



August 15, 2006

To all Falconbridge employees

This morning, Xstrata announced that a majority of Falconbridge shareholders have tendered their shares to Xstrata, and that Xstrata's offer has been extended in order to acquire the remaining outstanding shares. As a result, Xstrata has now taken effective control of Falconbridge and we now begin the process of merging Falconbridge into the Xstrata Group, with Xstrata assuming full management control on 21 August. On that day, a number of presentations will be made at a meeting of senior managers in Toronto to introduce Xstrata and outline the structure and vision for the new, enlarged group. While practical considerations mean we have not been able to invite every employee in person, the meeting will be webcast and made available to all employees of the enlarged group via an intranet site.

As this period of integration gets underway, I appreciate the opportunity to communicate directly with you and to share some of our thinking in Xstrata, particularly as it relates to the acquisition of Falconbridge.

I won't waste your time with an overview of who we are and what we do. A great deal of public information is available on Xstrata, including from our website (www.xstrata.com), and there will be opportunities for you to attend presentations by members of the Xstrata management team as we go forward. When we started our journey, with the creation and London Stock Exchange listing of Xstrata plc in March 2002, we were convinced that there existed a niche in our industry for a nimble, diversified mining company with access to the key international capital markets, momentum in its management team and headroom to grow (and critically to re-rate) its portfolio. Since then, we have rapidly grown our group, while delivering industry-beating returns to our shareholders and considerable benefits to employees and local communities.

Our attraction to combining Xstrata and what is now Falconbridge has been long-standing, with our first approach being made in mid-2004. This high regard reflects an appreciation of the operations and businesses of Falconbridge and – as critically – the men and women who have been so vital to their success. The new enlarged group will be the fifth largest diversified mining company in the world, with leading positions in five global commodity businesses (alloys, coal, copper, nickel and zinc), significant exposures in four other major commodities (aluminium, gold, lead and silver) and a suite of global technologies, many of which are industry leaders. The increased stability and security of earnings, the excellent spread of internal growth options (and the financial strength to fund them) all provide the new Group with an exceptional position to create value in the future for our shareholders and for all our stakeholders, especially our employees and local communities.

Our high regard for the staff and management of Falconbridge is a most important issue for us, because it is you who will continue to run the assets and deliver an important part of our future success. Your expertise and experience are vital to the growth plans of the enlarged group.

In our public comments, I have therefore sought to reassure you that this transaction is not about destroying what has been built up through such hard work over so many years, but about building a new Group, which can grow in the years ahead. I am utterly convinced that the ingredients for future success are all present in the new Group we are creating: a portfolio of good operating assets, with scale and financial strength, a supportive base of shareholders and access to the international capital markets, and – most critically – a team of men and women with the experience, drive and momentum to create value from the mix.

Equally in my public comments, I have been very clear that there will be some changes.

At the operational level, these are likely to be minor and, in keeping with our operating philosophy, centre on the alignment of Falconbridge operations along commodity lines:

- A new commodity business unit, Xstrata Nickel, will be established and headquartered in Toronto. This business will be responsible for Xstrata's worldwide nickel operations and growth projects. The CEO of Xstrata Nickel will be a Canadian, and will also sit on Xstrata's Executive Committee;
- Regional head offices will also be established in Toronto to manage Falconbridge's copper and zinc operations. The CEOs of these organizations and the majority of their management teams will be Canadian. The copper office will also oversee the head office for global recycling operations, also based in Canada;
- No operating staff at Canadian operations will be laid off for a period of at least three years; and
- A Canadian unit of Xstrata Technology will be established, also headquartered in Toronto, responsible for marketing both Falconbridge and Xstrata technologies throughout the Americas.

As when any two companies come together, some functions will be duplicated, some will be devolved to business units, some will become redundant and a small number may no longer fit within the strategy of the new Group. In this case redundancies will occur primarily in duplicated corporate functions, as we realign Falconbridge's business with Xstrata's highly devolved corporate structure. This reality understandably creates huge stress and anxiety among staff, and while I am anxious to address these as soon as possible, I am equally determined not to provide you with false comfort or to make decisions so quickly that individuals – and indeed our new businesses – are prejudiced. This, together with the relative size of the two companies, means that we have approached the issue of integration with great care.

At this stage I cannot give you answers to all the questions you may have. However, I can give you the following undertakings:

- The integration process will be fair and comprehensive. I have personally committed to oversee the process, which will be managed on a day-to-day basis by Thras Moraitis, a senior executive who heads up Xstrata's Strategy and Corporate Development, and supported by a number of teams comprising personnel drawn from both Falconbridge and Xstrata.
- We will seek to keep people across the Group as informed as possible, as quickly as possible, as the integration teams progress through their objectives. We are also keen to receive feedback and questions from employees across the combined group and a mechanism will be established later this week to allow this to happen more easily.

- We will deal fairly with all employees, particularly those whose positions may be directly affected by the combination of our companies, and we will honour all existing severance packages and previous Falconbridge practices.

The integration of the two companies has already begun with teams from Falconbridge and Xstrata working closely together. We intend to complete the integration as quickly as possible to provide each Falconbridge employee with certainty over their future. Indeed, within 30 days from August 21 - the first day that our two companies officially come together – we will confirm the structure of the new Group and how this affects every Falconbridge employee.

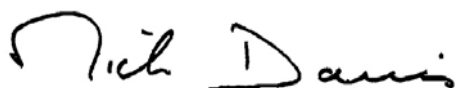
From there, our aim is to move rapidly to complete the restructuring within 100 days. Each business unit and function will clearly require different periods of time, depending on its scale and complexity, and some units will complete the integration process even more quickly. Nonetheless, we have planned to complete this process by the end of the year.

Despite the uncertainty that inevitably arises from any acquisition, it is very important that each of us continues to work on a 'business as usual' basis. Even more critical to our success is our core priority of zero harm to any employee or contractor within the enlarged group. I urge you to continue to be as vigilant as ever in ensuring your own safety and that of those around you. Without this focus, no mining company can achieve its aims.

I have never been one to dwell overlong on strategies that set out to design and build cultures within organisations. This reflects my belief that human beings are by nature more intelligent, complex and unpredictable than the designers assume. What unites an organisation is a vision and a commitment to achieve an objective. Our mission at Xstrata is *"..to grow and manage a diversified portfolio of metals and mining businesses, with the single aim of delivering industry leading returns for our shareholders."* Most importantly, we affirm that *"We can achieve this only through genuine partnerships with employees, customers, shareholders, local communities and other stakeholders, which are based on integrity, co-operation, transparency and mutual value-creation."*

I am highly confident that we will work together to deliver on our mission with the same commitment and energy that underpinned the success of the stand-alone Falconbridge and the stand-alone Xstrata. The combination of the two companies creates an exciting, dynamic new mining group, where the whole is greater than the sum of the parts and with great potential to create value for all our stakeholders in the future.

I look forward to keeping you informed of our progress in establishing our new combined group and to working with you to achieve its potential into the future.

A handwritten signature in black ink that reads "Nick Davis". The signature is written in a cursive, flowing style.

ML Davis