in demand in the last quarter, RBCT ended the year with historically low stock levels of some 2.1 million tonnes, or approximately 11 days shipping.

There was a steady performance from the South African domestic market in 2002. The 2002 Eskom price, of ZAR53.4/tonne ex-mine, also improved by 12% year on year, as a result of the inflation linked price formula and premiums received for tonnage and quality, which were delivered above the base contract parameters. The 2002 average ex-mine domestic prices of ZAR127.40/tonne increased by 10.3% year on year, reflecting XCSA's strategy to optimise domestic prices whilst maximising export sales volumes.

#### *Far East and Australian Markets*

Demand for seaborne thermal coal in the Pacific region increased by approximately 8% compared to the previous year, although the market was characterised by a short-term period of oversupply in the middle of the year. This was largely a result of additional capacity from Australia and Indonesia, as well as sluggish economic growth in most of the major Asian markets, with the notable exception of China. Over the year, spot thermal coal prices fluctuated between a high of US\$28.9/tonne in February to a low of US\$22.0/tonne in August.

During the fourth quarter spot prices in the Pacific market began to recover and, by the end of the year, were around US\$25.0/tonne. The improvement in spot prices was due in part to problems at a number of Japan's nuclear power plants and, as a consequence, power utilities were required to maximise output at their coal-fired power generating plants. Furthermore, the predicted increases in Chinese coal exports failed to materialise for reasons of domestic priority, which resulted in domestic prices exceeding those available in the export market. China's strong domestic market also led to a significant increase in coal imports over the course of the year.

Asia remains the predominant market for sales from Xstrata Coal Australia's (XCA) operations, with 2002 sales to the region representing approximately 70% of total sales. For the 12 months commencing April 2002, the Japanese Reference Price for Australian thermal coal contracts to Chubu Electric declined by 7.7% from the previous year to US\$31.85/t largely as a result of increasing supply from Australia and Indonesia. This price reduction followed a 20% increase realised during the previous year.

Semi soft coking coal prices into the Asian steel mills also declined by between 7% and 9%, and contract volumes to the region were lower, largely as a result of increased competition from Chinese producers. Sales to new customers in Brazil and Europe partially offset the fall in sales to Asia.

In 2002, approximately 75% of all sales from XCA's mines were sold under term/annual contracts, with the balance being sold on the spot market. Indications are that this percentage will reduce in 2003, as a number of major customers in the region, particularly in Korea, move to increase purchases from the spot market.

The Australian domestic market remains a strong focus for XCA mines, with around 18% of production currently being sold to local power utilities (up from 13% last year). Approximately 85% of XCA sales into the domestic market are under long-term contracts, with 2002's average price received, of AUD31.6/tonne some 17% down on 2001's average domestic price of AUD38.3/tonne. The reduction is due to the changed contract mix, following the acquisition of Ravensworth and Narama in March 2002. The projected growth in coal demand by power stations in New South Wales will lead to a number of new, long-term opportunities for XCA mines.

While XCA continues to build a broader customer base for its thermal and semi soft coal products in non-traditional markets, with sales into India and Brazil supplemented by a recent 2.5 million tonne thermal coal contract into Mexico, the Far East (Japan in particular) remains the prime focus. Our positive outlook for the Far East takes into account external factors, including the recently announced phased introduction of a coal tax by Japan. Given coal's enviable position as the cheapest fossil fuel for power generation, and the fact that existing taxes on competing fuels (LNG and LPG) will increase simultaneously with the introduction of the coal tax, we do not believe that this tax will have any material impact on Japanese thermal coal demand growth in the medium term.

### 3.2.4 Operations

<b>EBIT VARIANCE: Coal</b>	
	<b>Proforma US\$m</b>
<b>EBIT 31.12.01 **</b>	<b>311.5</b>
Sales price variance	(140.4)
Volume variance	39.3
Cost reductions in real terms	37.3
Inflation impact on costs	(26.4)
Change in exchange rates	20.9
Depreciation and amortisation	(12.0)
<b>EBIT 31.12.02 *</b>	<b>230.2</b>

(\* Proforma 12 months to 31.12.02 includes Coal acquisition from 01.01.02)

(\*\* Proforma 12 months to 31.12.01 includes Coal acquisition from 01.01.01)

#### *Australia*

Full year consolidated production of 27.6 million tonnes was 4.2 million tonnes, or 18% higher, than 2001. The increase can be attributed to completion of the capacity expansion at the Mt Owen opencast mine (0.4mt), purchase of the Ravensworth/Narama operations in March 2002 (2.5 mt), commencement of longwall mining at United in June 2002 (1.1 mt) and increased production from the Ulan complex (0.4 mt).

With a capacity increase of over 40%, Mt Owen is now capable of producing in excess of 5 million tonnes per annum. Increased production from the Ulan complex reflects the higher productivity achieved since the current management took over in February 2001. By end 2002, a productivity improvement of 25% and 15% was achieved at the opencast and underground mines respectively, due to the implementation of management initiatives and reduced manning levels.

On-going cost improvements, together with the acquisitions and increased productivities outlined above, achieved a reduction in unit operating costs by approximately 2% in US Dollar terms compared to the same period last year. In local currency terms, unit operating costs reduced by 7% over the same period.

Year on year, EBIT was marginally lower at US\$127.3 million, compared with US\$132.2 million in 2001, due to lower prices, offset by increased sales volumes and reduced local currency operating costs. The impact of a strengthening US\$/AUD foreign exchange translation from US\$0.517 to US\$0.543 was fully offset by currency hedging, which enabled XCA to achieve an average conversion rate of US\$0.516. This alone offset the impact of lower prices by US\$34 million.

In order to address possible oversupply in the market, and to cap further build-up of stock levels, some 400,000 tonnes of projected export production was cut in the June quarter. These cutbacks were achieved, together with a further

reduction in costs, by decreasing contractor numbers and overtime, increasing holiday closures and reducing staffing levels.

In late 2002, significant changes were made to a number of operations in order to reduce costs further in 2003. At Bulga Opencast a 9% reduction in costs is targeted for 2003, following the introduction of an optimised mine plan, a 33% reduction in employee numbers, and improved operating practices, all of which will result in significant productivity improvements. At Liddell, re-contracting the operation is forecast to deliver a 3% reduction in costs.

Furthermore, a number of projects, planned for 2003, are expected to deliver improved productivity and unit cost savings, including: full year longwall mining at United, commencement of Beltana underground (following depletion of South Bulga's reserves) and a new mining contract at Liddell. The planned cessation of underground mining at Cumnock in 2003 is not expected to curtail XCA production due to continuation of Cumnock opencast operations and growth from other XCA mines.

#### *South Africa*

In the proforma 2001 accounts, XCSA's ATC and ATCOM operations were accounted as joint ventures for 12 months, while Douglas Tavistock was accounted as an associate for 11 months. From January 2002, these entities are reported as 'Joint Arrangement not an Entity' (JANE) and are therefore proportionately consolidated. Had they been reported as JANEs in 2001, turnover for the 2001 year would have been US\$138.2 million higher.

On a like-for-like basis, therefore, XCSA's 2002 performance reflected a weaker export coal market, with own production turnover down US\$112.3 million as a result of reduced export volumes (down 2%) and reduced export prices, down US\$5.7 per tonne (19%) year-on-year.

Total coal sales were 16.8 million tonnes, 1% lower than 2001 levels. The impact of the weaker market on earnings was partly mitigated by cost reductions, with the FOB average cash cost down 9% year on year. This reflected the ability of the business to keep cash cost increases in Rand terms well below the prevailing inflation rate (a 7.7% increase versus an increase in the South African producer price index of 14%), as well as an exchange rate benefit, associated with the weaker Rand.

Total XCSA production during 2002 was 16.4 million tonnes, 8% lower than 2001, due to the closures of the Rietspruit Colliery, as a result of depleted reserves, and the high-cost Strathrae Colliery. These closures of production capacity were partially offset by the re-commissioning of the low-cost South Witbank Colliery in late 2001.

Production was also impacted by the second-quarter decision to reduce output due to European market oversupply and the resultant increase in coal stocks. This involved stopping operations for an extended period over Easter, deferring

the restart of the Waterpan coal re-treatment plant and shutting down certain higher cost production sections at some of the mines.

The South Witbank mine, which was re-commissioned in late 2001 with new equipment including a beneficiation plant, underground mining equipment, coal conveying and, storage systems, has achieved the highest productivity and lowest production cost of all XCSA's operations averaging approximately US\$6 per tonne on a free on rail basis.

During the period under review significant operating improvements were made at a number of operations. The technologies and systems employed to achieve significant gains at South Witbank are being systematically implemented at other XCSA operations, such as Arthur Taylor Colliery, which achieved a 40% increase in underground section productivities between the first and fourth quarters of 2002. The Witcons and Tavistock collieries are currently in the process of implementing these improved systems, which are also scheduled for implementation at Boschmans Colliery in 2003. In addition, total employee numbers were reduced across the business by 695 (13%), with only a marginal increase in the number of contractors employed. This resulted in a 14% year-on-year increase in productivity (run of mine tonnes per employee, including contractors).

EBIT fell by US\$76.4 million (43%), from US\$179.3 million in 2001 to US\$102.9 million in 2002, due to lower sales volumes and prices, with the overall impact mitigated by the management initiatives outlined above.

### **3.2.5 Health, Safety & Environment**

#### *Australia*

XCA demonstrated an improvement in health and safety key performance indicators year on year, reflecting the ongoing implementation and effectiveness of management controls.

During 2002, XCA recorded no fatalities. The lost time injury frequency rate (LTIFR) fell by 15% from 27 in 2001 to 23 in 2002, and the total recordable injury frequency rate (TRIFR) fell by 33% from 93 to 62. The fall in the LTIFR continued the positive trend established in 2001.

External audits of each operation's safety management system were used to determine the level of compliance with the XCA Safety Management framework. The average audit score increased by 5.7%, based on the scoring system applied by the external auditor, demonstrating continual and overall improvement.

During 2002, key health and safety activities and achievements included:

- endorsing and implementing a Safety Management framework aligned to the Australian Standard AS 4804 and consistent with Group Standards.

- progressing the successful establishment of each operation's own safety management systems aligned to the XCA framework;
- implementing the standard for Energy Isolation across the group and auditing each operation for compliance;
- integrating the new Xstrata plc reporting requirements into XCA's reporting systems, and conducting the Xstrata plc Group risk review, which initiated three major audits and system improvements at XCA operations, and
- implementing a risk management approach to water management structures located across all XCA sites.

During 2002, XCA achieved considerable progress in the area of environmental management. XCA has a Group Environmental Management System (EMS) in place, based on the principles of ISO14001, and requires all of its sites to develop their own EMS, which must be consistent with that of the Group. Audit results confirmed each site's progress and improvement in EMS implementation.

XCA is a signatory to the Australian Minerals Industry Code for Environmental Management and is required to complete annual Code Implementation Surveys (CIS) and undergo a three yearly audit. The 2002 audit showed the majority of sites demonstrated improvement with the CIS, with some sites demonstrating substantial improvement (i.e. >5% increase in scores). The number of recorded incidents of environmental non-conformance reduced to three incidents, one of which occurred in 2000, prior to XCA acquiring the operation.

During 2002, key environmental activities and achievements included:

- endorsement of the Group EMS in October 2002;
- conducting environmental audits by external consultants for three sites, as part of a programme where every site is audited at least once every three years;
- producing XCA's inaugural Environmental Report, with work underway to extend the 2003 report to include XCSA;
- assessing numerous projects focused on the management and minimisation of greenhouse gas emissions. XCA has an active greenhouse programme in place which involves recording data, independent and external auditing of data, assessing and analysing data and trends, and identifying objective targets; and
- commissioning a risk assessment on all dams to assess the potential for dam failures, with a preliminary assessment identifying 12 of the 192 dams as requiring further investigation/regular monitoring to ensure ongoing performance.

### *South Africa*

XCSA's continued improvement in health and safety management during 2002 was marred by two fatalities in the last six weeks of the year. Immediate

responses included a three-day production halt at one of the relevant sites, for intensive safety coaching and the revision of certain specific safety systems. Group wide audits were conducted thereafter to ensure compliance. The 2003 health and safety programme has been structured to capture the learning points from these accidents and will include, inter alia, the development of fatal risk registers at each operation to serve as a guide to where safety efforts need to be maximised.

Despite these two tragic events, the overall rate of lost time accidents decreased from 5.7 in 2001 to 2.3 lost time accidents per million hours worked.

XCSA adapted the Xstrata Coal Environmental Management System (EMS) to its operations and has commenced implementation in January 2003. An organisational structure for environmental management was developed and implemented, with a baseline for environmental management performance successfully established.

During 2002, key environmental activities and achievements included:

- adopting the XC Environmental Vision and Policy, and appointing a Group Environmental Manager;
- employing external consultants to conduct a performance assessment of both the EMPRs for current operations and closure cost assessments, the results of which will be used to implement action plans to address non-compliance or any potential under-funding;
- commissioning a geohydrological investigation and assessment for the Tweefontein Division. Upon completion, this will be combined with the results of a similar study on the contiguous iMpunzi Division and used to develop a long-term water management plan through to post-closure of the operations;
- commencing a rehabilitation programme for disused reject dumps inherited by XCSA; and
- the successful identification of key environmental performance indicators and the development of a system of data analysis for management purposes.

### **3.2.6 Developments**

#### *Australia*

Some US\$45 million of 2002's US\$72 million capital expenditure related to two major projects: the introduction of longwall mining at United and the establishment of the Beltana Mine. The remaining US\$27 million included a range of smaller growth projects and other projects involving the replacement of equipment to sustain operations.

The introduction of longwall mining at United, which commenced in June 2002, is on track for successful completion on time and within budget early in 2003, with US\$34 million of the project's total capital cost of US\$37 million expended in 2002. The transformation of United, which also involved the construction of a coal handling preparation plant to process the additional coal produced, will increase production of high quality semi-soft coal by 1.4 million tonnes, while reducing operating unit costs by some 20%.

Development of Beltana underground mine at the Bulga Complex continued on schedule and within budget, with US\$11 million of the total project cost of US\$28 million incurred during 2002. The longwall is expected to produce first coal in mid-2003, following completion of mining at South Bulga underground in the first half of the year. Beltana's highly competitive cost structure, which is expected to be amongst the lowest in Australia, will further increase XCA's productivity, and reduce the average unit cost of the business.

Other sustaining capital expenditure included US\$5 million in equipment replacement at Bulga Opencast, US\$3 million to construct the Ulan water management scheme and US\$4 million on coal clearance capacity and the longwall upgrade at West Wallsend. A further US\$14 million was spent on a number of other sustaining capital requirements such as advancing face, minor equipment replacement, land purchases, exploration and other miscellaneous items across all of the mining sites, with individual items costing less than US\$1 million each.

Capital expenditure for 2003 is expected to be similar to that of 2002. Work will continue on the Beltana Mine in the first half of the year, while at Ulan the installation of a water management scheme will be completed and a new drift conveyor to reduce costs assessed. Work continues on the Glendell and Bulga long-term projects. Ongoing equipment replacements, land purchases for future mining activities and water management projects will also form a large part of the capital requirements for 2003.

Following the year-end, XCA announced the successful acquisition of 11.5% of Oakbridge from Tomen Corporation for US\$58 million. The transaction, which was effective 1 January 2003, increases XCA's shareholding in Oakbridge from 66.5% to 78%, and its attributable coal sales capacity by some 1.1 million tonnes.

### *South Africa*

The US\$47million of capital expenditure at XCSA's operations in 2002 was allocated to a number of projects across the business, the most significant of which was the US\$4.1 million payment for the Zaaiwater property, which added a further 15.5 million tonnes of saleable reserves to the Boschmans and Goedgevonden operations.

In addition, US\$1.7 million was spent at Boschmans Colliery replacing an expensive cut, drill and blast section with a new continuous miner section in order to increase secondary mining and maximise reserve utilisation. US\$2.6

million was spent on infrastructure and equipment at Douglas Tavistock JV's Boschmanskrans project, with a further US\$1.6 million directed to Tavistock Colliery for the second phase of the processing plant upgrade.

US\$0.9 million represents Xstrata's share of the costs associated with re-engineering the conveyor systems and services infrastructure at Arthur Taylor Colliery (Joint venture operation with TESA), which has already delivered a 40% increase in productivity between Q1 and Q4, 2002. In addition, a further US\$0.7 million was spent on the initial work associated with the two-year relocation of Arthur Taylor Opencast Mine to the new North Pit.

Finally, US\$0.7 million was allocated to the 50% expansion of WitCons Colliery, a US\$4.4 million project which includes a third production section, to allow for secondary extraction, and the upgrade of the main conveying system and processing plant.

Planned capital expenditure in 2003, which is expected to increase to around US\$75 million, will target strategic projects such as the Phase V expansion of the Richards Bay Coal Terminal capacity from 72 to 82 million tonnes per annum (approximately US\$16 million to be spent over a two-year period); the initial development of the mini-pit contractor operation at Goedgevonden Colliery (estimated capex of US\$2.5 million in 2003); and the US\$4.2 million relocation of ATCOM's mining operations to the North Pit. Remaining capital expenditure will be directed towards planned expansions at certain operations, such as Witcons and Tavistock, with the balance directed to sustaining the output of other XCSA operations.

### 3.3 Xstrata Zinc

#### 3.3.1 Financial & Production Data

US\$m	Year ended 31.12.02	Proforma Year ended 31.12.01*	Proforma Six months to 30.06.02
Turnover	<b>400.0</b>	383.3	206.6
EBITDA	<b>88.4</b>	101.5	49.3
Depreciation & amortization	<b>(34.1)</b>	(34.4)	(16.7)
EBIT	<b>54.3</b>	67.1	32.6
Attributable net assets	<b>612.6</b>	548.0	580.5
Capital employed	<b>614.8</b>	548.1	582.7
% Group EBIT	<b>17.2%</b>	15.8%	17.1%
% Share Group Net Assets	<b>17.2%</b>	21.8%	18.0%
% Return on capital employed**	<b>9.8%</b>	12.1%	12.4%
Capex	<b>30.2</b>	107.3	15.4
- expansionary	<b>16.0</b>	83.7	7.8
- sustaining	<b>14.2</b>	23.6	7.6
Production (tonnes)	<b>460,015</b>	390,792	231,363
Average LME Zn price (US\$/t)	<b>779</b>	886	788

(\* Proforma includes Asturiana de Zinc acquisition from 01.01.01)

(\*\* ROCE % based on average exchange rates for the period)

#### 3.3.2 Markets

Following a number of both temporary and permanent zinc mine closures, a consequence of the extremely low prevailing zinc price, world zinc mine output fell 2% to 8.7 million tonnes of contained zinc in 2002. Similar cutbacks in smelter production, mainly in the USA, Peru, Europe, Japan and China, were offset by increased production from Canada, Spain and South Korea, which resulted in a net increase in zinc output of 2.0% to 9.4 million tonnes in 2002. The consequent concentrate supply deficit contributed to an 11% fall in contract treatment charges, from an average of US\$189/t in 2001 to US\$169/t in 2002. Spot market treatment charges fell even further, to lows of around US\$130/t, due to increased demand for imported concentrates in China.

The main consuming sectors for zinc are construction and automobiles, which together account for approximately 70% of zinc consumption worldwide and which are highly correlated to the level of economic activity and particularly to industrial production. Recovery of economic activity in the main industrialised countries, and therefore demand for metals, has been weaker than expected. World usage of refined zinc rose by 2.5% to 9.0 million tonnes. In Asia, further strong growth in China, together with increased zinc consumption in South Korea and other South East Asian countries, resulted in overall growth for the region of over 4% in 2002. Growth in Europe was more modest at 1.0%.

Reflecting the zinc metal supply surplus of the market, zinc stocks at LME warehouses increased by 218,000 tonnes during the year, and prices remained

at historically low levels. The average LME zinc settlement price was 12% lower at US\$779/t in 2002 compared to an average of US\$886/t in 2001.

### 3.3.3 Operations

<b>EBIT VARIANCE: Zinc</b>	
	<b>Proforma US\$m</b>
<b>EBIT 31.12.01 *</b>	<b>67.1</b>
Sales price variance	(33.5)
Volume variance	13.2
Cost reductions in real terms	25.3
Inflation impact on costs	(4.9)
Change in exchange rates	(7.0)
Other variances	(6.1)
Depreciation and amortisation	0.2
<b>EBIT 31.12.02</b>	<b>54.3</b>

(\* Proforma includes Asturiana de Zinc acquisition from 01.01.01)

Following commissioning of the expansion project in the second half of 2001, San Juan de Nieva completed its first full year of operation, increasing annual capacity by 120,000 tonnes or 35%. The smelter has run at full capacity since commissioning and production of zinc metal increased from 390,792 tonnes in 2001 to 460,015 tonnes in 2002. In addition, total process loss at San Juan has been reduced from 4.4% in 2001 to 3.7% in 2002, due to the positive impact of new technology used in the expansion and as a consequence of the plant's on-going modernisation, process research and productivity programmes.

Total sales in 2002, of 448,321 tonnes, increased 71,714 tonnes (19%), against 2001. In addition, sales into the higher-premium domestic market increased some 7% year on year. Product mix also improved in 2002, with sales of value added products up by 35% in export market and by 5% in the domestic market. The domestic sales net premium rose by 2%, while the export sales net premium decreased by 21%, as the major portion of the production increase was exported as ingot.

During 2002 Xstrata Zinc also produced 693,749 tonnes of sulphuric acid, 7,808kg of germanium (as GeO<sub>2</sub>), 14,614 tonnes of zinc oxide (Arnao plant) and 25,427 tonnes of liquid Sulphur Dioxide (Hinojedo plant).

The expansion contributed to the on-going cost cutting performance of Xstrata Zinc, and consolidated San Juan's position as the world's largest and lowest-cost zinc smelter. Unit costs throughout the plants have also reduced as a result of the recent implementation of a sustainable cost reduction programme across the business, which has focussed on improving the utilisation and reducing the costs of industrial consumptions, sourcing alternative suppliers and materials, and on-going optimisation of metallurgical processes. The benefits of higher production and lower unit costs mitigated the negative impact of the collapse of the zinc price and the depreciation of the US dollar against the Euro at the EBIT level. The breakdown of a transformer in the tankhouse and lower production of sulphuric acid and germanium had a negative impact on EBIT.

In 2002 the Reocín mine produced 116,542 tonnes of zinc concentrate and 8,815 tonnes of lead concentrate. Notwithstanding the reducing production profile of the mine, in advance of its anticipated closure in July 2003, production exceeded budgeted levels, particularly lead concentrate production, which was higher in 2002 than 2001. As a consequence of the business-wide cost reduction programme, the Reocín mine's unit costs in Euros per tonne was 6% lower than budgeted and 4.5% lower than 2001.

### **3.3.4 Health, Safety & Environment**

The on-going success of the health and safety programmes across Xstrata Zinc is reflected in the reduction in its lost time injury frequency rate (LTIFR). At the metallurgical plants this has decreased progressively from 94.5 in 1995 to 53.2 in 2002. This trend reversed in 2001, when the LTIFR moved from 51.5 (2000) to 61.6 (2001), as a result of the incorporation of a significant number of new workers and additional departments as part of the expansion at San Juan. The improvement back to an LTIFR of 53.2 in 2002 compares with the average national industrial LTIFR rate for Spain of 63 (2001, the most recent data available). At Reocín, the 2002 LTIFR (61.7), represents a 58% reduction against 2001's performance, and a 45% reduction from the average of the last eight years

The central thrust of health and safety activities in 2002 centred on the relaunch of an updated safety and occupational health plan, following the conclusion of the expansion project and the start-up of new installations. The principal objective for 2003 is a 20% reduction in the accident rate. The major focus centres on reducing incidents in two specific departments at San Juan that together account for 46% of the total accident rate.

The major achievements in respect of environmental management in 2002 include approval by the environmental authorities of the Environmental Impact Assessment for the future oleum plant, the successful adoption and approval of the Conditioning Plan for jarosite pond No 3 (in accordance with Article 14 of Directive 1999/31 EU on landfill), the installation of fabric filters for the zinc melting furnaces and the positive stability assessment of the historical jarosite ponds.

A major environmental issue for the zinc industry relates to the management of the waste product created in the smelting process, which is high in iron (reflecting the high iron content of raw inputs). In the smelting process, iron is removed as "jarosite", which is classified in both Spanish and European legislation as a dangerous waste product. Within the industry, jarosite is usually disposed of in specially constructed tailings ponds, which have to be carefully monitored and maintained to ensure on-going protection of the environment.

At San Juan, by means of patented, leading-edge technology, jarosite is converted into "jarofix", a solid, stable and inert material, which is used as an infill/aggregate. The process allows Xstrata Zinc to meet the most demanding environmental requirements, extending the operating life of the plant.

In 1998, Xstrata Zinc's metallurgical operations implemented an Environmental Management System (EMS), and the critical environmental objective in 2003 is the certification of the EMS to ISO 14001 status. Other important objectives include technical improvements at the jarofix disposal site and cost reduction in waste management operations (cadmium sponge and waste from the electrolysis installations).

The critical environmental objective at Reocín for 2003 is the successful closure and restoration of the mine site. This requires final approval of the Closure and Restoration Plan by the Government of Cantabria, and then the successful implementation of the Plan. Discussions with the regional authorities regarding the mine's closure have been constructive and positive, and no major issues are expected to complicate the process. The final closure of the tailings dam forms the basis for a research project being undertaken by the University of Cantabria. The project conclusions will be presented to the Government of Cantabria in February 2003. Management considers that adequate closure provisions have been accrued, and consequently the closure is not expected to impact on 2003 results.

### **3.3.5 Developments**

Approval has been given for a further expansion of nameplate capacity at the San Juan de Nieva plant from 460,000 tonnes to 485,000 tonnes per annum. Construction on the project, which has a capital cost of US\$6.2 million, started in November 2002, with commissioning expected early in the third quarter of 2003. As San Juan is currently operating in excess of its current capacity, full year 2003 production is likely to be between 470,000 and 475,000 tonnes.

A new Oleum Plant, with an annual capacity of 52,000 tonnes, is under construction at San Juan. The US\$3.5 million project will provide a more cost efficient solution to disposal of sulphuric acid.

In order to secure San Juan's electrical supply, comply with current tariff legal requirements and ensure that the facilities can benefit from alternative power suppliers following market deregulation, it is necessary to change incoming voltage from 132kV to 220kV. The project, which commenced in 2002 and will complete at the end of this year, requires investment of some US\$7 million in 2003.

Xstrata Zinc continues to analyse different investment opportunities, both in mining and smelting, where its technological and operating expertise can be applied. As part of this strategy it has acquired from Metaleurop the Nordenham zinc smelter for US\$100 million, which includes a payment of US\$13 million for zinc related inventories. The Nordenham plant, which is located near Bremerhaven in northern Germany, has an annual production capacity of 133,000t of electrolytic zinc per year and is one of the world's most profitable and cost efficient zinc producers. In addition to the opportunity to acquire zinc capacity at an entry cost that is lower than that of a brownfield expansion, key attractions of the acquisition include the potential for both operational and marketing synergies with San Juan (especially to the high-premium German customer base), and a possible expansion at an appropriate time in the future,

which could double plant capacity to some 250,000 tonnes per annum. Following the acquisition, Xstrata Zinc's annual production capacity increased to over 600,000 tonnes, accounting for around 20.5% of European zinc metal production and 6.4% of global output.

As discussed at the interim stage, the long planned closure of the Reocín Mine has provided ample time and opportunity for Xstrata Zinc to source replacement concentrates to prevent disruption in supply. Agreements are in place to cover 80% of concentrate requirements for San Juan in 2003 and 2004, and 100% of Nordenham's requirements for 2003. Treatment charges in these agreements have been fixed at premiums to the current benchmark rates.

### 3.4 Other Businesses

US\$m	Proforma Year ended 31.12.02	Proforma Year ended 31.12.01	Proforma Six months to 30.06.01
<b>Forestry</b>			
Turnover	2.2	25.8	1.1
EBITDA	0.4	0.8	-
Depreciation & amortisation	(0.9)	(0.3)	(0.1)
EBIT	(0.5)	0.5	(0.1)
Capex	1.7	3.7	0.4
Attributable net assets	21.0	21.8	21.2
Capital employed	33.0	33.8	33.3
Production: Pulplogs (cbm)	76,706	300,750	34,600
Production: Woodchips (bdmt)	-	216,449	-
<b>Magnesium</b>			
Turnover	3.2	-	0.7
EBITDA	(4.9)	(4.1)	(2.8)
Depreciation & amortisation	(3.1)	(0.9)	(1.4)
EBIT (pre-exceptionals)	(8.0)	(5.0)	(4.2)
Capex	0.6	21.8	0.5
Attributable net assets	2.2	25.3	24.8
Capital employed	2.2	25.3	24.8
Production (tonnes)	5,449	40	2,717
<b>% Share Net Assets: Other businesses</b>	<b>0.7%</b>	1.9%-	1.4%

#### 3.4.1 Forestry

Forestal Los Lagos's (FLL) activities comprise the management of a plantation of *eucalyptus globulus*, and the sale of pulplogs under a tolling and marketing agreement with Forestal del Sur Ltda (FDS), which is valid to 2006. Sales volumes in 2002 were lower than 2001, reflecting the disposal by the former Xstrata AG of its forestry trading business to FDS on 1 July 2001. The disposal also accounts for the lower operating margins and earnings of the forestry business.

Excluding the impact of trading activities, sales volumes at FLL reached 70,437 cubic meters in 2002, compared with 70,949 cubic meters in 2001.

Fiber prices remained depressed in 2002, due to additional supply from Australia and South Africa, coupled with the on-going weak performance of the Japanese economy. The average price for *eucalyptus globulus* in 2002 was US\$30.92/cbm, compared to US\$ 33.26/cbm in 2001.

Prices are expected to fall further in 2003, as a result of continued oversupply, weak demand in Japan and the desperate efforts of pulplog producers to sell down their inventories. While sales volumes are expected to increase by some 20,000cbm in 2003, operating margins and earnings will be impacted negatively by the lower price environment that is likely to prevail.

FLL obtained Forest Stewardship Council (FSC) certification in 2002, which is the most thorough and widely-recognised environmental certification in the forestry industry.

### 3.4.2 Magnesium

In 2000, the former Xstrata AG commissioned the plant in Anderson, Indiana, to recycle scrap to produce magnesium alloy for the US automobile industry. The facility comprises two lines capable of processing 25,000 tonnes of magnesium scrap annually. Only one line has been commissioned, which operated at 20% of its capacity in 2002, due to severe commissioning problems, contract timing, a lack of critical automotive certification and negative market conditions.

The plant has made a net loss during the past year as a result of low throughput and the very depressed trading conditions in the domestic US magnesium market. The downturn in the U.S. economy, specifically in the automotive market, and the continued growth of Chinese exports of magnesium (18% up between January and November 2002) at prices well below that of US magnesium suppliers, have pushed down magnesium prices further during 2002. The most dramatic change in prices has been for Western grades of pure and alloy magnesium, where prices have fallen by up to US\$0.2 per pound since the beginning of 2002.

Following consideration of the outlook and options available for the plant, the Board of Xstrata plc has decided to record a total impairment charge of US\$22.2 million, reducing the carrying value of the magnesium business to nil at 31 December 2002.

As indicated in the Interim Report in July 2002, a new chief executive was appointed from Xstrata Alloys at the half-year, to expedite the plant's commissioning and to undertake a thorough review of Xstrata Magnesium's business plan. While the operational problems have been resolved, enabling the line to produce at design capacity, and while the high quality of its product was confirmed by extensive automotive certification – leading to a full order book for 2003, on-going ownership of the facility is not consistent with Xstrata's strategy of not investing in smaller, niche businesses.

Xstrata has been approached by various parties to discuss a possible sale of the business, and the management of Xstrata Magnesium is pursuing several initiatives to maximise a possible exit value. The net impact of any such exit is unlikely to be material in the context of the Group's accounts.

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## Financial Statements

The preliminary announcement contains information which has been extracted from the latest financial statements. This information does not constitute the Company's statutory accounts, which will be approved by the Board and reported on by the auditors for inclusion in the Xstrata plc Annual Report 2002 and filed with the Registrar of Companies.

## Consolidated Profit and Loss Accounts

For the year ended 31 December

	Notes	2002 US\$ m	2001 US\$ m
<b>TURNOVER</b>			
Continuing operations:			
- Ongoing		772.0	613.6
- Acquisitions		1,037.3	-
Group turnover		1,809.3	613.6
Net operating costs before exceptional costs		(1,547.0)	(521.2)
Exceptional costs - impairment of assets	4	(50.8)	(45.5)
Net operating costs	5	(1,597.8)	(566.7)
<b>OPERATING PROFIT</b>	6	211.5	46.9
Continuing operations:			
- Ongoing		33.8	46.9
- Acquisitions		177.7	-
		211.5	46.9
Income from interests in associated undertakings		0.7	-
<b>TOTAL OPERATING PROFIT</b>		212.2	46.9
Continuing operations:			
- Profit on sale of fixed assets		3.1	0.5
- Loss on disposal of operations	8	-	(1.9)
<b>PROFIT BEFORE INTEREST AND TAXATION</b>		215.3	45.5
Interest receivable and similar income		7.1	2.1
Interest payable and similar charges	9	(44.5)	(23.7)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		177.9	23.9
Tax on profit on ordinary activities	10	(29.8)	(10.6)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		148.1	13.3
Equity minority interests		(5.8)	(2.0)
<b>ATTRIBUTABLE PROFIT</b>		142.3	11.3
Dividends to shareholders	12	(50.3)	-
<b>RETAINED PROFIT FOR THE YEAR</b>		92.0	11.3
<b>Earnings per share (US\$) - basic</b>	11	0.65	0.19
<b>Earnings per share (US\$) - diluted</b>	11	0.65	0.19
<b>Dividend per share (US\$)</b>	12	0.20	-

## Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December

		2002 US\$ m	2001 US\$ m
Attributable profit		142.3	11.3
Translation adjustments on loans	26	(13.1)	21.7
Subsidiary net asset translation adjustments		638.8	(168.2)
<b>TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR</b>		768.0	(135.2)

## Reconciliation of Consolidated Shareholders' Funds

For the year ended 31 December

	2002 US\$ m	2001 US\$ m
<b>RECONCILIATION OF SHAREHOLDERS' FUNDS</b>		
Total recognised gains and losses	768.0	(135.2)
Dividends	(50.3)	-
	717.7	(135.2)
Other movements:		
- New shares issued	2,309.3	-
Total movements during the year	3,027.0	(135.2)
Shareholders' funds at the beginning of the year	539.1	674.3
<b>SHAREHOLDERS' FUNDS AT END OF THE YEAR</b>	<b>3,566.1</b>	<b>539.1</b>

## Consolidated Balance Sheets

As at 31 December

	Notes	2002 US\$ m	2001 US\$ m
<b>FIXED ASSETS</b>			
Intangible assets	13	1,017.7	146.4
Tangible assets	14	3,254.7	737.3
Investments			
- Investment in associates	15	0.7	-
- Other investments	15	181.2	22.9
		181.9	22.9
		4,454.3	906.6
<b>CURRENT ASSETS</b>			
Stocks	16	294.4	144.7
Debtors: amounts falling due within one year	17	277.3	170.5
Debtors: amounts falling due after more than one year	17	76.2	13.2
Cash at bank and in hand	26	88.7	45.9
		736.6	374.3
<b>CREDITORS: amounts falling due within one year</b>	18	(527.6)	(228.7)
<b>NET CURRENT ASSETS</b>		209.0	145.6
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,663.3	1,052.2
<b>CREDITORS: amounts falling due after more than one year</b>	19	(655.0)	(422.0)
Provisions for liabilities and charges	23	(251.1)	(89.1)
<b>NET ASSETS</b>		3,757.2	541.1
Equity minority interests		(191.1)	(2.0)
<b>ATTRIBUTABLE NET ASSETS</b>		<b>3,566.1</b>	<b>539.1</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	24, 25	126.3	29.5
Share premium account	25	1,277.7	-
Other reserves	25	1,240.7	305.9
Profit and loss account	25	921.4	203.7
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<b>3,566.1</b>	<b>539.1</b>

## Consolidated Statement of Cash Flows

For the year ended 31 December

	Notes	2002 US\$ m	2001 US\$ m
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	26	451.8	158.4
<b>DIVIDENDS RECEIVED FROM ASSOCIATES</b>		0.3	-
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		5.1	2.1
Interest paid		(34.4)	(22.4)
Interest element of finance lease rental payments		(0.9)	-
Loan arrangement fees		(31.7)	-
		(61.9)	(20.3)
<b>TAXATION PAID</b>		(35.2)	(11.8)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire tangible assets		(163.8)	(134.6)
Receipts from the sale of fixed assets		12.9	0.4
Receipts from rehabilitation trust fund		0.7	-
Acquisition of own shares		(0.5)	(1.6)
Disposal of own shares		-	1.0
		(150.7)	(134.8)
<b>ACQUISITIONS AND DISPOSALS</b>			
Disposal of operations		0.7	67.3
Purchase of operations		(1,173.3)	(453.6)
Cash acquired with operations		87.4	18.0
Net cash disposed of with operations		-	(0.9)
		(1,085.2)	(369.2)
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		(880.9)	(377.7)
<b>FINANCING</b>			
Issue of ordinary share capital		1,424.2	-
Share issue costs		(88.9)	-
Increase in short-term loans		2.1	79.0
New long term loans		795.5	358.6
Repayment of short term loans		(79.0)	-
Repayment of long term loans		(1,131.8)	(50.6)
Repayment of capital element of finance leases		(1.2)	-
		920.9	387.0
<b>INCREASE IN CASH</b>		40.0	9.3
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>			
Increase in cash		40.0	9.3
Cash inflow from increase in loans		(797.6)	(437.6)
Cash outflow from loan arrangement fees		31.7	-
Repayment of loans		1,210.8	50.6
Cash outflow from finance leases		1.2	-
Change in net debt resulting from cash flows		486.1	(377.7)
Translation adjustments		(13.9)	21.7
Non-cash movements		(4.7)	-
Finance leases acquired with operations		(18.1)	-
Loans and bank overdrafts acquired with operations		(566.8)	(101.2)
<b>MOVEMENT IN NET DEBT</b>		(117.4)	(457.2)
(Net debt)/cash at start of year		(456.5)	0.7
<b>NET DEBT AT END OF YEAR</b>	26	(573.9)	(456.5)

## Notes to the Financial Statements

### 1. Principal Accounting Policies

#### Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The Xstrata plc Group (Group) has adopted the following principal accounting policies:

#### Merger accounting

The statutory merger of Xstrata AG with the company has been accounted for using the merger method of accounting under which the results and cash flows of Xstrata AG are included in the financial statements from 1 January 2002 and its assets and liabilities are included at the amounts at which they were previously recorded, after adjusting to the Group's accounting policies. The comparatives for the Group balance sheet, profit and loss account and statement of cash flows have been restated to take account of the merger despite the fact that the holding company was incorporated on 31 December 2001, in order to compare meaningfully the performance of the underlying Group.

#### Basis of consolidation

The financial statements consolidate the accounts of Xstrata plc and its subsidiaries. The results of subsidiaries *acquired or sold are consolidated for the periods from or to the date on which control passes.*

Entities in which the Group holds an interest on a long term basis and are jointly controlled by the Group and one or more other venturers are treated as joint ventures. The consolidated financial statements include the Group proportion of turnover, operating profit or loss, exceptional items, interest expense, taxation, gross assets and gross liabilities of joint ventures (the gross equity method).

Entities, other than subsidiaries and joint ventures, in which the Group has a participating interest and over whose operating and financial policies the Group exercises a significant influence are treated as associates. The consolidated financial statements include the Group proportion of the operating profit or loss, exceptional items, interest expense, taxation and net assets of associates (the equity method).

The Group has certain contractual arrangements with other participants to engage in joint activities that do not *create an entity carrying on a trade or business of its own.* The financial statements includes the Group's share of the assets, liabilities and cash flows in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the Group's interest in joint arrangement.

On the acquisition of a subsidiary, or of an interest in a joint venture, associate, or joint arrangement, the purchase consideration is allocated to the assets and liabilities on the basis of fair value at the date of acquisition. Those mineral reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and mineral rights, for which in the Directors' opinion, values cannot be *reliably determined, are not recognised.* When the cost of acquisition exceeds the fair values attributable to the Group's share of the identifiable net assets the difference is treated as purchased goodwill. This is amortised on a straight-line basis over its useful economic life up to a presumed maximum of 20 years.

### Foreign currencies

Transactions in foreign currencies are translated at the exchange rates ruling at the date of transaction or, where forward cover contracts have been arranged, at contractual rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at year end exchange rates, or at a contractual rate if applicable.

Gains and losses on hedging transactions intended to hedge specific sales of goods are included in the measurement of the sale in the same period in which the revenues or costs from the hedged transaction are recorded.

On consolidation, profit and loss account items are translated at average rates of exchange. Balance sheet items are translated at year end exchange rates.

Exchange differences on the re-translation of the investments in overseas subsidiaries, joint arrangements, joint ventures and associates at closing rates, together with differences between profit and loss accounts translated at average and at closing rates, are dealt with in reserves. Exchange differences on foreign currency borrowings financing those net investments, are also dealt with in reserves. All other exchange differences are charged or credited to the profit and loss account in the year in which they arise.

The following exchange rates have been applied:

	31 December 2002	Average 2002 12 months	31 December 2001	Average 2001 12 months
Australian dollars (AUD)	0.5618	0.5434	0.5114	0.5167
Chile pesos (CLP)	718.61	692.32	654.79	637.57
Euros (EUR)	1.0495	0.9430	0.8849	0.8946
Great Britain pounds (GBP)	1.6100	1.5013	1.4545	1.4407
South African rands (ZAR)	8.5702	10.5035	12.0900	8.6249
Swiss francs (CHF)	1.3836	1.5553	1.6749	1.6884

### Turnover

Revenues associated with the sales of commodities are recognised when all significant risks and rewards of ownership of the asset sold are transferred to the customer, usually when the commodity is delivered to the shipping agent. Turnover is recognised at invoiced amounts, with most sales being priced free on board (fob), free on rail (for) or cost, insurance and freight (cif). Revenues from the sales of by-products are also included in turnover.

### Cost of sales

Cost of sales represents product cost, determined by means of either the weighted average or first in first out (FIFO) method, and by applying full absorption costing of mining, processing and smelting overheads, plus any other costs directly attributed to the acquisition of materials.

### Investments

The investments in the rehabilitation trust funds are measured at fair value based on the market price of the investments held by the trust fund.

### **Intangible assets**

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

Intangible assets are amortised using a straight-line method based on estimated useful lives, except those intangibles assets which the Directors regard as having indefinite useful lives, which are not amortised but are reviewed for impairment annually.

### **Tangible assets**

#### **Land and buildings, plant and equipment**

The cost of each item of buildings, plant and equipment are depreciated over its useful life. Mine production assets are depreciated using a unit of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves. Tangible assets unrelated to production are depreciated using the straight-line method based on estimated useful lives. Each item's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property or plantation at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Changes in estimates which affect unit of production calculations are accounted for prospectively. Freehold land is not depreciated.

The expected useful lives are as follows:

Buildings	15 – 40 years
Plant and Equipment	4 – 30 years
Furniture and Fixtures	5 – 15 years
Other	3 – 5 years

The net carrying amounts of mine buildings, machinery and equipment at each mine property are reviewed regularly and, to the extent to which these values exceed their recoverable amounts, that excess is fully provided against the financial year in which this is determined.

#### **Exploration and evaluation expenditure**

Exploration and evaluation expenditure for each area of interest, other than that acquired from the purchase of another mining company, is carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written-off.

Identifiable exploration and evaluation assets acquired are recognised as assets at their cost of acquisition. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met.

### **Mineral properties and mine development expenditure**

Costs of acquiring mineral properties are capitalised on the balance sheet in the year in which they are incurred. Capitalised costs (development expenditure) include interest and financing costs relating to the construction of plant and equipment and costs associated with a start up period where the asset is available for use but incapable of operating at normal levels without a commissioning period.

Mineral properties and capitalised costs are, upon commencement of production, amortised using a unit of production method based on the estimated economically recoverable reserves to which they relate or are written-off if the property is abandoned or where there is a impairment in value.

### **Capital work in progress**

Assets in the course of construction are capitalised in the capital work in progress account. On completion, the cost of construction is transferred to the appropriate category of tangible fixed assets.

The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use.

Costs associated with a start up period are capitalised where the asset is available for use but incapable of operating at normal levels without a commissioning period.

Capital work in progress is not depreciated.

### **Plantations**

Plantations are recorded at cost. Development costs, interest and financing costs relating to the development of the plantations are deferred and amortised upon commencement of production, on a unit of production method based on the estimated future production from each plantation.

### **Leasing and hire purchase commitments**

Assets held under finance leases, where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

### **Impairment**

The carrying amounts of fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on income generating units.

If the carrying amount of a fixed asset exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. In assessing recoverable amount for fixed assets, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal have been discounted to their present value using a market-determined discount rate.

### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Stocks are categorised, as follows:

- raw materials and consumables: Materials, goods or supplies (including energy sources) to be either directly or indirectly consumed in the production process.
- work in progress: Items stored in an intermediate state that have not yet passed through all the stages of production.
- finished goods: Products and materials that have passed all stages of the production process.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

### **Capital grants**

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate. Potential liabilities to repay grants either in whole or in part are provided for to the extent that the repayment is probable.

### **Environmental protection, rehabilitation and closure costs**

Provision is made for close down, restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on the estimated future costs. The provision is discounted where material and the unwinding of the discount is included in interest payable. At the time of establishing the provision, a corresponding asset is capitalised (where it gives rise to a future benefit) and depreciated over future production from the mine to which it relates. The provision does not include allowances for unforeseeable events.

The provision is reviewed on an annual basis for changes in cost estimates or life of operations.

### **Provisions for liabilities and charges**

Provisions are recognised when the Group has a present obligation, as result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation.

### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date that will result in an obligation to pay more, or a right to pay less tax in the future. In particular:

- provision is made for tax on gains arising from the disposal of fixed assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned.. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas entities only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that, it is considered that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### **Derivative instruments**

The Group uses foreign currency contracts to reduce short term exposure to foreign exchange movements of the AUD and EUR to the US\$. The Group considers that its derivative instruments qualify for hedge accounting when certain criteria are met.

The criteria for forward foreign currency contracts are:

- the instrument must be related to a foreign currency asset or liability that is probable and whose characteristics have been identified;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency exchange movements on the operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed, or probable, future transaction, are deferred until the transaction occurs.

The Group uses zinc futures to reduce the effect of market price fluctuations on the sale of zinc. The futures are matched to purchases of the zinc concentrate and typically expire in 3 to 4 months. The zinc futures are marked to market with gains and losses recognised in the profit and loss account.

### **Pensions and other post – retirement obligations**

The Group's contributions to its defined contribution pension plans are charged to the profit and loss account in the year to which they relate. The Group has no material defined benefit pension or post-retirement benefit schemes.

### **Capital instruments**

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds.

### **Financial liabilities**

Loans are recognised at inception at the fair value of the proceeds received net of issue costs. The finance cost recognised in the profit and loss account is allocated to period over the term of the loan at a constant rate on the carrying amount.

### **Research and development**

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

### **Comparatives**

Where applicable, comparatives have been adjusted to disclose them on the same basis as current period figures.

### **Use of estimates**

The preparation of these accounts in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

## **2. Changes in Group companies**

### **Xstrata plc**

In March 2002, Xstrata AG was merged into Xstrata plc, a public limited company incorporated in England and Wales on 31 December 2001. This was structured as a statutory merger under Swiss law that enabled Xstrata AG to be merged into Xstrata plc, without Xstrata AG being liquidated. Merger accounting principles have been applied to reflect this combination. The company has taken advantage of merger relief under s131 Companies Act 1985 in recording the shares issued under this arrangement. Prior to the merger, substantially all of Xstrata AG's assets and liabilities, including investments in subsidiaries, were contributed to Xstrata (Schweiz) AG, a 100% owned subsidiary, in exchange for the issue of additional shares in Xstrata (Schweiz) AG (refer to note 24 and 25).

### Duiker and Enex Group

Effective 1 March 2002, the Company acquired 100% of the issued share capital of Glencore Overseas AG (of which Enex Resources Limited is a wholly owned subsidiary), Duiker Marketing AG and Duiker Mining (Proprietary) Limited for cash and 78.6 million ordinary shares in Xstrata plc with an aggregate value of US\$ 2,074.9 million, (including acquisition costs of US\$ 7.0 million). In addition, the Company assumed the net indebtedness of Glencore Overseas AG, Duiker Marketing AG and Duiker Mining (Proprietary) Limited and each of their subsidiaries, amounting to US\$ 505.1 million. The fair value of net assets acquired was US\$ 2,074.9 million.

Net assets at the date of acquisition are as follows:

US\$ m	Book value	Revaluation Adjustments	Fair value to Group
<b>Duiker Group</b>			
Intangible assets (i)	-	681.6	681.6
Tangible assets (i)	375.2	49.4	424.6
Investments	17.3	-	17.3
Stocks	30.7	-	30.7
Debtors due within one year	56.7	-	56.7
Debtors due after one year	17.4	-	17.4
Cash	25.4	-	25.4
Creditors due within one year (ii)	(64.4)	(2.2)	(66.6)
Creditors due in more than one year	(53.1)	-	(53.1)
Provisions for liabilities and charges	(59.7)	-	(59.7)
<b>Attributable net assets</b>	<b>345.5</b>	<b>728.8</b>	<b>1,074.3</b>
Discharged by:			
Consideration - cash			1,074.3
<b>Enex Group</b>			
Tangible assets (i)	709.5	864.2	1,573.7
Investments (i)	5.5	25.0	30.5
Stocks	46.4	-	46.4
Debtors due within one year	68.5	-	68.5
Debtors due after one year	81.3	-	81.3
Cash	62.0	-	62.0
Creditors due within one year (iii)	(107.4)	(4.0)	(111.4)
Creditors due in more than one year	(528.6)	-	(528.6)
Provisions for liabilities and charges	(51.7)	-	(51.7)
<b>Net assets</b>	<b>285.5</b>	<b>885.2</b>	<b>1,170.7</b>
Equity minority interests			(170.1)
<b>Attributable net assets</b>			<b>1,000.6</b>
Discharged by:			
Consideration - cash			26.6
Consideration - shares			974.0
			<b>1,000.6</b>
<b>Total attributable net assets</b>			
			<b>2,074.9</b>
Discharged by:			
Consideration - cash			1,100.9
Consideration - shares			974.0
			<b>2,074.9</b>

i The revaluation adjustments relate to a revaluation of ports, export rights, mineral rights, plant and equipment to their fair value at the date of acquisition.

- ii The revaluation adjustment was to increase the mine closure provision at Strathrae.
- iii The revaluation adjustment was to provide for US\$/AUD foreign exchange contracts that were in mark to market loss positions at the date of acquisition.

During the year ended 31 December 2002 the Duiker Group contributed US\$ 100.4 million to the Group operating cash flows, paid US\$ 1.2 million in respect of net returns on investments and servicing of finance, paid US\$ 18.9 million in respect of taxation and utilised US\$ 62.2 million for capital and financial investment.

The Duiker Group earned a profit after tax of US\$ 93.2 million in the year ended 31 December 2002 (2001 US\$ 154.1 million) of which US\$ 18.0 million arose in the period from 1 January 2002 to 28 February 2002. The summarised profit and loss account for the period from 1 January 2002 to the date of acquisition is as follows:

	US\$ m
Turnover	59.4
Operating profit	22.9
Profit before tax	22.3
Taxation	(4.3)
Attributable profit	18.0

There were no other recognised gains and losses in the two months ended 28 February 2002.

During the year ended 31 December 2002 the Enex Group contributed US\$ 141.9 million to the Group operating cash flows, received US\$ 0.1 million in respect of net returns on investments and servicing of finance, paid US\$ 10.9 million in respect of taxation and utilised US\$ 68.6 million for capital and financial investment.

The Enex Group earned a profit after tax and minority interests of US\$ 116.6 million in the year ended 31 December 2002 (2001 US\$ 84.7 million) of which US\$ 14.3 million arose in the period from 1 January 2002 to 28 February 2002. The summarised profit and loss account for the period from 1 January 2002 to the date of acquisition is as follows:

	US\$ m
Turnover	122.6
Operating profit	25.9
Profit before tax	24.2
Taxation	(8.5)
Minority interests	(1.4)
Attributable profit	14.3

There were no other recognised gains and losses in the two months ended 28 February 2002.

### **Ravensworth and Narama Operations**

On 14 March 2002, the Group acquired the Ravensworth and Narama operations for cash of US\$ 72.4 million. The fair value of net assets acquired was US\$ 72.4 million.

Net assets at the date of acquisition are as follows:

US\$ m	Book value	Revaluation Adjustments	Fair value to Group
Tangible assets (i)	32.2	62.6	94.8
Stocks	2.2	-	2.2
Debtors	6.8	-	6.8
Creditors due within one year (ii)	(16.8)	(14.6)	(31.4)
Attributable net assets	24.4	48.0	72.4
Discharged by:			
Consideration - cash			72.4

i The revaluation adjustment was to revalue mineral rights to their fair value.

ii The revaluation adjustment was to provide for out of the money mine contracts.

During the year ended 31 December 2002 the Ravensworth contributed US\$ 2.0 million to the Group operating cash flows, paid US\$ 2.1 million in respect of taxation and utilised US\$ 4.2 million for capital and financial investment. The assets acquired were part of a larger Group and pre-acquisition profit and loss results are not available on a comparable basis.

### Nordenham Zinc Smelter

The Group acquired the Nordenham zinc smelter on 31 December 2002. Refer to note 15 for further details.

### Asturiana de Zinc SA

On 3 May 2001, the Group acquired Asturiana de Zinc SA for a consideration of US\$ 453.6 million. A US\$ 24.4 million revaluation adjustment was made to decrease deferred tax benefits, increase deferred tax liabilities and provision for taxation that had previously been recognised at the acquisition date. These relate to tax losses that are no longer considered more likely than not to be recoverable.

US\$ m	Fair value as previously reported	Revisions	Final fair value to Group
Tangible assets	439.9	-	439.9
Stocks	62.5	-	62.5
Debtors	56.8	(3.0)	53.8
Cash	20.0	-	20.0
Creditors due with in one year	(129.3)	(7.0)	(136.3)
Creditors due in more than one year	(53.7)	-	(53.7)
Provision for liabilities and charges	(38.6)	(14.4)	(53.0)
Net Assets	357.6	(24.4)	333.2
Equity minority interests	(16.1)	-	(16.1)
Attributable net assets	341.5	(24.4)	317.1
Goodwill arising on acquisition	112.1	24.4	136.5
	453.6	-	453.6
Discharged by:			
Consideration - cash	453.6		453.6

### 3. Segmental Analysis

By Area of Activity  
For the year ended 31 December 2002

US\$ m	Alloys			Other			Total
	Coal	Chrome	Vanadium	Zinc	Magnesium	Forestry	
<b>Turnover</b>							
Continuing operations	1,037.3	290.2	76.4	400.0	3.2	2.2	1,809.3
Turnover of the following acquisitions is included above:							
- Duiker Group	319.8	-	-	-	-	-	319.8
- Enex Group	717.5	-	-	-	-	-	717.5
<b>EBITDA (i)</b>							
Continuing operations	278.7	62.8	10.4	88.4	(4.9)	0.4	435.8
Common costs and income							(22.1)
<b>EBITDA</b>							
							413.7
<b>Operating profit</b>							
Continuing operations	177.7	55.7	(21.5)	54.3	(30.2)	(0.5)	235.5
Common costs and income							(24.0)
Operating profit	177.7	55.7	(21.5)	54.3	(30.2)	(0.5)	211.5
Income from associates	0.7	-	-	-	-	-	0.7
Profit on sale of fixed assets	3.0	0.1	-	-	-	-	3.1
<b>EBIT (ii)</b>							
	181.4	55.8	(21.5)	54.3	(30.2)	(0.5)	215.3
<b>Net interest and similar charges</b>							
							(37.4)
<b>Profit on ordinary activities before taxation</b>							
							177.9
Operating profit of the following acquisitions is included above:							
- Duiker Group	77.1	-	-	-	-	-	77.1
- Enex Group	100.6	-	-	-	-	-	100.6
<b>Tangible assets</b>							
Continuing operations	2,392.2	281.4	83.8	463.2	-	31.8	3,252.4
Unallocated tangible assets							2.3
<b>Tangible assets</b>							
							3,254.7
<b>Net current assets</b>							
Continuing operations	148.1	119.3	46.8	53.8	2.2	1.3	371.5
Unallocated net current assets							(162.5)
<b>Net current assets</b>							
							209.0
<b>Attributable net assets</b>							
Continuing operations	3,096.5	245.3	122.6	612.6	2.2	21.0	4,100.2
Unallocated attributable net assets							(534.1)
<b>Attributable net assets</b>							
							3,566.1
Attributable net assets of the following acquisitions is included above:							
- Duiker Group	1,409.9	-	-	-	-	-	1,409.9
- Enex Group	1,686.6	-	-	-	-	-	1,686.6
<b>Capital expenditure</b>							
Continuing operations	111.1	7.3	1.1	30.2	0.6	1.7	152.0
Unallocated capital expenditure							2.1
<b>Capital expenditure</b>							
							154.1
Capital expenditure of the following acquisitions is included above:							
- Duiker Group	44.8	-	-	-	-	-	44.8
- Enex Group	66.3	-	-	-	-	-	66.3

i Profit before interest, taxation, depreciation and amortisation.

ii Profit before interest and taxation.



### 3. Segmental Analysis (continued)

By Geographical Region  
For the year ended 31 December 2002

US\$ m	Africa	Americas	Asia	Australia	Middle East	Europe	Total
<i>Turnover by origin</i>							
Continuing operations	677.3	5.4	-	726.6	-	400.0	1,809.3
Turnover of the following acquisitions is included above:							
- Duiker Group	319.8	-	-	-	-	-	319.8
- Enex Group	-	-	-	717.5	-	-	717.5
<i>Turnover by destination</i>							
Continuing operations	98.3	85.9	646.6	129.6	34.4	814.5	1,809.3
<i>EBITDA</i>							
Continuing operations	188.5	(4.5)	-	163.4	-	88.4	435.8
Common costs and income							(22.1)
<i>EBITDA</i>							413.7
<i>Operating profit</i>							
Continuing operations	153.5	(30.7)	-	58.4	-	54.3	235.5
Common costs and income							(24.0)
<i>Operating profit</i>							211.5
Income from associates	-	-	-	0.7			0.7
Profit on sale of fixed assets	3.0	-	-	0.1	-	-	3.1
<i>EBIT</i>	156.5	(30.7)	-	59.2	-	54.3	215.3
Net interest and similar charges							(37.4)
<i>Profit on ordinary activities before taxation</i>							177.9
Operating profit of the following acquisitions is included above:							
- Duiker Group	77.1	-	-	-	-	-	77.1
- Enex Group	-	-	-	100.6	-	-	100.6
<i>Tangible assets</i>							
Continuing operations	947.5	31.8	-	1,809.9	-	463.2	3,252.4
Unallocated tangible assets							2.3
<i>Tangible assets</i>							3,254.7
<i>Net current assets</i>							
Continuing operations	190.7	3.5	-	123.5	-	53.8	371.5
Unallocated net current assets							(162.5)
<i>Net current assets</i>							209.0
<i>Attributable net assets</i>							
Continuing operations	1,777.5	23.2	-	1,686.9	-	612.6	4,100.2
Unallocated attributable net assets							(534.1)
<i>Attributable net assets</i>							3,566.1
Attributable net assets of the following acquisitions is included above:							
- Duiker Group	1,409.9	-	-	-	-	-	1,409.9
- Enex Group	-	-	-	1,686.6	-	-	1,686.6
<i>Capital expenditure</i>							
Continuing operations	53.1	2.3	-	66.4	-	32.3	154.1
Capital expenditure of the following acquisitions is included above:							
- Duiker Group	44.8	-	-	-	-	-	44.8
- Enex Group	-	-	-	66.3	-	-	66.3

### 3. Segmental Analysis (continued)

By Geographical Region  
For the year ended 31 December 2001

US\$ m	Africa	Americas	Asia	Australia	Europe	Total
Turnover by origin						
Continuing operations	310.3	25.8	-	10.9	266.6	613.6
Turnover by destination						
Continuing operations	16.6	41.3	105.4	0.2	450.1	613.6
EBITDA						
Continuing operations	85.8	(3.3)	-	(12.3)	65.9	136.1
Common costs and income						(10.1)
EBITDA						126.0
Operating profit						
Continuing operations	77.9	(4.5)	-	(61.0)	44.8	57.2
Common costs and income						(10.3)
Operating profit						46.9
Profit on sale of fixed assets						0.5
Loss on disposal of operations						(1.9)
EBIT	77.9	(4.5)	-	(61.0)	44.8	45.5
Net interest and similar charges						(21.6)
Profit on ordinary activities before taxation						23.9
Tangible assets						
Continuing operations	266.5	54.4	-	28.0	387.8	736.7
Unallocated tangible assets						0.6
Tangible assets						737.3
Net current assets						
Continuing operations	121.8	1.7	-	1.2	80.5	205.2
Unallocated net current assets						(59.6)
Net current assets						145.6
Attributable net assets						
Continuing operations	265.5	47.1	-	29.1	548.0	889.7
Unallocated attributable net assets						(350.6)
Attributable net assets						539.1
Capital expenditure						
Continuing operations	32.1	25.5	-	2.4	82.9	142.9

#### 4. Exceptional Costs – Impairment of Assets

	2002 US\$ m	2001 US\$ m
Vanadium - Australia	28.6	45.5
Magnesium	22.2	-
	50.8	45.5

Due to depressed market conditions, operational difficulties and forecasted future operating losses, an additional provision of US\$ 28.6 million (2001 US\$ 45.5 million) was recorded to reflect impairment in the carrying value of the Windimurra vanadium plant in Australia, reducing its carrying value to US\$ nil at 31 December 2002. The fair value of the operation is very sensitive to the long term US\$/AUD exchange rate and vanadium pentoxide price.

Due to current market conditions and forecast future operating losses, a provision of US\$ 22.2 million was recorded to reduce the carrying value of the Magnesium recycling plant, technology rights and a long term receivable in the United States of America to US\$ nil at 31 December 2002.

There is no tax effect relating to these exceptional costs.

#### 5. Net Operating Costs

2002	Acquisitions US\$ m	Ongoing US\$ m	Total US\$ m
Continuing operations:			
Cost of sales - pre-exceptional costs	666.0	571.6	1,237.6
Exceptional costs - impairment of assets (refer to note 4)	-	50.8	50.8
Cost of sales	666.0	622.4	1,288.4
Distribution costs	168.5	70.0	238.5
Administrative expenses	20.6	35.2	55.8
Other operating expenses	4.5	10.6	15.1
Net Operating Costs	859.6	738.2	1,597.8

2001	Total US\$ m
Continuing operations:	
Cost of sales - pre-exceptional costs	437.1
Exceptional costs - impairment of assets (refer to note 4)	45.5
Cost of sales	482.6
Distribution costs	64.7
Administrative expenses	24.8
Other operating income	(5.4)
Net Operating Costs	566.7

## 6. Operating Profit

This is stated after charging/(crediting):

	2002 US\$ m	2001 US\$ m
Auditors remuneration:		
- Group auditors - UK	0.2	-
- Group auditors - overseas	1.0	0.5
- Other auditors	0.1	-
	1.3	0.5
Amounts paid to auditors for non audit work:		
Group auditors		
- IPO and acquisitions	13.7	0.3
- Taxation	0.9	0.7
- Other	0.3	-
Other audit firms		
- Internal audit	0.3	-
- Other	0.8	0.1
	16.0	1.1
Depreciation of owned assets	134.7	29.4
Depreciation of assets held under finance leases and hire purchase contracts	4.9	-
Impairment of assets	50.8	45.5
	190.4	74.9
Amortisation of goodwill	6.4	4.0
Amortisation of other intangibles	1.6	2.6
	8.0	6.6
Operating lease rentals - property	0.7	0.2
Operating lease rentals - plant and equipment	2.4	0.4
	3.1	0.6
Government grants received	(2.6)	-
Research and development written-off	0.1	0.8
Royalties	34.2	0.6

The Group audit fees include US\$ 46,000 (2001 US\$ 39,000) in respect of the parent company.

## 7. Staff Costs

	2002 US\$ m	2001 US\$ m
Wages and salaries	207.6	73.6
Social security costs	17.1	11.8
Pension and other post-retirement benefit costs (refer to note 30)	16.0	0.4
	240.7	85.8

The average monthly number of employees, which includes Executive Directors and excludes employees of associates, during the year was as follows:

Coal	6,611	-
Chrome	2,789	3,304
Vanadium	713	707
Zinc	1,219	1,264
Magnesium	36	38
Forestry	14	13
Corporate/unallocated	27	14
	11,409	5,340
By geographic location:		
Africa	8,457	3,931
Americas	51	51
Australia	1,656	80
Europe	1,245	1,278
	11,409	5,340

## 8. Loss on Disposal of Operations

	2002 US\$ m	2001 US\$ m
Forestal del Sur Ltda	-	1.8
Xstrata Coal Pty Ltd	-	0.1
	-	1.9

On 1 July 2001 Forestal del Sur Ltda was divested for consideration of US\$ 4.0 million whilst its subsidiary, Forestal Los Lagos SA, was retained within the Group. US\$ 3.3 million was received in November 2001 and US\$ 0.7 million in October 2002. A loss of US\$ 1.8 million arose on disposal.

On 1 January 2001, Xstrata Coal Pty Ltd was divested for consideration of US\$ 64.0 million. A loss of US\$ 0.1 million arose on disposal.

There is no tax effect in relation to these losses.

## 9. Interest Payable and Similar Charges

	2002 US\$ m	2001 US\$ m
Amortisation of financing costs	7.4	-
Bank loans and overdrafts	32.1	23.1
Finance charges payable under finance leases and hire purchase contracts	0.9	-
Discounting on provisions (refer to note 23)	2.6	-
Interest payable - other	1.5	0.6
	44.5	23.7

**10. Tax on Profit on Ordinary Activities**

	2002 US\$ m	2001 US\$ m
The taxation (charge)/credit is made up as follows:		
UK taxation		
- Current	(0.1)	-
Other overseas taxation		
- Current	(30.8)	(1.4)
- Prior year adjustments	3.4	-
<b>Total current taxation charge for the year</b>	<b>(27.5)</b>	<b>(1.4)</b>
Deferred taxation:		
Origination and reversal of timing differences	(2.3)	(9.2)
<b>Total taxation charge</b>	<b>(29.8)</b>	<b>(10.6)</b>

The statutory tax provision at the weighted average rate is generally calculated on the basis of pre-tax earnings or losses, in each country and the applicable statutory tax rates. The difference between the effective provision for income tax and the statutory tax provision at the weighted average tax rate is reconciled as follows:

	2002 US\$ m	2001 US\$ m
Profit on ordinary activities before tax	177.9	23.9
Statutory provision for tax at weighted average rate 22.1% (2001 27.5%)	(39.4)	(6.6)
Permanent differences		
- Amortisation of goodwill	(1.1)	(0.6)
- Non-deductible depreciation	(19.0)	(1.8)
- Other	1.2	(1.6)
	(18.9)	(4.0)
Timing differences		
- Capital allowances more than depreciation	6.8	3.2
- Employee entitlements	(0.1)	(0.1)
- Restoration and rehabilitation	(0.8)	(0.1)
- Other provisions	3.1	(0.1)
- Tax losses	19.9	7.0
- Other	(1.5)	(0.7)
	27.4	9.2
Current tax charge - current year	(30.9)	(1.4)
Adjustments to tax charge in respect to previous periods	3.4	-
<b>Total current tax charge for the year</b>	<b>(27.5)</b>	<b>(1.4)</b>
Deferred tax movements taken to the profit and loss account	(2.3)	(9.2)
<b>Tax on profit on ordinary activities</b>	<b>(29.8)</b>	<b>(10.6)</b>

The deferred tax charge for 2002 has been reduced by US\$ 27.3 million as a consequence of recognition of the benefit of an uplift in the basis of certain Australian coal assets upon entry into the new Australian fiscal consolidation regime.

Deferred tax assets and liabilities recognised are as follows.

	2002 US\$ m	2001 US\$ m
Accelerated capital allowances	(129.1)	(18.9)
Provisions	60.9	8.7
Tax losses	24.0	-
Other timing differences	(11.9)	(13.4)
Net provision for deferred tax liability	(56.1)	(23.6)
At 1 January 2002	(23.6)	(64.6)
Acquisition of subsidiaries	(5.2)	13.4
Deferred tax charge in profit and loss account	(2.3)	(9.2)
Translation adjustments	(25.0)	36.8
At 31 December 2002	(56.1)	(23.6)
Debtors: amounts falling due after more than one year (refer to note 17)	31.6	0.2
Provision for liabilities and charges (refer to note 23)	(87.7)	(23.8)
	(56.1)	(23.6)

Deferred taxation not recognised in respect of tax losses and other timing differences amounts to US\$ 40.4 million for 2002 (2001: 19.5 million). These assets will be recognised should it become more likely than not that taxable profits or timing differences against which they may be deducted will arise.

## 11. Earnings per Ordinary Share

	2002 US\$	2001 US\$
Basic earnings per share:		
Pre-exceptionals	0.88	0.98
Exceptional items	(0.23)	(0.79)
	0.65	0.19
Diluted earnings per share:		
Pre-exceptionals	0.88	0.98
Exceptional items	(0.23)	(0.79)
	0.65	0.19
	2002 US\$ m	2001 US\$ m
Attributable profit:		
Pre-exceptionals	193.1	56.8
Exceptional items	(50.8)	(45.5)
	142.3	11.3
	2002 Thousands	2001 Thousands
Weighted average number of shares:		
Basic:		
- Shares on issue	219,534	57,792
Dilutive potential ordinary shares:		
- Employee share options	45	116
	219,579	57,908

Basic earnings per ordinary share excludes shares held in an Employee Share Ownership Trust to be used when Director and employee share options are exercised (refer to note 15). Diluted earnings per share is based on basic earnings per share adjusted for the potential dilution if Director and employee share options are exercised.

## 12. Dividends

	2002 US\$ m	2001 US\$ m
Dividends declared	50.3	-
Dividends paid	-	-
	50.3	-

	2002 US\$	2001 US\$
Dividend per share	0.20	-

Dividends declared in respect of the year ended 31 December 2002 will be paid on 23 May 2003.

## 13. Intangible Assets

US\$ m	Coal export rights	Goodwill	Other	Total
Cost:				
At 1 January 2002	-	136.5	17.1	153.6
Acquisition of subsidiaries	681.6	-	-	681.6
Additions	-	-	0.2	0.2
Disposals	-	-	(4.8)	(4.8)
Translation adjustments	182.3	22.4	0.7	205.4
At 31 December 2002	863.9	158.9	13.2	1,036.0
Accumulated amortisation:				
At 1 January 2002	-	3.7	3.5	7.2
Amortisation	-	6.4	1.6	8.0
Disposals	-	-	(1.6)	(1.6)
Impairment (refer to note 4)	-	-	1.7	1.7
Translation adjustments	-	2.2	0.8	3.0
At 31 December 2002	-	12.3	6.0	18.3
Net book value 31 December 2002	863.9	146.6	7.2	1,017.7
Net book value 31 December 2001	-	132.8	13.6	146.4

The Group has a 20.91% interest in the service organisation, Richards Bay Coal Terminal Company Limited, through which the shareholders gain access to export markets enabling them to realise higher sales prices than in the domestic market. The Directors regard the right to export coal afforded by the interest in the terminal to have an indefinite life, as the operations utilising the terminal have appropriate reserves (including undeveloped reserves) to allow the use of the terminal for an indefinite period. The land on which the terminal operates is leased on a long term basis from the state owned ports authority. There has been a history of lease renewal and extension by Richards Bay Coal Terminal Company Limited and it is the intention to continually renew the long term lease. Accordingly, these coal export rights are not amortised but subject to an annual asset impairment review.

Goodwill is amortised over the economic lives of the relevant business units over a period of 20 years.

#### 14. Tangible Assets

US\$ m	Land and buildings	Mining properties and leases	Plant and equipment	Capital works in progress	Total
Cost:					
At 1 January 2002	157.6	140.7	519.3	11.3	828.9
Acquisition of subsidiaries	49.4	1,393.8	624.8	25.1	2,093.1
Additions	14.9	15.5	77.0	47.6	155.0
Disposals	(1.5)	(4.6)	(14.7)	-	(20.8)
Reclassifications	58.8	11.2	(48.6)	(21.4)	-
Translation adjustments	46.4	197.2	338.6	5.8	588.0
At 31 December 2002	325.6	1,753.8	1,496.4	68.4	3,644.2
Accumulated depreciation:					
At 1 January 2002	6.8	20.1	64.7	-	91.6
Depreciation	12.2	52.2	75.2	-	139.6
Disposals	(0.8)	(5.3)	(5.0)	-	(11.1)
Impairment (refer to note 4)	6.0	0.4	41.4	0.2	48.0
Reclassifications	-	29.9	(29.9)	-	-
Translation adjustments	14.7	13.1	93.6	-	121.4
At 31 December 2002	38.9	110.4	240.0	0.2	389.5
Net book value at 31 December 2002	286.7	1,643.4	1,256.4	68.2	3,254.7
Net book value at 31 December 2001	150.8	120.6	454.6	11.3	737.3

Land and buildings include non-depreciating freehold land amounting to US\$ 96.9 million (2001 US\$ 39.7 million) and plantations US\$19.5 million (2001 US\$ 19.6 million). No long term leasehold land or investment properties are held.

Plant and equipment include capitalized interest amounting to US\$ 4.9 million (2001 US\$ 4.8 million). US\$ 0.5 million was capitalized during 2002 at an average rate of 3.7%.

Included in the amounts for plant and equipment above are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

	US\$ m
Cost:	
At 1 January 2002	-
Acquisition of subsidiaries	40.8
Translation adjustments	3.6
At 31 December 2002	44.4
Accumulated depreciation:	
At 1 January 2002	-
Depreciation	4.9
Translation adjustments	0.1
At 31 December 2002	5.0
Net book value at 31 December 2002	39.4
Net book value at 31 December 2001	-

## 15. Investments

US\$ m	Share of net assets in associates	Own shares	Rehabilitation trust fund	Other fixed asset investments	Total
Cost:					
At 1 January 2002	-	22.9	-	-	22.9
Acquisition of subsidiaries	0.1	-	17.3	30.4	47.8
Additions	-	0.5	-	100.0	100.5
Repayments	-	-	(0.7)	-	(0.7)
Disposals	-	-	-	(0.1)	(0.1)
Dividends from associates	(0.3)	-	-	-	(0.3)
Group share of profits	0.7	-	1.9	-	2.6
Translation adjustments	0.2	-	6.1	2.9	9.2
At 31 December 2002	0.7	23.4	24.6	133.2	181.9
Amounts provided:					
At 1 January 2002	-	-	-	-	-
At 31 December 2002	-	-	-	-	-
Net book value at 31 December 2002	0.7	23.4	24.6	133.2	181.9
Net book value at 31 December 2001	-	22.9	-	-	22.9

	2002 US\$ m	2001 US\$ m
Share of net assets of associates at 31 December is as follows:		
Fixed assets	5.9	-
Current assets	2.4	-
Liabilities due within one year	(1.1)	-
Liabilities due after more than one year	(6.5)	-
	0.7	-
Turnover	13.0	-

Own shares comprise shares of Xstrata plc held in the Employee Share Ownership Trust. The trust is used to co-ordinate the funding and manage the delivery of ordinary shares for options and LTIP (refer to note 33 for further details) awards granted under the LTIP. The trustee is not permitted to hold more than 5% of the issued share capital of the Company at any one time. At 31 December 2002, 1,250,120 (2001: 1,200,430) shares were held by the trust with a market value of US\$ 13.1 million (2001 US\$ 14.6 million). Shares held by the trust are not entitled to dividends. Costs relating to the administration of the trust are expensed in the period in which they are incurred.

The rehabilitation trust fund in South Africa receives cash contributions to accumulate funds for the Groups' rehabilitation liability relating to the eventual closure of the Groups' coal operations. Amounts are paid out from the trust fund following completion and approval of the rehabilitation work by the South African Department of Minerals and Energy. The contributions to the trust fund are placed with investment bankers who are responsible for making investments in equity and money market instruments. The trust funds are to be used according to the terms of the trust deed and are not available for the general purpose of the Group.

On 31 December 2002, the Group entered into an acquisition agreement with Metaleurop (33% owned by Glencore International AG) to purchase the 133,000 tonnes per annum Nordenham zinc smelter in Germany for US\$ 100 million (included in other fixed asset investments). The purchase price was settled in cash on 2 January 2003. Due to the proximity of the acquisition to year end, there is insufficient information to allow a detailed analysis of the fair value of net assets acquired and the effect on the financial statements is not considered to be material.

## 16. Stocks

	2002 US\$ m	2001 US\$ m
Raw materials and consumables	98.5	60.3
Work in progress	15.3	10.4
Finished goods	180.6	74.0
	294.4	144.7

## 17. Debtors

	2002 US\$ m	2001 US\$ m
Amounts falling due within one year:		
Trade debtors	231.5	132.9
Advances and deposits	0.6	0.5
Prepayments and accrued income	11.8	4.1
Recoverable sales tax and prepaid income tax	6.7	5.0
Other debtors	26.7	28.0
	277.3	170.5
Amounts falling due after more than one year:		
Amounts owed by associates	6.5	-
Deferred taxes	31.6	0.2
Loans	5.0	5.3
Other debtors	33.1	7.7
	76.2	13.2

Factored receivables not recognised in trade debtors at 31 December 2002 amount to US\$ 8.0 million (2001 US\$ 24.0 million).

## 18. Creditors: amounts falling due within one year

	2002 US\$ m	2001 US\$ m
Bank loans (i)	0.3	79.0
Other loans (i)	1.8	-
Bank overdraft (i)	4.2	1.4
Obligations under finance leases and hire purchase contracts (ii)	1.3	-
Trade creditors	230.9	102.1
Corporation tax	26.6	9.6
Dividend (refer to note 12)	50.3	-
Employee entitlements	21.8	3.6
Rehabilitation	1.2	-
Other creditors and accruals (iii)	189.2	33.0
	527.6	228.7

- i. Unsecured.
- ii. Secured over specific items of plant and equipment.
- iii. Includes US\$ 100.0 million for the acquisition of Nordenham zinc smelter (refer to note 15).

**19. Creditors: amounts falling due after more than one year**

	2002 US\$ m	2001 US\$ m
Bank loans (i)	620.5	419.9
Other loans (ii)	18.1	2.1
Obligations under finance leases and hire purchase contracts (iii)	16.4	-
	655.0	422.0

- i At 31 December 2002 US\$ 12.0 million was secured.
- ii Unsecured.
- iii Secured over specific items of plant and equipment.

**20. Bank Loans**

	2002 US\$ m	2001 US\$ m
Amounts falling due:		
Within one year	0.3	79.0
Between one and two years	0.3	79.0
Between two and five years	637.9	333.9
In five years or more	9.3	7.0
	647.8	498.9
Less: loan arrangements fees	(27.0)	-
	620.8	498.9
Less: included in creditors: amounts falling due within one year	(0.3)	(79.0)
	620.5	419.9
Details of loans not wholly payable within five years are as follows:		
ZAR unsecured loan	7.8	-
US\$ secured loan	12.0	12.0

The ZAR loan was used to fund capital expenditure at the Richards Bay Coal Terminal with half-yearly loan repayments commencing in January 2006 until 2015. The average floating rate of interest payable was 13.6% per annum at 31 December 2002.

The US\$ loan was used to fund the plantation acquisition in Chile with repayments of US\$ 2.5 million due in 2005, US\$ 2.5 in 2006, US\$ 3.0 million in 2007 and US\$ 4.0 million in 2008. The average floating rate of interest payable was 3.7% per annum at 31 December 2002.

**Syndicated loan facility agreement**

In March 2002, Xstrata plc and certain members of the Group, the underwriters of the syndicated loan and certain other banks entered into a five year US\$ 1,400 million committed multi-currency revolving syndicated loan facility agreement (facility reduction instalment after 36 months US\$ 200 million, after 48 months US\$ 200 million and at termination date US\$ 1 billion or the amount of the total outstanding balance if lower). The purpose of the syndicated loan facility was to finance the balance of the purchase of 100% of the issued share capital of Glencore Overseas AG, Duiker Marketing AG and Duiker Mining (Proprietary) Limited and to refinance existing financial indebtedness of certain members of the Group. The net loan proceeds drawn under this facility totalled US\$ 716.6 million.

The syndicated loan facility bears interest at a rate based on the London inter-bank offered rate (LIBOR) plus a sliding scale determined by reference to a formula calculated on earnings before interest, taxation, depreciation and amortisation (EBITDA). At 31 December 2002, the loan margin was at the lowest rate available under the facility. The Company is liable to pay a commitment fee on the un-drawn portion of the syndicated loan facility at a rate per annum equal to 50% of the loan margin, payable quarterly in arrears.

## 21. Other Loans

	2002 US\$ m	2001 US\$ m
Amounts falling due:		
Within one year	1.8	-
Between one and two years	13.3	0.6
Between two and five years	3.9	0.7
In five years or more	0.9	0.8
	19.9	2.1
Less: included in creditors: amounts falling due within one year	(1.8)	-
	18.1	2.1

Details of loans not wholly payable within five years are as follows:

	2002 US\$ m	2001 US\$ m
EUR unsecured loan	2.2	2.1
AUD unsecured loan	17.7	-

The EUR loans were received from the Ministry of Industry & Energy and Cantabria Government in Spain for San Juan de Nieva zinc smelter expansion projects. EUR 0.6 million is subject to a fixed interest rate of 5.0% per annum and the balance of EUR 1.5 million is interest free. EUR 0.9 million of the interest free loan is due in 2014 with the balance due to be repaid by 2006.

The AUD loans have been advanced by the shareholders of Oakbridge Pty Ltd to fund operations. AUD 31.6 million is subject to a floating interest charge of 5.7% and are due to be repaid early 2005.

## 22. Obligations under Leases and Hire Purchase Contracts

	2002 US\$ m	2001 US\$ m
Amounts due under finance leases and hire purchase contracts:		
Within one year	1.7	-
Between one and two years	1.4	-
Between two and five years	5.7	-
In five years or more	16.9	-
	25.7	-
Less finance charges allocated to future periods:		
Within one year	(0.4)	-
Between one and two years	(0.3)	-
Between two and five years	(2.6)	-
In five years or more	(4.7)	-
	17.7	-
Less: included in creditors: amounts falling due within one year	(1.3)	-
	16.4	-

	2002 US\$ m	2001 US\$ m
Amounts due under non-cancellable operating leases:		
Land and buildings:		
Within one year	1.2	-
Between one and two years	1.3	-
Between two and five years	3.3	0.2
In five years or more	1.6	-
	7.4	0.2
Other:		
Within one year	4.9	0.4
Between one and two years	4.4	-
Between one and five years	11.6	6.1
In five years or more	3.0	2.6
	23.9	9.1

### 23. Provisions for Liabilities and Charges

US\$ m	Employee entitlements	Post retirement benefits	Rehabilitation Costs	Deferred taxation	Other	Total
At 1 January 2002	-	18.7	29.8	23.8	16.8	89.1
Arising during the year	6.2	-	14.2	-	-	20.4
Acquisition of subsidiaries	31.0	3.6	48.8	23.2	4.8	111.4
Discounting	-	-	1.2	-	1.4	2.6
Utilised	(7.1)	(20.8)	(6.6)	13.8	(1.5)	(22.2)
Translation adjustments	3.5	3.7	15.0	26.9	0.7	49.8
At 31 December 2002	33.6	5.2	102.4	87.7	22.2	251.1

Employee entitlement provision represents the value of excess leave entitlements allocated over the leave taken by the employees of the company. These amounts are expected to reverse as the employees either take their accrued leave or receive equivalent benefits upon ceasing employment. These costs are expected to be incurred over the next 20 years.

Post retirement benefits are provided for a number of current and former employees. Entitlement to these benefits is dependent upon the employee remaining in service until retirement age and is subject to periodic review. The Group recognises the estimated liability on an accrual basis over the working life of the eligible employees. The amount utilised in 2002 relates to the externalisation of the Spanish pension plan as disclosed in note 30. These costs are expected to be incurred over the next 16 years.

Rehabilitation provision represents the accrued costs required to provide adequate restoration and rehabilitation upon the completion of mining activities. These amounts will reverse when such rehabilitation has been performed. These costs are expected to be incurred over the next 26 years.

Other primarily relates to the deferral of payments for acquisition of mineral rights in South Africa. The provision represents the net present value of payments to the vendor over the course of the agreement (expiration in 2014). These costs are expected to be incurred over the next 12 years.

**24. Called up Share Capital**

	2002 US\$ m	2001 US\$ m
<b>Authorised share capital:</b>		
350,000,000 ordinary shares of US\$ 0.50 each	175.0	175.0
50,000 deferred shares of £ 1 each	0.1	0.1
1 special voting share of US\$ 0.50	-	-
	<b>175.1</b>	<b>175.1</b>
<b>Allotted, called up and fully paid:</b>		
252,601,000 (2001: 59,000,000) ordinary shares of US\$ 0.50 each	126.3	29.5
50,000 deferred shares of £ 1 each paid to £ 0.25	-	-
1 special voting share of US\$ 0.50	-	-
	<b>126.3</b>	<b>29.5</b>

**Merger of Xstrata AG and Xstrata plc**

At 31 December 2001, Xstrata plc had authorised capital of £ 1,000 divided into 1,000 ordinary shares of £ 1.00 each and allotted, called up and fully paid capital of 1 ordinary share of £ 1.00. As described in note 2 and 25, 59,000,000 shares were issued to former Xstrata AG shareholders in connection with the merger of Xstrata AG and Xstrata plc.

**The Global Offer and London Stock Exchange Listing**

During the year 193,601,000 ordinary shares were issued. The Global Offer comprised an issue of 100 million new ordinary shares in Xstrata plc at an offer price of £ 8.70 per share. In connection with the Global Offer, on behalf of the underwriters, a manager's option was exercised by J.P. Morgan Securities Limited in consultation with other joint bookrunners, resulting in an additional 15 million new ordinary shares in Xstrata plc being issued on the same terms and conditions as the Global Offer, to cover over-allotments or further allotments and to cover short positions resulting from stabilisation transactions. The net cash proceeds from the Global Offer were US\$ 1,335.3 million and the number of ordinary shares in issue of Xstrata plc following the completion of the Global Offer is 252.6 million, with Glencore International AG holding 40% of the issued share capital after being issued with 78.601 million shares as partial payment for the Coal assets (refer to note 2).

**Deferred shares**

On 9 February 2002, Xstrata plc issued one ordinary share of £ 1 for a cash consideration of £ 1. On 19 February 2002, Xstrata issued 49,998 ordinary shares of £1 each paid up to a quarter of the nominal value for a total consideration of £ 12,499.50. On 19 March 2002, the 50,000 issued ordinary shares of £ 1 each were designated as 50,000 deferred shares of £1 each.

The holders of deferred shares do not have the right to receive notice of any general meeting of the Company nor the right to attend, speak or vote at any such general meeting. The deferred shares have no rights to dividends and, on a winding-up or other return of capital entitle the holder only to the repayment of the amounts paid upon such shares after repayment of the nominal amount paid up on the Ordinary Shares, the nominal amount paid up on the special voting share plus the payment of £ 100,000 per Ordinary Share. The Company may, at its option, redeem all of the deferred shares in issue at any time (but subject to the minimum capital requirement of the Companies Act 1985) at a price not exceeding £ 1 for each share redeemed to be paid to the relevant registered holders of the shares.

### Special voting share

Certain rights, that are inalienable under Swiss law, have been preserved in the Xstrata plc Articles of Association by creating a special voting share that carries weighted voting rights sufficient to defeat any resolution which could amend or remove these entrenched rights. The holder of the special voting share is the Law Debenture Trust Corporation plc which has entered into a voting agreement with the company, specifying the conditions upon which it is entitled to exercise its right to vote. The special voting share does not carry a right to receive dividends and is entitled to no more than the amount of capital paid up in the event of liquidation.

### 25. Share Capital and Reserves

US\$	Share capital	Share premium account	Other reserves	Profit and loss account	Total
At 1 January 2002 (per Xstrata AG)	41.6	267.3	26.5	203.7	539.1
Merger adjustments	(12.1)	(267.3)	279.4	-	-
	29.5	-	305.9	203.7	539.1
Arising on share issues	96.8	1,366.6	934.8	-	2,398.2
Share issue costs	-	(88.9)	-	-	(88.9)
Attributable profit for the year	-	-	-	142.3	142.3
Translation adjustments on loans	-	-	-	(13.1)	(13.1)
Subsidiary net asset translation adjustments	-	-	-	638.8	638.8
Dividends	-	-	-	(50.3)	(50.3)
At 31 December 2002	126.3	1,277.7	1,240.7	921.4	3,566.1

Under the terms of the merger, Xstrata AG shareholders received 10 US\$ 0.50 Xstrata plc shares for each Xstrata AG share previously held. This resulted in the issue of 59,000,000 Xstrata plc shares which lead to a restatement of the share capital to US\$ 29.5 million (refer to note 2 and 24).

### 26. Notes to the Statement of Cash Flows

	2002 US\$ m	2001 US\$ m
Reconciliation of operating profit to net cash inflow from operating activities:		
Total operating profit	212.2	46.9
Income from associates	(0.7)	-
Depreciation and amortisation	147.6	36.0
Exceptional item - impairment of assets	50.8	45.5
Decrease/(increase) in debtors	35.5	(3.9)
(Increase)/decrease in stocks	(72.6)	28.6
Increase in creditors	74.2	10.9
Increase/(decrease) in provisions	4.8	(5.6)
	451.8	158.4

US\$ m	At 1 January 2002	Cash flow	Translation adjustments	Changes in Group operations	Other non-cash movements	At 31 December 2002
Analysis of net debt movements:						
Cash at bank and on hand	45.9	42.8	-	-	-	88.7
Bank overdrafts	(1.4)	(2.8)	-	-	-	(4.2)
Net cash	44.5	40.0	-	-	-	84.5
Short term loans	(79.0)	79.0	-	(2.1)	-	(2.1)
Long term loans	(422.0)	334.2	(13.1)	(564.7)	-	(665.6)
Loan arrangement fees	-	31.7	-	-	(4.7)	27.0
Finance leases	-	1.2	(0.8)	(18.1)	-	(17.7)
Net debt	(456.5)	486.1	(13.9)	(584.9)	(4.7)	(573.9)

Other non-cash movements:

Represents amortisation of loan issue costs over the term of the loan facility.

Restrictions on Group cash movements:

Funds can only be paid from South Africa with the approval of the South African Reserve Bank. Payments for services or goods received is subject to a reasonability test. The South African Reserve bank allows payments of interest on loans at a prescribed rate and the repayment of principal.

Major non-cash transactions:

Refer to note 2 for an analysis of the merger of Xstrata plc and Xstrata AG and acquisition of Glencore Overseas AG (of which Enx Resources Limited is a wholly owned subsidiary), Duiker Marketing AG and Duiker Mining (Proprietary) Limited.

	2002 US\$ m	2001 US\$ m
Net debt by currency:		
AUD	2.4	0.7
EUR	3.3	16.4
US\$	(545.9)	(448.7)
ZAR	(35.4)	(25.4)
Other	1.7	0.5
	(573.9)	(456.5)

## 27. Post Balance Sheet Events

In January 2003, the Group acquired a further 11.5% interest in a Coal Australia subsidiary company, Oakbridge Pty Ltd for US\$ 58 million from Tomen Corporation, increasing the percentage ownership in the subsidiary to 78%.

## 28. Capital Commitments

Amounts contracted for but not provided in the financial statements amounted to US\$ 23.9 million (2001 US\$ 3.3 million) for the Group and US\$ nil (2001 US\$ nil) for the company.

## 29. Contingent Liabilities

In connection with the expansion at the San Juan de Nieva plant, the company has issued bank guarantees for the amount of EUR 76.9 million (US\$ 80.7 million). The bank guarantees have primarily been issued in respect of grants received from regional and federal authorities. The guarantees will be released once the authorities are satisfied that the Group has met all its obligations in connection with the receipt of the grants.

Coal Australia has issued performance guarantees to customers under contracts for supply of coal for AUD 12.8 million (US\$ 7.2 million) and guarantees to the NSW and Queensland Departments for Mineral Resources in respect of various mining leases and the performance thereof AUD 88.1 million (US\$ 49.5 million).

Coal South Africa has issued a guarantees to Eskom for early termination of power usage of ZAR 12.0 million (US\$ 1.4 million), to Department of Mineral and Energy to obtain certain prospecting permits of ZAR 0.8 million (US\$ 0.1 million) and to banks for property transactions of ZAR 3.4 million (US\$ 0.4 million).

## 30. Pension Commitments

The Group operates or participates in a number of defined contribution pension plans and industry-wide schemes covering a majority of employees. To the extent there is a difference between pension cost and contributions paid, a prepayment or creditor arises. The accumulated difference provided in the balance sheet at 31 December 2002 gives rise to a creditor of US\$ 0.4 million (2001- creditor of US\$ 0.1 million).

The assets are held separately from those of the Group, being generally invested with insurance companies and regulated by local legislation.

In general, these pension plans provide benefits to participants at retirement or other life contingencies. The benefits vary from severance payments to retirement pensions on termination of employment. On retirement or other legitimate life contingency, the employees are eligible to a severance lump sum payment or an annuity equal in value to their share of the fund.

### Industry funds

In South Africa, the Group participates in two significant multi-employer schemes, The Mine Employees Pension Fund and The Sentinel Mining Industry Retirement Fund.

The Mine Employees Pension Fund is a defined contribution scheme.

The Sentinel Mining Industry Retirement Fund converted to a defined contribution scheme from a defined benefit scheme on 31 March 2001, with members over the age of 55 at conversion retaining their defined benefit promise.

In Australia, under the NSW Coal & Oil Shale Mineworkers (Superannuation) Act 1941, and certain industrial agreements, the Group is required to make contributions to the Coal Super Retirement Income Fund for each person employed as a Mineworker (as defined by the Act).

The Coal Super Retirement Income Fund is separated into two plans:

- NSW Mineworkers Superannuation Fund.
- NSW Coal & Oil Shale Mineworkers Superannuation (Accumulation) Fund (COSAF)

The Mineworkers Superannuation Fund, was closed to new members after a major restructuring in 1993. The majority of active members (98%) have accepted the Transfer of Entitlements Offer from the plan and their entitlements have been transferred to the COSAF (accumulation) fund. Up until March 1993, benefits were paid from this fund in the form of pensions. The fund is used to pay pensions to surviving former coal miners or their spouses. As at 30 June 2000 this fund had an unfunded industry liability of US\$ 19 million (Group share US\$ 0.3 million). The NSW Government planned for the unfunded liability to be eliminated by additional contributions and this is expected to be cleared by 2003. It is a requirement that the Trustee submit the Mineworkers Fund to actuarial review over three years. The next actuarial review is due on 30 June 2003.

In addition to the above, contributions are made by certain entities in the consolidated entity to the COSAF fund. This is an accumulation fund and as such an actuarial review is not required. Contributions are based on a "reference rate" as defined in the Act and based on a percentage of an industry classification pay rate. The fund provides accumulated benefits on resignation, retirement, disability or death.

### Defined benefit schemes

The Group has no material defined benefit pension or post-retirement schemes at 31 December 2002.

During November 2002, in accordance with Spanish law, the pension commitments of the Spanish pension scheme were externalised through an insurance contract with Bank of Bilbao Vizcaya Argentaria SA at a cost of EUR 20.3 million (US\$ 20.2 million). All the associated pension liabilities of Xstrata Spain have been fully secured, without recourse to Xstrata plc. At 31 December 2001 a provision of EUR 19.0 million (US\$ 16.8 million) was held for this fund.

### 31. Related Party Transactions

During the year, the Group plc entered into the following transactions, in the ordinary course of business, with related parties:

US\$ m	Sales	Purchases	Agency & coal marketing fees	Amounts payable	Amounts receivable
<b>Glencore International AG</b>					
2002	401.4	101.7	24.9	21.4	42.8
2001	148.0	33.7	10.2	10.0	26.8
<b>Forestal del Sur Ltda</b>					
2002	2.2	-	-	-	-
2001	1.4	-	-	-	0.9
<b>Associates - Cook Resources Mining Pty Limited</b>					
2002	-	-	-	-	6.5

### Glencore International AG

As at 31 December 2002, Glencore International AG ("Glencore") owned 40.0% of the shares in Xstrata plc.

### Chrome

Xstrata South Africa entered into a ferrochrome marketing agreement with Glencore on 21 April 1995, appointing Glencore as its exclusive world-wide marketing agent for the sale of Xstrata South Africa's entire production of ferrochrome other than ferrochrome sold into the US, Canada and certain Asian countries. The agreement continues

for as long as Xstrata South Africa produces ferrochrome. Glencore is obliged to use its best endeavours to arrange sales at prevailing market rates as agreed from time to time by Xstrata South Africa and Glencore. Glencore is entitled to receive an agency fee of 4.25% on FOB sales revenues. Glencore assumes 60% of the risk of non-payment by customers in relation to chrome sales.

If at any time Xstrata South Africa notifies Glencore that it is able to find purchasers for its production at prices higher than those generally obtainable by Glencore, Xstrata South Africa may, unless Glencore is able to obtain similar prices, sell its products in the market. Glencore is nevertheless entitled to an agency fee of 3.5% of FOB sales revenue in respect of such sales. Glencore is also entitled to receive a US\$ 50,000 monthly fee in connection with market analysis and administration tasks it performs.

Ferrochrome sold into the US and Canada is distributed by Glencore Ltd and Glencore Canada Inc respectively, under two distribution agreements. These agreements continue indefinitely, with both parties having the right to terminate the agreement at 12 month's notice. The percentage of distribution fees payable by the Group in respect of ferrochrome sold under the distribution agreement is substantially the same as the commission paid in respect of ferrochrome sold under the marketing agreement. In addition, Mitsui & Co Ltd has the right to market 30,000 tonnes of the annual production from the Lydenburg furnaces to certain Asian countries.

#### **Vanadium**

In December 1997, Xstrata Marketing Corporation AVV ("Xstrata Marketing"), a wholly owned subsidiary of the Group, has entered into a 20-year marketing agreement with Glencore in respect of Rhovan's and Vantech's entire production of vanadium other than vanadium sold into the US and Canada. Pursuant to this agreement, Glencore agreed to purchase Rhovan's entire production of vanadium pentoxide and Vantech's entire production of vanadium pentoxide and ferrovanadium until 31 December 2000 and agreed to pay Xstrata Marketing a fixed minimum delivered price of US\$3.50 per pound of vanadium pentoxide and US\$16.80 per kilogram of ferrovanadium (the "offtake arrangement"). The offtake arrangement was restructured with effect from 1 January 2000 and provided that half of the vanadium pentoxide offtake entitlement for the year 2000 was allocated equally to the years 2001 and 2002 at US\$3.65 per pound and US\$3.80 per pound respectively.

Glencore is obliged to use its best endeavours to arrange sales of vanadium pentoxide and ferrovanadium which are not covered by the offtake agreement. Xstrata Marketing is obliged to pay to Glencore an agency fee of 3.5% on FOB sales revenues and an additional fee of 1.5% on FOB sales revenues for assuming the risk of non-payment by customers on this material.

If at any time Xstrata Marketing notifies Glencore that it is unable to find purchasers for its production at prices higher than those generally obtainable by Glencore, Xstrata Marketing may, unless Glencore is able to obtain similar prices, sell its products in the market. Glencore is nevertheless entitled to the 3.5% agency fees described above in respect of such sales.

Vanadium pentoxide and ferrovanadium sold into the US or Canada is distributed by Glencore Ltd and Glencore Canada Inc respectively, under two distribution agreements. The distribution agreements have the same term as the marketing agreement. The percentage of distribution fees payable by the Group in respect of vanadium pentoxide and ferrovanadium is substantially the same as the commission paid in respect of vanadium pentoxide and ferrovanadium sold under the marketing agreement.

Xstrata Windimurra Pty Ltd entered into a 10 year marketing agreement in December 1998 with Glencore in respect of the entire production of the Group's Australian vanadium operation. Pursuant to this, an agency fee of 3.5% on

FOB sales revenues is payable by Xstrata Windimurra Pty Ltd to Glencore, or, if production exceeds four million pounds of vanadium pentoxide in any year, the greater of US\$ 500,000 or 3.5% on FOB sales revenues. Glencore assumes the risk of non-payment by customers.

If at any time Xstrata Windimurra Pty Ltd notifies Glencore that it is able to find purchasers for its production at prices higher than those generally obtainable by Glencore, Xstrata Windimurra Pty Ltd may, unless Glencore is able to obtain similar prices, sell its production in the market. Glencore is nevertheless entitled to the 3.5% agency fees described above in respect of such sales.

### **Coal**

In 2002, the Group entered into a 20 year Market Advisory Agreement with Glencore. Pursuant to this agreement, Glencore acts as the Group's market advisor with respect to its export production of coal (other than for Cumnock No. 1 Colliery Pty Limited while it is not a wholly owned subsidiary and other than for export sales from the TAV/TESA joint venture unless and until the current marketing arrangements with TESA are terminated). The fee payable to Glencore is US\$ 0.50 per attributable tonne of coal exported by the Group from Australia or South Africa. In January 1995, Cumnock entered into a sales and marketing agreement with Glencore, for a commission of US\$ 0.75 per tonne for all coal sold by Cumnock. Pursuant to this agreement, Glencore provides sales and marketing services to Cumnock and Cumnock appoints Glencore as its agent to market coal.

During 2002, Glencore Overseas AG (of which Enx Resources Limited is a wholly owned subsidiary), Duiker Marketing AG and Duiker Mining (proprietary) Limited were acquired from Glencore. An analysis of this transaction is included in Note 2.

### **Zinc**

During 1999, Asturiana entered into a service agreement with Glencore (the "Asturiana Service Agreement"), under the terms of which Glencore provides advice and assistance with respect to the acquisition of mining and/or metallurgical interests and advice in connection with Asturiana's hedging policy and improvement of its position in the zinc market. The fees to be paid by Asturiana under the Asturiana Service Agreement are approximately US\$2.0 million per annum. Unless renewed, the agreement will expire on 31 December 2004.

The Nordenham zinc smelter was acquired from Metaleurop (33% owned by Glencore) effective 31 December 2002. The Group has received a fairness opinion from KPMG Transactions Services on the transaction that supported the acquisition price. Details of this transaction are included in Note 15.

### **Forestal del Sur Ltda**

During 2001, Forestal del Sur Ltda was sold to management. Subsequently, Forestal del Sur Ltda entered into a management service agreement and a tolling and marketing agreement with the Group. These agreements expire on 31 December 2006.

### **Transactions with associates**

As disclosed in note 17 there was a non-interest bearing advance of US\$ 6.5 million to Cook Resources Mining Pty Limited, an associate of the Group at 31 December 2002.

### 32. Financial Instruments

The Group is exposed to changes to currency exchange rates, commodity prices and interest rates in the normal course of business. Derivative transactions are entered into solely to hedge these risks. Market fluctuations in derivative financial instruments designated as hedges are used to offset the fluctuations in the underlying exposure.

#### Commodity price risk

The Group is exposed to price movements for the products it produces which are generally sold on the world market. For the three year period ending 31 December 2000 Xstrata Marketing Corporation entered into an off take agreement with Glencore International for all its South African vanadium pentoxide and ferrovandium production at a fixed price of US\$ 3.50 per pound and US\$ 16.80 per kilogram, respectively. Any surplus arising between the fixed prices and the delivered customer prices is shared between Xstrata Marketing Corporation and the agent. With effect from 1 January 2000, the off take agreement was restructured in such a way that half of the vanadium pentoxide offtake entitlement for the year 2000 was allocated equally to the years 2001 and 2002 at US\$ 3.65 per pound and US\$ 3.80 per pound respectively.

Spanish operations enter into LME Zinc futures to counter potential market price fluctuations from the time zinc concentrate is bought to the time when the zinc metal is sold. The settlement dates for the outstanding contracts all mature within one year and they are marked to market at year end.

#### Credit risk

The Group is exposed to credit risk in respect of trade receivables, however given the geographical industry spread of the Group's customers, credit risk is believed to be limited.

#### Interest rate risk of financial assets and liabilities

The interest rate profile of the financial assets of the Group as at 31 December was as follows:

	2002 Weighted average rate in %	2002 US\$ m	2001 US\$ m
<b>Floating rate:</b>			
AUD	4.0	37.9	0.7
EUR	3.1	5.5	18.5
US\$	1.2	35.7	21.0
ZAR - cash	11.0	7.9	5.2
ZAR - rehabilitation trust fund	9.7	24.5	-
		<b>111.5</b>	<b>45.4</b>
<b>Financial assets on which no interest is earned:</b>			
AUD		30.7	-
EUR		11.5	9.6
US\$		-	2.2
ZAR		0.1	0.1
Other		4.0	1.8
		<b>46.3</b>	<b>13.7</b>
<b>Total</b>		<b>157.8</b>	<b>59.1</b>

The interest rate profile of the financial liabilities of the Group as at 31 December was as follows:

	Weighted average time rate is fixed	2002 Weighted average rate in %	2002 US\$ m	2001 US\$ m
<b>Floating rate:</b>				
AUD		5.7	17.8	-
US\$		2.8	580.9	468.4
US\$ overdraft		2.3	0.7	1.3
ZAR		12.9	43.3	30.6
			642.7	500.3
<b>Fixed rate:</b>				
AUD Finance leases	7 years	5.3	17.7	-
EUR Other loans	12 years	-	1.6	1.5
EUR Other loans	12 years	5.0	0.6	0.6
ZAR Mineral rights deferred acquisition liability	12 years	8.3	14.8	13.7
			34.7	15.8
	AUD	EUR	ZAR	
<b>Fixed rate maturity profile:</b>				
Within one year	1.3	-	-	1.3
Between one and two years	1.1	0.6	1.7	3.4
Between two and five years	3.1	0.7	3.0	6.8
In five years or more	12.2	0.9	10.1	23.2
	17.7	2.2	14.8	34.7
				2.1

The floating rate financial liabilities comprise:

- AUD denominated minority interest loans bear interest at rates based on 1 month BBSY;
- US\$ 12 million of bank loans bear interest at rates based on 6 month LIBOR and the balance of US\$ denominated bank loans bear interest at rates based on LIBOR; and
- ZAR denominated bank loans and overdrafts bear interest at rates based on 3 month JIBAR.

Also refer to note 20 Bank Loans, note 21 Other Loans, note 22 Obligations under Leases and Hire Purchase Contracts and note 26 Notes to the Statement of Cash Flows for further details.

### Borrowing facilities

The Group has various borrowing facilities available to it. The un-drawn committed facilities available at 31 December 2002 and 31 December 2001 in respect of which all conditions precedent had been met at that date are as follows:

	2002 US\$ m	2001 US\$ m
Expiring within one year or less	137.1	78.5
Expiring in more than two years	804.0	98.7
	941.1	177.2

### Currency risk

Owing to the Group's significant operations in Australia, South Africa and Spain, the balance sheet and results can be affected significantly by movements in exchange rates. The reporting currency of the Group is the US\$, as this is the underlying economic currency of the Group's cash flows and the majority of borrowings are denominated in US\$. However overseas operations undertake transactions and have cash flows in local currencies. The policy of the Group is to use foreign currency contracts to reduce short term exposure to foreign exchange movements of the AUD and EUR to the US\$. Xstrata utilises a range of derivatives as detailed below to manage such exposures. Typically these derivatives are short term in nature and at 31 December 2002, the only foreign currency contracts outstanding are US\$/AUD that span a period of up to 12 months.

The table below shows the Group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved, other than certain non-US\$ borrowings treated as hedges of net investments in overseas operations.

As at 31 December, the net US\$ monetary receivable exposure is as follows:

Reporting currency	2002 US\$ m	2001 US\$ m
AUD	5.5	6.6
EUR	(11.2)	-
ZAR	72.7	70.8
	67.0	77.4

The amounts shown in the table above take into account the effect of foreign currency contracts entered into to manage these currency exposures.

During November 2002, the Spanish operations closed out all their remaining US\$/EUR exchange contracts used to hedge future US dollar denominated revenue receipts in the normal course of business.

	Contract amount US\$ m	Average forward rate	Fair value US\$ m
2002 US\$/EUR exchange contracts	-	-	-
2001 US\$/EUR exchange contracts	190.0	0.9414	(12.9)

The settlement dates for the outstanding contracts can be summarised as follows:

	2002 US\$ m	2001 US\$ m
Amounts falling due:		
Within one year	-	125.0
Between one and two years	-	65.0
	-	190.0

As at 31 December 2002, Australian operations had entered into AUD/US\$ exchange contracts to hedge their US dollar denominated revenue. The estimated deferred gain or loss on the open foreign currency exchange contracts has been determined based on pertinent market information available as at 31 December 2002.

	Contract amount US\$ m	Average forward rate	Fair value US\$ m
2002 US\$/AUD exchange contracts	635.1	0.5280	28.8

The settlement dates for the outstanding contracts can be summarised as follows:

	2002 US\$ m	2001 US\$ m
Amounts falling due:		
Within one year	635.1	-
	635.1	-

### Foreign currency hedges

Gains and losses on foreign currency contracts taken out to hedge currency commitments are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on foreign currency hedging and the movements therein are as follows:

2002	Gains US\$ m	Losses US\$ m	Net US\$ m
Unrecognised gains at and losses at 1 January 2002	-	(12.9)	(12.9)
Acquired with subsidiaries	-	(4.0)	(4.0)
Arising in previous years that are now recognised	-	16.9	16.9
Arising in 2002 not recognised	28.8	-	28.8
Unrecognised gains at and losses at 31 December 2002	28.8	-	28.8
Of which:			
Gains and losses expected to be realised in 2003	28.8	-	28.8

2001	Gains US\$ m	Losses US\$ m	Net US\$ m
Unrecognised gains at and losses at 1 January 2001	-	(0.6)	(0.6)
Acquired with subsidiaries	-	(10.7)	(10.7)
Arising in previous years that are now recognised	-	0.6	0.6
Arising in 2001 not recognised	-	(2.2)	(2.2)
Unrecognised gains at and losses at 31 December 2001	-	(12.9)	(12.9)
Of which:			
Gains and losses expected to be realised in 2002	-	(7.4)	(7.4)
Gains and losses expected to be realised in 2003 or later	-	(5.5)	(5.5)

### Fair values

Fair values of financial assets and liabilities set out below is a comparison by category of book values and fair values of all the Group's financial assets and financial liabilities as at 31 December 2002:

US\$ m	Book value 2002	Fair value 2002	Book value 2001	Fair value 2001
<b>Primary financial instruments:</b>				
Short-term borrowings	(6.3)	(6.3)	(80.4)	(80.4)
Long-term borrowings	(638.5)	(638.5)	(422.0)	(422.0)
Finance leases and hire purchase liabilities	(17.7)	(17.7)	-	-
Mining rights deferred acquisition liability	(14.8)	(14.8)	(13.7)	(13.7)
Fixed asset investments (other than own shares, associates and the Nordenham acquisition)	57.8	57.8	-	-
Cash and short-term deposits	88.7	88.7	45.9	45.9
Other long term debtors	44.6	44.6	13.0	13.0
<b>Derivative financial instruments:</b>				
Foreign currency contracts	-	28.8	-	(12.9)
Zinc futures	1.4	1.4	7.1	7.1

Market values have been used to determine the fair value of foreign currency contracts and listed fixed asset investments. The fair value of all other items has been calculated by discounting the expected future cash flows at prevailing interest rates.

### 33. Long Term Incentive Plan

The Xstrata plc Long Term Incentive Plan (LTIP) has two elements:

- (i) A free contingent award of free ordinary shares that vests after three years, subject to, and to the extent that, performance criteria determined at the time of grant have been satisfied; and
- (ii) A share option to acquire ordinary shares at a specified exercise price after the third anniversary of grant, to the extent that performance conditions have been satisfied.

No consideration will be payable on the vesting of an LTIP award of free shares. On exercise of an option, a participant will be required to pay an exercise price that will not be less than the market value of an ordinary share on the date of grant.

The movement in the number of free ordinary shares and share options are as follows:

Scheme	Strike Price	Exercise period	At 1 January 2002 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	At 31 December 2002 No.
<b>Shares:</b>							
2002	-	May 2005 - May 2012	-	63,696	-	(1,185)	62,511
<b>Options:</b>							
2002	GBP 9.40	May 2005 - May 2012	-	469,929	-	(12,037)	457,892
2002	GBP 9.72	May 2005 - May 2012	-	22,068	-	-	22,068
2002	GBP 9.50	May 2005 - May 2012	-	15,000	-	-	15,000
			-	506,997	-	(12,037)	494,960

### Xstrata AG incentive plan

With the merger of Xstrata AG into Xstrata plc, Xstrata plc assumed the obligations of Xstrata AG under the scheme with the number of options and strike price adjusted accordingly. The share options have a two year vesting period followed by a three year exercise period. No further options will be granted under this incentive plan.

The movement in the number of share options are as follows:

Scheme	Strike Price	Exercise period	At 1 January 2002 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	At 31 December 2002 No.
2002 (i)	CHF 22.60	Jan 2004 - Jan 2007	-	566,000	-	-	566,000
2001	CHF 43.20	Jan 2003 - Jan 2006	340,130	-	-	(880)	339,250
2000	CHF 33.60	Jan 2002 - Jan 2005	457,750	-	-	-	457,750
1998	CHF 19.40	Sep 2000 - Sep 2003	166,800	-	-	-	166,800
			964,680	566,000	-	(880)	1,529,800

(i) Excludes options issued to executive Directors.

### Options Granted to Executive Directors by the Company

Director	Pricing date	Number of share options	Strike Price	Exercise period
Michael Davis	01-Oct-02	295,000	GBP 6.47	Oct 2005 - Oct 2012
	01-Oct-03	295,000	N/A	Oct 2006 - Oct 2013
Trevor Reid	31-Dec-01	295,000	CHF 18.90	Dec 2004 - Dec 2011
	15-Jan-03	147,500	GBP 6.21	Jan 2006 - Jan 2013
	15-Jan-04	147,500	N/A	Jan 2007 - Jan 2014
Santiago Zaldumbide	Jan-02	80,000	CHF 22.60	Jan 2004 - Jan 2007

As at 31 December 2002, the company held 1,250,120 shares (2001: 1,200,430 shares) to hedge its exposure under the above share and option plans (refer to note 15).

### Options Granted to the Chief Executive Officer by Glencore International AG

Director	Grant date	Number of share options	Strike Price	Exercise period
Michael Davis	19-Sep-01	885,000	CHF 20.50	Sep 2004 - Sep 2011

### 34. Principal Subsidiaries, Associates, Joint Ventures and Joint Arrangements

Name	Country of incorporation	Principal activities	Effective interest held
<b>Principal Subsidiaries</b>			
Coal			
Abelshore Pty Limited	Australia	Coal operations	100%
AZSA Holdings Pty Limited	Australia	Coal operations	100%
Cumnock Coal Limited	Australia	Coal operations	84%
Enex Liddell Pty Limited	Australia	Coal operations	100%
Enex Oakbridge Pty Limited	Australia	Coal operations	100%
Hunter Valley Coal Corporation Pty Limited	Australia	Coal operations	100%
Jonsha Pty Limited	Australia	Coal operations	100%
Oakbridge Pty Limited	Australia	Coal operations	66.5%
Oceanic Coal Australia Limited	Australia	Coal operations	100%
Ravensworth Operations Pty Limited	Australia	Coal operations	100%
Saxonvale Coal Pty Limited	Australia	Coal operations	100%
Ulan Coal Mines Limited	Australia	Coal operations	90%
The Wallerawang Collieries Limited	Australia	Coal operations	63.2%
Xstrata Coal Australia Pty Limited	Australia	Holding company	100%
Xstrata Coal Investments Australia Limited	Australia	Holding company	100%
Duiker Marketing AG	Switzerland	Marketing & trading	100%
Alloys			
Xstrata South Africa (Pty) Ltd	South Africa	Holding company, Coal, Chrome & Vanadium operations	100%
Maloma Colliery Ltd	Swaziland	Anthracite mine	75%
Xstrata Windimurra Pty Ltd	Australia	Vanadium operations	100%
Zinc			
Asturiana de Zinc SL	Spain	Zinc smelter	100%
Metaleurop Zinc Holding GmbH	Germany	Holding company of zinc smelter	100%
Magnesium			
Xstrata Magnesium Corp	USA	Recycling plant	100%
Forestry			
Forestal Los Lagos SA	Chile	Plantation	100%
Other			
Xstrata (Schweiz) AG (i)	Switzerland	Holding company	100%
<b>Principal JANES</b>			
Coal			
Macquarie Coal Joint Venture	Australia	Coal operations	80%
Bulga Joint Venture	Australia	Coal operations	87.5%
Liddell Joint Venture	Australia	Coal operations	67.5%
Foybrook Joint Venture	Australia	Coal operations	67.5%
Glendell Joint Venture	Australia	Coal operations	67.5%
Ulan Coal Mines Joint Venture	Australia	Coal operations	90%
United Joint Venture	Australia	Coal operations	95%
Narama Joint Venture	Australia	Coal operations	50%
Tavistock TESA Joint Venture	South Africa	Coal operations	50%
Douglas Tavistock Joint Venture	South Africa	Coal operations	16%
Richards Bay Coal Terminal Company Ltd	South Africa	Coal terminal	20.9%
Alloys			
Samanacor Joint Venture	South Africa	Chrome operations	50%
<b>Principal Associates</b>			
Coal			
Cook Resources Mining Pty Limited	Australia	Coal operations	50%

(i) Directly held by Xstrata plc.

The Group comprises a large number of companies and it is not practical to include all of these in the above list. The list only includes those companies that have a significant impact on the profit or net assets of the Group. All entities operate mainly in the country of incorporation and these interests are held indirectly by the parent company unless otherwise indicated.

## Supplementary Information (unaudited)

### Proforma Profit and Loss Accounts

For the years ended 31 December

	2002 US\$ m	2001 US\$ m
<b>TURNOVER</b>		
Turnover group and share of joint ventures turnover	1,991.3	1,943.5
Less turnover attributable to joint ventures	-	(68.6)
Group turnover	1,991.3	1,874.9
Net operating costs before exceptional costs	(1,680.2)	(1,507.0)
Exceptional costs - impairment of assets	(50.8)	(45.5)
Net operating costs	(1,731.0)	(1,552.5)
<b>OPERATING PROFIT</b>		
	260.3	322.4
Income from interests in joint ventures	-	32.1
Income from interests in associated undertakings	0.7	24.7
<b>TOTAL OPERATING PROFIT</b>		
	261.0	379.2
Profit on sale of fixed assets	3.1	2.0
Loss on disposal of operations	-	(1.9)
<b>PROFIT BEFORE INTEREST AND TAXATION</b>		
	264.1	379.3
Net interest and similar charges	(39.7)	(60.8)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		
	224.4	318.5
Tax on profit on ordinary activities	(42.6)	(75.7)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		
	181.8	242.8
Equity minority interests	(7.2)	(15.5)
<b>ATTRIBUTABLE PROFIT</b>		
	174.6	227.3
<b>Earnings per share (US\$) - basic</b>		
Pre-exceptionals	0.90	1.08
Exceptional items	(0.20)	(0.18)
	0.70	0.90

Weighted average number of shares (000)

251,351

251,401

### Notes to the Proforma Profit and Loss Accounts

The Proforma Profit and Loss Account and segmental information for the Group is prepared to illustrate the effect had the coal acquisition and IPO occurred on 1 January 2001.

The financial statements for the year ended 31 December 2001 has been extracted from Part VII of the Xstrata plc Listing Particulars dated 20 March 2002 and combines the Xstrata AG, Enx Resources Limited, Duiker Marketing AG and Duiker Mining (Proprietary) Limited Profit and Loss Accounts, adjusted to assume the acquisition of Asturiana de Zinc S.A. and Oakbridge Pty Limited had taken place on 1 January 2001.

Coal South Africa's ATC and ATCOM operations were accounted for as joint ventures and Douglas Tavistock was accounted for as an associate (for 11 months) in 2001. In 2002, these operations have been reported as "joint arrangements not creating an entity" ("JANES") and are proportionally consolidated on a line-by-line basis.

## Reconciliation of Proforma and Statutory Financial Statements

	2002 US\$ m	2001 US\$ m
<b>TURNOVER</b>		
Statutory turnover	1,809.3	613.6
Asturiana de Zinc pre-acquisition turnover	-	116.7
Enex Group pre-acquisition turnover	122.6	662.4
Duiker Group pre-acquisition turnover	59.4	371.3
Oakbridge Pty Limited pre-acquisition turnover	-	110.9
<b>Total</b>	<b>1,991.3</b>	<b>1,874.9</b>
<b>EBITDA</b>		
Statutory EBITDA	413.7	126.0
Asturiana de Zinc pre-acquisition EBITDA	-	35.5
Enex Group pre-acquisition EBITDA	38.8	199.7
Duiker Group pre-acquisition EBITDA	29.2	216.8
Oakbridge Pty Limited pre-acquisition EBITDA	-	(0.5)
<b>Total</b>	<b>481.7</b>	<b>577.5</b>
<b>EBIT</b>		
Statutory EBIT	215.3	45.5
Asturiana de Zinc pre-acquisition EBIT	-	22.3
Enex Group pre-acquisition EBIT	25.9	132.7
Duiker Group pre-acquisition EBIT	22.9	179.3
Oakbridge Pty Limited pre-acquisition EBIT	-	(0.5)
<b>Total</b>	<b>264.1</b>	<b>379.3</b>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		
Statutory profit on ordinary activities before taxation	177.9	23.9
Asturiana de Zinc pre-acquisition profit on ordinary activities before taxation	-	8.5
Enex Group pre-acquisition profit on ordinary activities before taxation	24.2	97.5
Duiker Group pre-acquisition profit on ordinary activities before taxation	22.3	172.2
Oakbridge Pty Limited pre-acquisition profit on ordinary activities before taxation	-	(0.9)
Enex Group loan foreign exchange adjustment	-	29.5
Incremental interest adjustment	-	(12.2)
<b>Total</b>	<b>224.4</b>	<b>318.5</b>
<b>ATTRIBUTABLE PROFIT</b>		
Statutory attributable profit	142.3	11.3
Asturiana de Zinc pre-acquisition attributable profit	-	3.8
Enex Group pre-acquisition attributable profit	14.3	60.7
Duiker Group pre-acquisition attributable profit	18.0	132.1
Oakbridge Pty Limited pre-acquisition attributable profit	-	(0.9)
Deferred tax asset adjustment	-	-
Enex Group loan foreign exchange adjustment	-	29.5
Incremental interest adjustment	-	(9.2)
<b>Total</b>	<b>174.6</b>	<b>227.3</b>





## Proforma Segmental Analysis by Geographical Region

For the year ended 31 December 2002

US\$ m	Africa	Americas	Asia	Australia	Middle East	Europe	Total
Turnover by origin							
Continuing operations	736.7	5.4	-	849.2	-	400.0	1,991.3
Turnover by destination	108.5	87.1	756.4	141.9	34.4	863.0	1,991.3
EBITDA	217.7	(4.5)	-	202.2	-	88.4	503.8
Common costs and income							(22.1)
EBITDA							481.7
Operating profit	176.4	(30.7)	-	84.3	-	54.3	284.3
Common costs and income							(24.0)
Operating profit							260.3
Income from associates	-	-	-	0.7	-	-	0.7
Profit on sale of assets	3.0	-	-	0.1	-	-	3.1
EBIT	179.4	(30.7)	-	85.1	-	54.3	264.1
Net interest and similar charges							(39.7)
Profit on ordinary activities before taxation							224.4
Tangible assets	947.5	31.8	-	1,809.9	-	463.2	3,252.4
Unallocated tangible assets							2.3
Tangible assets							3,254.7
Net current assets	190.7	3.5	-	123.5	-	53.8	371.5
Unallocated net current assets							(162.5)
Net current assets							209.0
Attributable net assets	1,777.4	23.2	-	1,687.0	-	612.6	4,100.2
Unallocated attributable net assets							(534.1)
Attributable net assets							3,566.1
Capital expenditure	55.4	2.3	-	71.6	-	32.3	161.6

### Proforma Segmental Analysis by Geographical Region

For the year ended 31 December 2001

US\$ m	Africa	Americas	Asia	Australia	Europe	Total
Turnover by origin	681.6	25.8	-	784.2	383.3	1,874.9
Turnover by destination	61.7	41.3	755.0	100.7	916.2	1,874.9
EBITDA	302.6	(3.3)	-	186.9	101.5	587.7
Common costs and income						(10.2)
EBITDA						577.5
Operating profit	257.1	(4.5)	-	69.8	67.1	389.5
Common costs and income						(10.3)
Operating profit						379.2
Profit on sale of fixed assets	-	-	-	1.5	-	1.5
Unallocated profit on sale of assets						0.5
Loss on disposal of operations						(1.9)
EBIT	257.1	(4.5)	-	71.3	67.1	379.3
Net interest and similar charges						(60.8)
Profit on ordinary activities before taxation						318.5
Tangible assets	1,421.5	54.4	-	1,595.5	387.8	3,459.2
Unallocated tangible assets						0.6
Tangible assets						3,459.8
Net current assets	133.7	0.3	-	90.1	95.5	319.6
Unallocated net current assets						44.1
Net current assets						363.7
Attributable net assets	1,357.9	47.1	-	1,024.6	548.0	2,977.6
Unallocated attributable net assets						(461.7)
Attributable net assets						2,515.9
Capital expenditure	73.4	25.5	-	35.9	120.7	255.5

## US GAAP Reconciliation

For the years ended 31 December

	2002 US\$ m	2001 US\$ m
<b>RECONCILIATION OF PROFIT AND LOSS ACCOUNTS</b>		
Attributable profit under UK GAAP	142.3	11.3
Goodwill amortisation	6.4	-
Stock at acquisition date	(54.4)	-
Exceptional costs - impairments of assets	(43.8)	45.5
Fair value adjustment depreciation	(13.7)	(2.1)
Mark to market of certain derivative contracts	28.8	-
Taxation effect of US GAAP adjustments	20.6	1.4
<b>Net income under US GAAP</b>	<b>86.2</b>	<b>56.1</b>
<b>Earnings per share (US\$) - basic</b>		
Pre-exceptionals	0.82	0.97
Exceptional items	(0.43)	-
	<b>0.39</b>	<b>0.97</b>
<b>RECONCILIATION OF SHAREHOLDERS' FUNDS</b>		
Shareholders' funds under UK GAAP	3,566.1	539.1
Goodwill - Intangible assets	6.4	-
Impairments - Tangible assets	1.7	45.5
Fair value adjustments - Tangible assets	(70.2)	(2.1)
Mark to market of derivative contracts - Debtors	28.8	-
Taxation effect of US GAAP adjustments - Creditors	22.0	1.4
Own shares - Investments	(23.4)	(22.9)
Dividends proposed - Creditors	50.3	-
<b>Shareholders' funds under US GAAP</b>	<b>3,581.7</b>	<b>561.0</b>

The consolidated financial statements are presented in accordance with UK GAAP, which differs in certain material aspects from US GAAP. The principal relevant differences between US GAAP and UK GAAP that impact profit or shareholders equity as set out above are summarised above.

## Notes to the US GAAP Reconciliation

### Goodwill

Under UK GAAP, purchased goodwill on acquisitions is amortised over its useful economic life, subject to a maximum of 20 years.

Under US GAAP, FAS 142, goodwill arising on acquisitions and indefinite-lived intangible assets are no longer amortised but reviewed annually for impairment, or if an event occurs to indicate the possibility of impairment. FAS 142 is effective from 1 January 2002.

### Impairment

Both UK GAAP and US GAAP require that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

For the purpose of impairment review, US GAAP requires, in performing the review for recoverability, the entity to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognised. Measurement of an impairment loss for long-lived assets and identifiable intangibles that an entity expects to hold and use is based on the fair value of the assets.

An impairment review is undertaken on income generating units for UK GAAP purposes, which may be defined as divisions or countries of operation in accordance with the Relevant Statement of Recommended Practice. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use (fair value based on discounted cash flow analysis) the fixed asset is written down to its recoverable amount.

### Derivative instruments

The Group, are party to derivative contracts in respect of some of their future transactions in order to hedge their exposure to fluctuations between certain currencies. Under UK GAAP, these contracts are accounted for as hedges: gains and losses are deferred and subsequently recognised when the hedge transaction occurs.

US GAAP requires all derivative instruments (including those embedded in other contracts) to be recognised on the balance sheet at their fair values. Changes in fair values are either recognised periodically in income or shareholders equity as a component of other comprehensive income depending on whether the derivative qualifies for hedge accounting and, if so, whether it qualifies as a fair value hedge or a cash flow hedge. Changes in fair value of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in shareholders equity as a component of other comprehensive income, net of income taxes. Changes in fair value of derivatives used as hedges of net investments in foreign operations are reported in other comprehensive income net of income taxes and reflected as part of the cumulative translation adjustment. Changes in fair value of derivatives not qualifying as hedges are reported in net income.

### **Inventory valuation at acquisition date**

Under UK GAAP, the inventories of acquired companies are valued at the lower of replacement cost and net realisable value.

Under US GAAP, FAS 141, finished goods and work in progress are valued at estimated selling price less costs to complete. Raw materials and consumables are valued at replacement cost.

### **Deferred taxation**

Under UK GAAP, deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, with the following exceptions:

- Where fixed assets have been revalued, provision is made for deferred tax only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Under US GAAP, full provision for deferred tax is required for temporary differences between the financial reporting basis and the tax basis of the Group's assets and liabilities at enacted tax rates.

### **Own shares**

Under UK GAAP, company shares held by Group, to hedge future requirements of share option schemes are recorded in the balance sheet as fixed assets-investments.

Under US GAAP, such shares would be recorded in the balance sheet as a reduction of shareholders interest.

### **Dividends**

Under UK GAAP, dividends are recorded in the year in respect of which they are announced or declared by the board of directors to the shareholders. Under US GAAP, dividends are recorded in the period in which dividends are declared.

## Financial Summary 1999 - 2002

For the years ended 31 December

US\$ m	1999	2000	2001	2002
<b>Profit and Loss Accounts</b>				
Turnover	662.0	597.9	613.6	1,809.3
EBITDA	135.2	152.2	126.0	413.7
EBIT - before exceptional items	91.7	130.5	91.0	266.1
Exceptional items	-	57.9	(45.5)	(50.8)
EBIT	91.7	188.4	45.5	215.3
Net interest payable and similar charges	(14.6)	(11.5)	(21.6)	(37.4)
Profit on ordinary activities before taxation	77.1	176.9	23.9	177.9
Tax on profit on ordinary activities	6.6	(21.6)	(10.6)	(29.8)
Equity minority interest	0.3	-	(2.0)	(5.8)
Attributable profit - before exceptional items	84.0	97.4	56.8	193.1
Attributable profit	84.0	155.3	11.3	142.3
EBIT margin - before exceptional items	13.9%	21.8%	14.8%	14.7%
EBIT margin	13.9%	31.5%	7.4%	11.9%
Effective tax rate - before exceptional items	(8.6)%	18.2%	15.3%	13.0%
Effective tax rate	(8.6)%	12.2%	44.4%	16.8%
Basic earnings per share - before exceptional items (US\$)	1.45	1.69	0.98	0.88
Basic earnings per share (US\$)	1.45	2.69	0.19	0.65
Dividend per share (US\$)	-	-	-	0.20
<b>Balance Sheet</b>				
Intangible assets	2.4	5.4	146.4	1,017.7
Tangible assets	806.3	604.2	737.3	3,254.7
Investments	22.3	23.9	22.9	181.9
Net current assets	118.9	180.8	145.6	209.0
Capital employed	866.0	684.2	998.8	4,195.0
Capital expenditure	92.1	56.1	142.9	154.1
Attributable net assets	629.4	674.3	539.1	3,566.1
Net debt	(256.3)	0.7	(456.5)	(573.9)
Net debt to equity ratio	40.7%	(0.1)%	84.7%	16.1%
<b>Statement of Cash Flows</b>				
Net cash inflow from operating activities	113.2	173.0	158.4	451.8
Capital expenditure and financial investment	(122.7)	(54.7)	(134.8)	(150.7)
Acquisitions and disposals	(4.0)	207.8	(369.2)	(1,085.2)
Net cash inflow/(outflow) before financing	(35.7)	276.4	(377.7)	(880.9)

**Section Five: Group Information**

**5.1 Data on operations**

Name of Operation	Ownership	Annual production Capacity (Full plant/mine basis)	100% Production 2002	100% Production 2001	Accounting Status	Location
<b>ALLOYS</b>						
						South Africa
Wonderkop Plant	83%	540kt	367kt	282kt	Subsidiary & JANE	Marikana
Rustenburg Plant	100%	430kt	190kt	187kt	Subsidiary	Rustenburg
Lydenburg Plant *	100%	402kt	401kt	392kt	Subsidiary	Lydenburg
Kroondal Mine	100%	1,680kt	1,310kt	1,034kt	Subsidiary	Rustenburg
Waterval Mine	100%	600kt	459kt	157kt	Subsidiary	Rustenburg
Thorncliffe Mine	100%	1,440kt	1,147kt	1,126kt	Subsidiary	Steelport
Vantech (V205)	100%	13,400k lbs	13,411k lbs	13,374k lbs	Subsidiary	Steelport
Rhovon (V205) (FeV)	100%	15,900k lbs 7,800k kg	15,878k lbs 6,458k kg	15,047k lbs 6,118k kg	Subsidiary	Brits
						Australia
Windimurra (V205)	100%	16,400k lbs	12,045k lbs	10,488k lbs	Subsidiary	Western Australia
<b>COAL AUSTRALIA</b>						
Cumnock	84%	2,500kt	1,407kt	1,381kt	Subsidiary	Hunter Valley
Liddell	68%	2,800kt	2,366kt	2,652kt	JANE	Hunter Valley
Macquarie Coal JV - West Wallsend - Westside	80% 80%	3,700kt 700kt	1,912kt 700kt	2,702kt 700kt	JANE JANE	Newcastle Newcastle
Mt Owen	100%	5,000kt	4,821kt	4,430kt	Subsidiary	Hunter Valley
Narama	50%	6,500kt	1,689kt	-	JANE	Hunter Valley
Oakbridge Group - Baal Bone	63%	2,700kt	2,270kt	2,366kt	Subsidiary Subsidiary	Western Coal Fields
- Beltana	58%	4,000kt	277kt	-kt	JANE	Hunter Valley
- Bulga	58%	4,700kt	4,357kt	3,920kt	JANE	Hunter Valley
- South Bulga	58%	2,800kt	2,218kt	2,518kt	JANE	Hunter Valley
Ravensworth	100%	2,300kt	1,665kt	-kt	Subsidiary	Hunter Valley
Ulan - Ulan Underground	90%	3,500kt	3,518kt	3,164kt	JANE	Western Coal Fields
- Ulan Opencast	90%	2,500kt	2,635kt	2,042kt	JANE	Western Coal Fields
United	95%	3,200kt	1,518kt	340kt	JANE	Hunter Valley

Name of Operation	Ownership	Annual production Capacity (Full plant/mine basis)	100% Production 2002	100% Production 2001	Accounting Status	Location
<b>COAL SOUTH AFRICA</b>						
iMpunzi Division						
- Phoenix	100%	850kt	854kt	802kt	Subsidiary	Witbank
- Tavistock	100%	1,300kt	1,277kt	1,267kt	Subsidiary	Witbank
Mpumalanga Division						
- Spitzkop	100%	1,400kt	1,202kt	1,428kt	Subsidiary	Ermelo
- Strathrae	100%	Closed H1 2002	37kt	604kt	Subsidiary	Carolina
- Tselentis	100%	1,200kt	1,290kt	1,164kt	Subsidiary	Breyten
Tavistock TESA JV						
- ATC**	50%	1,700kt	1,520kt	1,822kt	JANE	Witbank
- ATCOM**	50%	2,400kt	2,328kt	2,282kt	JANE	Witbank
Tweefontein Division						
- Boschmans	100%	2,000kt	1,881kt	1,953kt	Subsidiary	Witbank
- South Witbank	100%	1,300kt	1,303kt	430kt	Subsidiary	Witbank
- Waterpan	100%	1,200kt	989kt	1,144kt	Subsidiary	Witbank
- WitCons	100%	1,100kt	1,018kt	960kt	Subsidiary	Witbank
Mines operated by JV partners						
- Rietspruit	50%	Closed H1 2002	986kt	3,822kt	JANE	Witbank
- Douglas/Middelburg**	16%	25,500kt	25,431kt	25,250kt	JANE	Witbank / Middelburg
<b>ZINC</b>						
San Juan de Nieva	100%	460kt Zn 440kt saleable Zn	460kt Zn 440kt saleable Zn	391kt Zn 372kt saleable Zn	Subsidiary	Asturias (Spain)
Hinojedo	100%	53kt calcine 30kt SO2	38kt calcine 25kt SO2	42kt calcine 28kt SO2	Subsidiary	Cantabria (Spain)
Arnao	100%	20kt semis	15kt semis	14kt semis	Subsidiary	Asturias (Spain)
Reocín	100%	117kt 2002 closes: 2nd Half 2003	117kt 2002	132kt	Subsidiary	Cantabria (Spain)
<b>OTHER BUSINESSES</b>						
Forestal Los Lagos	100%	108k cbm	77k cbm	71k cbm	Subsidiary	Chile
Xstrata Magnesium	100%	25,000t	5,449t	40t	Subsidiary	USA

\* Mitsui's 12.5% ownership of A, B & C furnaces entitles it to 30ktpa at cost

\*\* In 2001 Coal South Africa's ATC and ATCOM operations were accounted for as joint ventures for 12 months, and Douglas Tavistock was accounted for as an associate for 11 months

### Explanation: Categories of Accounting Status

#### Associate

Associated undertakings are accounted for using the equity method. The Group's share of the net assets of the Associate are shown on the balance sheet under non-current assets as a single line. The results of the associate appear in two lines in the profit and loss account. The Group's share of the profit before tax of the associate appears on the face of the profit and loss account. The Group's share of the associates tax charge appears in the tax note.

### **Joint Venture (JV)**

JVs are arrangements where the partners share in the profits of the JV operations. JVs are accounted for using the gross equity method. The Group's share of the gross assets and gross liabilities of the JV are shown as two lines on the face of the balance sheet within non-current assets. Treatment in the profit and loss account is similar to associated undertakings except that turnover is grossed up for the Group's share of the turnover of the JV, which is then deducted on the face of the P&L to arrive at Group turnover.

### **JANE**

Joint arrangements not creating an entity ("JANE") are characterised by the sharing of output (eg, the physical commodity or a transport facility) rather than the sharing of profit from operations of the JV. JANES are proportionately consolidated on a line-by-line basis.

### **Subsidiary**

Subsidiaries are 100% consolidated on a line-by-line basis. Where a subsidiary is not 100% owned, the minority interest's share of net assets and profits are deducted on the face of the balance sheet and profit and loss account as single lines.

## **5.2 Offices**

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### 5.3 Shareholder calendar 2003

Financial year-end	31 December
Interim Results Announcement	28 July 2003
Annual General Meeting	8 May 2003
Dividend record date	2 May 2003
Dividend payment date	23 May 2003

### 5.4 Enquiries

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