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Creating value through difference

Annual Report 2011

Amélie Rouleau
Risk Management and Communications Senior Supervisor Canada
Raglan Mine, Canada

Our mission is simple. It defines our role in society.

We grow and manage a portfolio of businesses to deliver vital natural resources, industry-leading shareholder returns and sustainable value for our stakeholders. We are proud to pursue this aim, in partnership with our stakeholders, developing our people and assets to their fullest potential and making a lasting, positive contribution to society.

We are proud of our products and the vital role they play in society The natural resources we deliver are at the heart of everyday products from the building blocks of new cities to everyday items such as cutlery to the high-precision metals to produce mobile phones or jet engines We play an essential role in the communities in which we live and work, creating jobs, infrastructure, income for suppliers and many other benefits We do this in a way that is full of youthful energy and initiative, with an entrepreneurial spirit, constantly looking for opportunities to keep on improving how we work
We want to make a better business and create shared value for all of our stakeholders

For more information
Visit our corporate website
www xstrata com

Our business has reached the milestone of our first ten years following our IPO on the London Stock Exchange in March 2002

During the past decade we have grown fast and responsibly through buying assets and investing in them We have increased their value and improved safety and operational performance while developing future growth projects

Today, we are one of the biggest players in the industry, with operations and projects in more than 20 countries, over 70,000 employees and an industry-leading approach to sustainability

As we have grown in size and value, we have retained the same principles that have guided our evolution into a major corporation At the heart of our success are the values that define our company and that make us different

The following pages provide a brief overview of our company and illustrate how we create value through difference

Transforming through thinking differently

Ten years ago, our vision for Xstrata was based on a set of convictions about our industry and about how best to respond to the trends emerging at that time Those convictions have served us well and our rate of growth has been huge Our market value today is more than 100 times than when the current management team joined the Company in late 2001

In October 2001, Mick Davis, Chief Executive Officer and Trevor Reid, Chief Financial Officer joined Xstrata, a small business with a market capitalisation of around $500 million, a portfolio weighted towards zinc and ferroalloys operations in Spain and South Africa respectively, significant debt and an uncertain future

The new management team they brought together set out to create a new, diversified global mining company listed on the London Stock Exchange, with headroom to grow rapidly and deliver exceptional value to shareholders Their vision for Xstrata was based on a set of convictions about the outlook for our industry namely that demand for commodities would recover from the depressed levels of 2001 and that a lack of investment in developing new mining capacity meant that supply would struggle to meet the renewed demand At the same time, our evolution as a company was based from the start on the belief that we could create a nimble, decentralised and decisive business model that would minimise bureaucracy, devolve accountability to the operational level where people were best placed to make decisions about their operations and create a sense of ownership and accountability across our organisation

In March 2002, Xstrata plc was created through an initial public offering on the London Stock Exchange and our simultaneous acquisition of Glencore's Australian and South African thermal coal assets The new company became the worlds largest exporter of thermal coal and entered the FTSE 100 index as its 100th largest company

Ten years later, our business has been completely transformed Today, we are a major global mining group, with a market value that is 100 times greater than our value in 2001, employs around 70,000 people, with an industry-leading organic growth pipeline and a robust balance sheet We have delivered outstanding shareholder returns of some 339% compared to an average of 58% for the FTSE 100 Index

Initially our strategy focused on acquiring companies to provide immediate scale and diversity, integrating acquired assets into our decentralised model and creating value from them

At the same time, we focused on improving the quality and value of our assets, delivering year-on-year operating cost reductions, increasing productivity extending the life of existing mines, expanding our resource base and integrating industry-leading safety social and environmental standards

Throughout the past ten years we have progressively developed the range of potential growth options we have acquired We have successfully delivered 22 major projects since 2002, extending our existing mines and developing new operations We are now constructing a further 20 major new operations or expansions to increase copper-equivalent volumes by 50% on 2009 levels and reduce overall operating costs by 20% by the end of 2014

2001
Market capitalisation

$500 million

10 years of continuous improvement

From the outset, we have managed our business to balance economic, environmental and social considerations and we have implemented an industry-leading sustainable development framework across our global operations Working together with our partners, our objective is to create industry-leading value for our shareholders and deliver vital products for society, working responsibly and openly with our stakeholders to make a lasting positive difference to the communities in which our people live and work.

March 2012 market capitalisation

$56 billion

* Total shareholder return from Xstrata's IPO on 19 March 2002 to 12 March 2012

Investing in our global operations

We operate in over 20 countries. We are growing our business by investing in 20 approved projects in each of our key commodities to expand existing operations and build new world-class mines

North America

We have copper, nickel, zinc and lead mining and smelting operations in Canada and recycling plants in the US Xstrata Process Support operates from Toronto

$6.7 billion
20%
of total revenue

$7.7 billion
7% of total net assets*

South America

In Argentina, Chile and Peru we have copper mining and smelting operations, a copper-zinc joint venture and various copper growth projects In Colombia we have a one-third stake in a thermal coal mine and in the Dominican Republic we operate a ferronickel mining and processing operation

$9.8 billion
29%
of total revenue

$20.9 billion
31% of total net assets*

* Net assets as at 31 December 2011

Europe

We have zinc smelters in Spain and Germany, a lead refinery in the UK and a nickel refinery in Norway In Ireland, we have a zinc project

$3.5 billion
10%
of total revenue

$2.9 billion
4% of total net assets*

Africa

We have ferrochrome, vanadium, platinum and coal assets in South Africa In Tanzania, we have a nickel project and iron ore projects in Mauritania and the Republic of Congo, South Africa

$3 billion
9%
of total revenue

$11 billion
17% of total net assets*

Australasia

In Australia, we have coal, copper, nickel, zinc and lead operations and projects We have copper projects in the Philippines and Papua New Guinea and a nickel project in New Caledonia

$11 billion
32%
of total revenue

$28 billion
of total net assets*

Leading positions in attractive commodities

We are one of the world's largest mining and metals companies with five major commodity business units and a technology business

Copper

We are the world's fourth largest copper producer and a leading recycler of copper and other materials from electronic goods

$4,915m
Operating EBITDA

12,366
Employees (excluding contractors)

2.3
Total recordable injury frequency rate (per million hours)

Key facts

- Copper is an essential element in everyday life, found everywhere from the air conditioning in our buildings to the power lines that deliver electricity and the connections in our computers and mobile phones
- An effective anti-microbial material, regularly cleaned copper surfaces destroy 99 9% of bacteria within two hours of exposure
- Copper is extensively used in green technologies such as solar cells and electric vehicles

Coal

We are the world's largest exporter of thermal coal and a significant producer of premium quality hard-coking coal and semi-soft coal

$3,853m
Operating EBITDA

11,613
Employees (excluding contractors)

7.0
Total recordable injury frequency rate (per million hours)

Key facts

- Coal is a plentiful source of energy Thermal coal provides a reliable fuel for baseload electricity generation
- Coking coal is an important ingredient in the production of steel used to build cities railways and other vital infrastructure
- We are the fifth largest producer of coking coal

Nickel

We are the world's fourth largest nickel producer and one of the largest producers of cobalt

$1,234m
Operating EBITDA

3,840
Employees (excluding contractors)

7.9
Total recordable injury frequency rate (per million hours)

Key facts

- Nickel-containing materials play a major role in modern life and can be found in everything from cooking utensils and cutlery to medical equipment mobile phones, wind turbines, computers coins and marine and aerospace engineering
- Around two-thirds of all nickel goes into the production of stainless steel The remainder is used for applications including super-alloys batteries and electroplating

Competitive position

We maintain industry-leading positions amongst the top five producers in each of our key commodities

Zinc

We are one of the world's largest miners and integrated producers of zinc

$1,223m
Operating EBITDA

4,758
Employees (excluding contractors)

9.1
Total recordable injury frequency rate (per million hours)

Key facts

- An essential mineral for the human immune system, zinc is also used to protect steel used in vehicles, infrastructure and consumer white goods
- Lead-acid batteries used in cars, motorcycles and e-bikes account for around 80% of total lead consumption

Alloys

We are one of the world's largest producers of ferrochrome and also one of the lowest cost

$294m
Operating EBITDA

6,887
Employees (excluding contractors)

4.3
Total recordable injury frequency rate (per million hours)

Key facts

- Ferrochrome has anti-corrosive properties and around 80% of all ferrochrome goes into the production of stainless steel, which is used in a range of products, from cutlery to cars
- Platinum group metals are an important component of catalytic converters to reduce emissions from vehicles

Technology Services

We develop, market and implement proprietary technologies and specialist services used in mining, mineral processing and metals production

$34m
Operating EBITDA

179
Employees (excluding contractors)

2.7
Total recordable injury frequency rate (per million hours)

Key facts

- Originally developed to make our own operations more efficient and competitive, our Technology Services businesses now market our technology solutions to other companies to help improve their efficiency and environmental performance too

For more information see our reserves and resources publication at www xstrata com

† Sources Brook Hunt – a WoodMackenzie Company – and WoodMackenzie

Contributing vital products to society

We are a vital contributor to global society Our products are the building blocks for many of life's essentials and we produce commodities in a way that cares for people and the environment, working in partnership with communities, governments and others to create a lasting positive legacy

Product contribution

The natural resources we extract are at the heart of many vital products and services, from the building blocks of new cities to everyday items like cutlery, and the high-precision metals used to produce mobile phones or jet engines

Copper
Copper's unique conductive qualities make it perfect for use in electrical wiring and heating It is used in a range of other applications from the air conditioning in our buildings to the power lines that deliver electricity and the connections in our computers and mobile phones Copper is an effective anti-microbial material, when cleaned regularly copper surfaces destroy 99 9% of bacteria within two hours of exposure Copper is also extensively used in 'green' technologies such as solar cells and electric vehicles

Coal
Coal is a plentiful source of energy Thermal (energy) coal provides a reliable fuel for baseload electricity generation and coking coal is also an important ingredient in the production of steel used to build cities, railways and other vital infrastructure

Demand for coal – alongside a wide range of energy sources including fossil fuels, nuclear and renewable – continues to grow due to the rapid development of manufacturing industries in emerging economies and the needs of the world's growing population

Nickel
Nickel-containing materials play a major role in modern life and can be found in everything from cooking utensils, cutlery and saucepans, to medical equipment, mobile phones, wind turbines, computers, coins and marine and aerospace engineering

Around two-thirds of all nickel goes into the production of stainless steel The remainder is used for applications including super-alloys, batteries and electroplating

Zinc
An essential mineral for the human immune system, zinc is also used to protect steel used in vehicles infrastructure and consumer white goods

Around half of all zinc is used to galvanise steel an environmentally friendly way of protecting against corrosion Zinc is also used to make die-cast alloys, brass and zinc oxides and chemicals Lead-acid batteries used in cars, motorcycles and e-bikes account for around 80% of total lead consumption

Ferrochrome
Ferrochrome has anti-corrosive properties and around 80% of all ferrochrome goes into the production of stainless steel, which is used in a range of products from cutlery to cars

Creating shared value

Our success depends on our ability to create and deliver shared value to all our stakeholders in a sustainable manner Our values define what it means to work at Xstrata They are our promise to our stakeholders about how we will behave in pursuing our mission We've always been clear about our way of doing things, of seeing opportunities to create value that others don't Over the last ten years we developed our strengths and different way of doing things to create and deliver shared value

Devolved authority

Our commodity businesses are accountable for all aspects of their business and are mandated to improve the net present value of their underlying business

Through our decentralised structure we ensure decisions are made where the best information exists through creating a strong sense of ownership at the local level Operational management are empowered to take pro-active and prompt decisions on operational, community, environmental and people issues and to build meaningful partnerships with local stakeholders at a site or divisional level

Our devolved management model encourages the rational risk-taking required to foster an entrepreneurial spirit and supports the identification and implementation of opportunities to grow or optimise the value of our business through acquisitions, divestments, project development and strategic partnerships We seek to embed a culture that maintains a disciplined approach to creating value for all our stakeholders

Our decentralised business model is underpinned by a robust governance framework that incorporates stringent checks and balances at Group and commodity business levels This is supported through effective internal communication and comprehensive risk management and assurance processes

Diversified assets

We aim to deliver more stable returns through our diversified business structure by improving our ability to manage risks associated with foreign exchange rate fluctuations, commodity price cycles, operating locations and end-use customer segments Our portfolio is diversified by commodity, geography, currency and customer industries

The continuous improvement of our assets is an ongoing imperative, including safety performance, environmental management and our contribution to the communities in which we operate Our philosophy is to effect small improvements on a continuous basis that cumulatively have a decisive impact on the quality of our operations and our performance

Since 2001, we have progressively developed an extensive range of organic growth options Our approved and near-term projects will add 50% to 2009 volumes by the end of 2014 and substantially reduce our operating costs Beyond this, a range of earlier stage opportunities are being assessed to provide the next phase of growth

Our projects and operations have a substantial mineral reserve and resource base, with an average mine life in excess of 50 years Our annual Reserves and Resources statement is available from www xstrata com

Financial strength

Our commitment to maintaining a robust balance sheet and investment-grade rating provides access to a broad range of funding sources We are the fourth largest diversified mining company globally, with a market value in excess of $56 billion[1]

At year-end, we had over $6 billion in undrawn credit facilities, gearing of 15% and robust operational cash flows, enabling the financing of our organic growth pipeline in full from internally generated funds

Mining is capital-intensive and new deposits are increasingly in more challenging regions Scale enables mining companies to invest in multiple large projects without risking a substantial portion of capital in any one region or to any one project Size also brings an improved ability to access capital, talent and new resources and to capture external opportunities

Our commodity businesses are positioned within the lower half of their respective industry cost curves We are focused on achieving real unit cost savings to improve the quality of our business and in 2011 we achieved operating cost savings of $391 million

Working in partnership

We form mutually beneficial partnerships with the stakeholders in our business including local communities, government, customers, shareholders and employees We aim to work together with our partners to enable us to make the substantial long-term investments required to develop mineral resources while creating lasting benefits from our presence in a region

Our ability to attract and retain the best people with appropriate skills at every level is vital to the successful execution of our strategy We provide industry-leading career development, a non-discriminatory workplace, and fair and competitive remuneration within a decentralised, non-bureaucratic culture

Industry-leading approach to sustainable development

We aim to manage our business to balance economic, environment and social considerations Responsible environmental management and community engagement enable us to gain access to new resources, maintain a licence to operate, attract and retain the best people access sources of capital, identify business opportunities and optimise our management of risks

Our industry-leading sustainable development assurance programme evaluates the performance of every managed operation and project against our international best practice standards and policy with results reported to the Board

We aim to operate with zero harm to our people and prioritise safety at every operation and project We work to promote a non-discriminatory and equitable workplace to enable us to attract and retain the best people

We set aside a minimum of 1% of profit before tax each year to fund community initiatives and pro-actively consult with communities about our operations, with the aim of securing broad-based ongoing support for our activities

1 As at 14 March 2012

viii See how we are a vital contributor to society

Delivering sustainable excellence

To succeed in our aim of delivering sustainable value to all of our stakeholders, we must balance economic, environmental and social considerations in managing our business

We operate our business in a manner that is economically, socially and environmentally sustainable over the long term We believe that excellence in sustainable development is a source of competitive advantage, enhancing our corporate reputation and providing direct business benefits that are essential for delivering our strategy, including

- gaining access to new resources,
- maintaining a 'licence to operate' from society and enhancing the security of our operations,
- attracting and retaining the best people,
- accessing diverse and low-cost sources of capital, and
- identifying and managing new business opportunities and risks

We aim to operate a safe and healthy workplace We believe that every work-related illness and injury is preventable and so our primary objective is to operate without fatalities and injuries

As our business strategy has progressed from primarily acquisition-led growth to organic growth, we have refined our safety management focus and priorities accordingly We make no distinction between the safety of our contractors and that of our employees We work collaboratively with our major contractors on each project, sharing experiences and skills to enhance each other's safety management systems

We identify reduce and, when possible, eliminate any significant environmental impact from our mining, metallurgical and exploration activities We identify opportunities and undertake initiatives to protect and improve our operating landscapes The core of our management approach is to preserve and restore the natural environments we operate in throughout our activities' lifecycle

Our activities and investments create lasting social and economic benefits for the communities and countries in which we operate that extend beyond jobs and taxes to include skills and enterprise development, improved infrastructure and enhanced access to education and health services amongst others

We work in partnership with government, NGOs, international donors and others to support the development of small-and medium-sized businesses and alternative income-generating opportunities

At least 1% of our profits before tax is set aside every year to fund initiatives that benefit the communities in which we operate We support local culture and arts projects, programmes to boost community development enterprise and job creation, health and education initiatives and environmental schemes We set aside $109 million in 2011

Contents

The Directors Report is made up of the Strategic Review, Performance Review and Governance sections in accordance with the Companies Act 2006

In this report
Throughout the report we have used the below icons to help navigate to further information

Links to pages within this report

Links to further content online

Sustainable development
Sustainable mining is both complex and challenging to get right Our approach has been to create a robust framework for integrating sustainability into our business strategy and business practices To reflect this in our reporting, we combine information about our non financial and financial policies and performance to provide a comprehensive overview of the Group's business and activities

Key information about sustainable development within this report is available in the following areas

This year our sustainability report focusses on our material issues for the year and will be published in April 2012 Further detailed discussion on our policies, activities and performance is available on our website

www xstrata com/sustainability

For more information
Visit our corporate website
www.xstrata.com

Performance highlights

We achieved record results in 2011 as our operating EBITDA rose to $11 6 billion and net earnings increased to $5 8 billion Our safety and environmental performance continued to improve and we achieved a 26% reduction in total recordable injuries

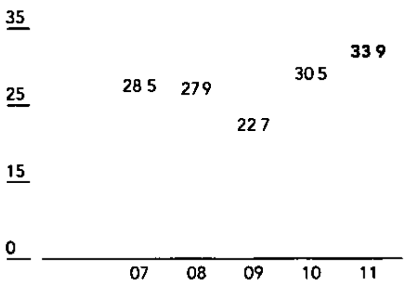
Financial performance

- Operating EBITDA* of $11 6 billion, up 12%
- Attributable profit* of $5 8 billion, up 12%
- Final dividend of 27¢ per share proposed, bringing the full year dividend to 40¢, a 60% increase on 2010

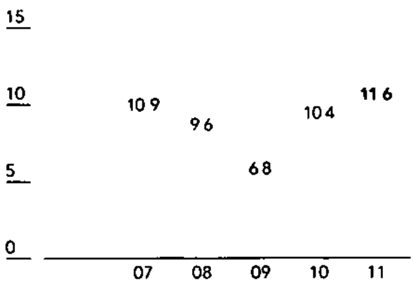
Operational performance

- Key organic growth milestones reached with ten projects and expansions completed during 2011
- Strong second half production with record annual production of coal and nickel
- Real cost savings of $391 million, moving all commodity businesses into lower half of industry cost curves
- Expansion of mineral resource base, including significant additional copper resource
- Six bolt-on acquisitions supplementing growth
- Continued improvement in safety and environmental performance, 26% improvement in total recordable injuries versus 2010
- Dow Jones Sustainability Index Sector Leader for fifth consecutive year
- Recommended all-share merger between Glencore and Xstrata to create a major $90 billion natural resources group with a unique business model, fully integrated along the commodities value chain, from mining and processing, storage, freight and logistics, to marketing and sales

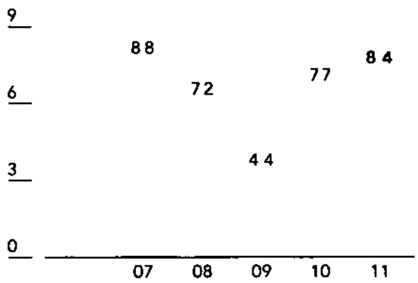
Revenue
($bn)
$33,877m +11%
2010 $30 499m



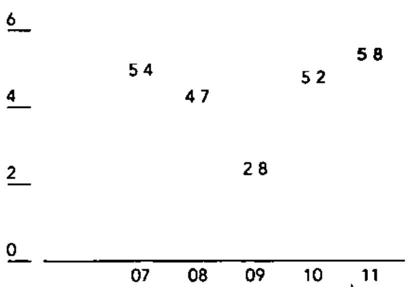
Operatıng EBITDA*
($bn)
$11,648m +12%
2010 $10,386m



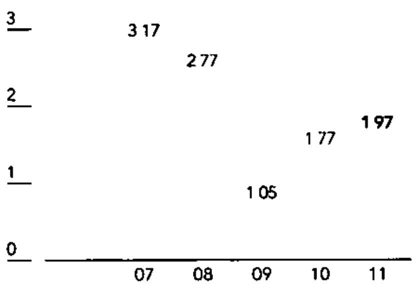
Operatıng profit*
($bn)
$8,431m +10%
2010 $7 654m



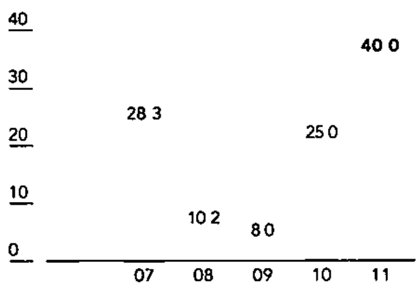
Attrıbutable profit*
($bn)
$5,785m +12%
2010 $5 152m



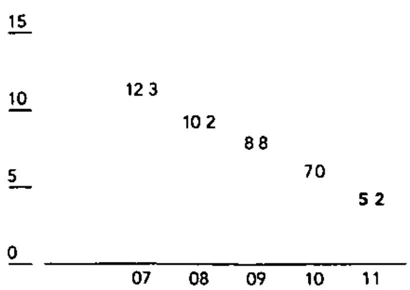
Earnıngs per share*
(basıc)
$1.97 +11%
2010 $1 77



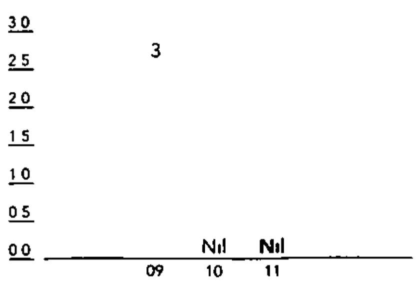
Dıvıdends per share
40.0¢ +60%
2010 25 04¢



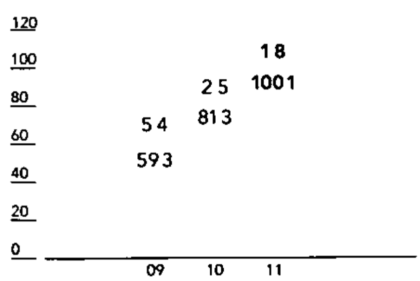
Total recordable ınjury frequency rate†
(per mıllıon hours worked)
5.2 26%
2010 7 0



Envıronmental ıncıdents
(Category 3)
0
category captıal 3 or above envıronmental ıncıdents



Corporate socıal ıнvolvement spend ($m)
CSI In kınd
CSI Cash
$100.1m 23%
(cash) increase



* Excludes exceptıonal ıtems
** Excludıng own shares
† Includıng contractors

Strategic review
Performance review
Governance
Financial statements

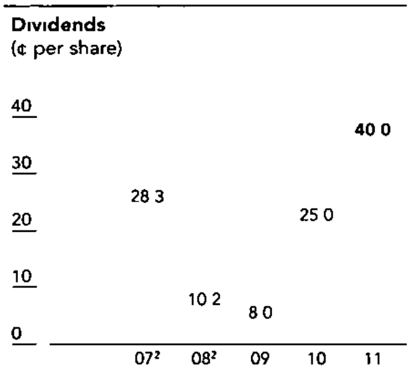
Chairman's statement

Record profits and successful delivery of strategy

Xstrata had an outstanding year in 2011, our tenth year as a publicly listed company A strong operational performance and robust demand for our products resulted in the Group's best ever financial performance, with net earnings rising to $5 8 billion[1] Over $390 million of year-on-year sustainable real cost savings and a 26% reduction in injury rates continued an unbroken record of year-on-year improvement We made good progress in delivering our organic growth strategy and commissioned ten new operations or expansions within budget many of which started ahead of schedule Construction of our next phase of major new operations is progressing very well, including the Koniambo nickel operation and the Tintaya Antapaccay copper expansion, both of which will commence production later this year By 2015, our organic growth strategy will increase copper equivalent volumes by over 50%, reduce average operating costs and deliver robust returns at conservative long-run price assumptions We are also evaluating a range of earlier stage growth options to fuel the next phase of growth

Strong demand for commodities in a challenging economic environment

The company's strong performance belies the fact that 2011 was challenging for the global economy Economic growth and confidence were buffeted by unrest in the Middle East, the tragic earthquake and tsunami in Japan, slow growth in the US and public spending cuts in many European countries together with concerns about the future of the Eurozone In China, economic growth slowed somewhat from the historical average 10% annual rate, but the significant slowdown of industrial production anticipated by some did not occur and economic growth continues at a robust rate, supported by export demand, easing monetary policy and continuing investment in infrastructure and social housing



"We understand the symbiotic relationship between our business and the broader society in which we operate and, as a company, we are proud of the role we play in creating 'shared value'."

Sir John Bond
Chairman

[1] On a pre exceptional basis
[2] Adjusted for the 2009 rights issue

Community social involvement

We set aside at least 1% of our profits before tax every year to fund initiatives that benefit the communities in which we operate We support local culture and arts projects, programmes to boost community development, enterprise and job creation, health and education initiatives and environmental schemes We set aside $109 million in 2011, representing 1 3% of pre-tax profits, for these local projects

Cash contribution by activity

Health	7%	Job creation and enterprise development	6%
Education	22%	Environment	3%
Community development	59%	Culture and art	4%

Demand for commodities continued to grow as demand from China India and other emerging economies more than offset low growth in OECD countries and average commodity prices rose over the prior year Meanwhile supply side constraints continue New resources are generally located in more challenging regions lacking infrastructure and complex permitting and approval processes have extended the timescale and complexity involved in realising new volumes

In addition, industry-wide investment is leading to inflation in the prices of major equipment, labour and other key inputs required to operate and expand mining operations Together with declining production from existing mines supply growth is struggling to keep pace with rising demand, pointing to a positive medium term outlook for commodity prices while also highlighting the difficulties involved in delivering major growth projects

We are already responding to these difficulties Our operational teams are implementing a range of initiatives and innovations to control costs and secure our supply of equipment and key services for example, by entering into long-term relationships with suppliers or contractors We will need to recruit more than 10,000 new permanent employees over the next three years to meet our growth targets the majority of whom will be skilled personnel in high demand from our competitors To respond to this challenge, our initiatives range from supporting access to education and skills development in the communities in which we operate, to encouraging students to enter mining related fields of study and enhancing our recruitment and retention strategies for graduate recruits and experienced personnel

Shared value and a sustainable approach

We understand the symbiotic relationship between our business and the broader society in which we operate and, as a company, we are proud of the role we play in creating 'shared value' We produce commodities that are the basic building blocks upon which societies function and we make multi billion dollar investments and contribute to national and local government revenues in over 20 countries We employ around 70,000 people including contractors and we play an integral role in communities around the world, with a recognised focus on innovation in sustainability We consequently strive to work responsibly and openly, respecting the natural environment and working in partnership with communities and governments to generate benefits for society that outlast our operations – from better access to education or healthcare, to improved skills or useful infrastructure The key enabler to sustaining and expanding this vital societal role is the delivery of superior value to our shareholders – and in turn, we know that being successful in these aspects of our business improves our ability to deliver shareholder value over the long term

[1] On a pre-exceptional basis

Chairman's statement
continued

Our sustainability policy framework aims to ensure all of our operations and projects are managed to consistent, industry-leading standards, and includes a rigorous third-party assurance programme to ensure our policies and standards are being upheld Since joining Xstrata a year ago, I have been impressed by the extent to which our people display a genuine commitment to health and safety environmental responsibility and mutually beneficial partnerships with communities at every level of the organisation Indeed, I have already seen several examples of Xstrata's commitment to sustainability in action, including during my recent visit with other Board members to the Koniambo nickel project in New Caledonia and Mount Isa copper and zinc operations in north-west Queensland At Koniambo I was impressed by the range of environmental initiatives underway to conserve biodiversity including the creation of a nursery for native species plants for rehabilitation and efforts to protect the marine environment At Mount Isa, the Directors had first-hand experience of the rigorous safety procedures in place before going underground and the efforts involved in ensuring our people are safe while working at deep levels

Safety is, of course, the primary concern for our Board and management team Last year we achieved another substantial reduction in total recordable injuries across the global operations and our safety performance ranks amongst the leading companies in our industry This is a significant achievement, but I deeply regret to report that six people lost their lives while working at our managed operations during the year Any loss of life at our operations is unacceptable We continue to investigate analyse and address the root causes of actual and near-miss incidents, with the firm belief that we can achieve our ultimate objective of operating without injuries or fatalities

Broad-based community support for our activities is essential for the long term success of our business and we engage openly with communities as early as possible and throughout the life of our operations In 2011, we invested $109 million in direct community initiatives on a voluntary basis often in partnerships with local government, civil society and community groups to support health, education community development and enterprise development programmes in the communities in which we work

We have recently further strengthened our commitment to the concept of shared value', introducing a revised Mission statement and five core values that encapsulate the culture we want to promulgate throughout our company, to ensure that our principles and values are consistently applied wherever we operate around the world We rolled out a comprehensive Code of Conduct during the year to provide additional guidance for our employees, contractors and partners on how to put our Business Principles into practice and including specific training on preventing bribery and corruption

Sustainability information is integrated into our Annual Report We also publish a separate Sustainability Report and provide detailed information about our sustainability approach and performance on our website

Robust corporate governance

Our Board comprises 13 directors, including a majority of independent, non-executive directors and we are committed to the principles of best practice in corporate governance

At the AGM in May, Willy Strothotte stepped down as Chairman and non executive director of Xstrata, after steering the Group through a period of extraordinary growth and value creation for shareholders In addition to my own appointment as independent, non executive Chairman, Tor Peterson and Telis Mistakidis were nominated by Glencore and elected as non-executive directors at the AGM, joining Ivan Glasenberg Chief Executive of Glencore who has served as a non-executive director of Xstrata plc since 2002

The directors of our Board have a broad range of experience and expertise, but as yet, we do not have any female directors We welcome the current debate about the best method to increase the representation of women onto UK company Boards In the mining industry, women continue to be under represented generally and particularly at the most senior levels Across our business we participate in a number of initiatives to encourage women and other under-represented groups to join Xstrata and the mining industry, through a combination of mentoring leadership development programmes and supportive working practices and policies While there is still much to achieve we are starting to see increased participation by women in management roles across the business and we are working to improve recruitment and retention of indigenous and historically disadvantaged people and other minority groups in the regions in which we operate

At Board level, we aim to appoint the best candidates available, but we recognise that it is important to have the right mix of skills, experience and a diverse range of viewpoints in our boardroom The principal criteria we use to appoint directors are an assessment of his or her capacity to make a significant contribution to Xstrata s Board and his or her ability to enhance the company's ability to create value for its shareholders Given the importance of ensuring our selection process is broad and considers the full range of suitable candidates, we have instructed the executive search firms we are working with to include suitable female candidates on any shortlist for new non executive directors and we hope to welcome a female director to the Board in due course

The Board evaluates its performance annually, with an external evaluation undertaken at least every three years Following an external assessment in the previous year, I led an evaluation of the Boards performance, the functioning of its Committees and the performance of individual directors, through a questionnaire and individual interviews with each director All directors were satisfied with the performance of the Board in general, although we will be extending the time available for committees of the Board to avoid time constraints impacting our discussions In particular, the assessment highlighted the non executive directors' belief that Xstrata benefits from an exceptional, entrepreneurial management team, who have led the successful creation of a major mining group over the last ten years

Merger with Glencore

The most important task before your Board in 2011 was our consideration of an all-share merger proposal from Glencore, Xstrata's largest shareholder Any transaction of this scale warrants careful consideration A related party transaction in which Glencore management will continue to hold a reduced but still significant shareholding, clearly requires an even greater level of scrutiny to assess the fairness of the merger terms, the protections in place for Xstrata shareholders and the ability of the merged entity to deliver superior returns

Xstrata's prospects as a standalone company are very strong Consequently, the independent directors' decision to recommend unanimously the proposed merger to Xstrata shareholders rests on our assessment that the combination represents an opportunity to create more value for our shareholders than the significant value Xstrata can create on a standalone basis

The combined company will create a unique business model in the mining sector, positioned to compete in a changing landscape Industrialising South Asian and other developing economies have replaced the OECD countries as the dominant consumers of commodities and today account for around three-quarters of global copper demand The world's supply of commodities is being produced from a more diverse range of producers from all around the world, many of which are located in more opaque and logistically difficult regions In this more complex environment, the combination of Xstrata and Glencore's respective capabilities in mining marketing and logistics is best suited to create value

Our shareholders will continue to benefit from Xstrata's growth projects operational expertise and dynamic management team Combining with Glencore will provide exposure to additional high return, near-term growth projects, a broader range of commodities including alumina agricultural products and oil a portfolio of assets in highly prospective emerging regions in which we do not yet have a presence and the world's leading commodities marketing business Together Glencore Xstrata will have increased scale, the most diverse earnings in the sector and an improved financial position as recently confirmed by independent credit ratings agencies Importantly, Glencore's marketing capabilities, logistics network and relationships with thousands of suppliers and customers will provide the merged group with unparalleled insight and opportunities to grow our business – a very exciting proposition for the future company

Glencore Xstrata will have, in my view the most entrepreneurial management team in the mining industry, with a proven ability to see opportunities, aligned strategies and a clarified ownership structure, providing an enhanced set of strategic options through which to create superior value The proposed governance structure is a critical component of the merger and will protect the interests of Xstrata shareholders in the combined entity It also reflects the earnings profile of the combined group, which will be substantially weighted towards the industrial assets and will enable Xstrata management to optimise the value of the mining portfolio while Glencore management will focus on marketing the combined company's products and seeking out new opportunities The Board and management structure is intended to remain in place for at least two years, including undertakings by key members of Glencore's management shareholders to support the governance structure

The proposed merger ratio is earnings accretive for Xstrata shareholders and provides them with a disproportionate share of the combined company based on a number of historic and forward-looking metrics and the undisturbed market values of both companies before merger discussions became public Xstrata shareholders will also share in the $500 million of annual pre tax synergies we have announced In the judgment of the independent directors, the proposal is fair to Xstrata shareholders and represents a significant opportunity to create a distinctive business with very strong prospects to generate superior returns for our shareholders We have therefore recommended that shareholders vote in favour of the proposal at the extraordinary general meeting to be held in due course

Conclusion

Xstrata's record year in 2011 was a fitting conclusion to an exceptional first decade of growth and value creation The company enters its second decade in a strong position, well placed to benefit from ongoing demand growth for commodities from Asia and with a robust balance sheet to fund our substantial organic growth programme and to pursue value accretive bolt-on acquisitions opportunistically The proposed merger with Glencore offers a number of benefits uniquely available from the combination, with a governance structure that protects the interests of Xstrata shareholders and harnesses the best of both management teams a unique business model and the entrepreneurial management team to execute the many opportunities we see in the combination

Sir John Bond
Chairman

Jorge Sanjuan's story
Maintenance
Xstrata Asturiana, Spain

"We have one of the biggest zinc smelters in the world and it's getting bigger and bigger. It's creating jobs and giving people hope. There's a sense of optimism."

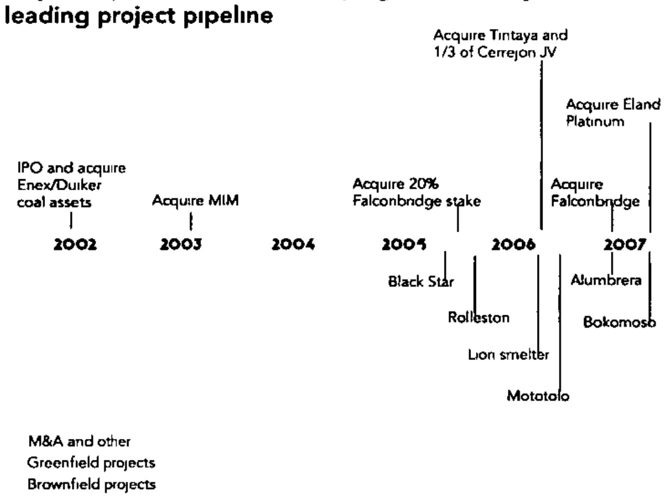
Chief Executive Officer's strategic review

March 2012 marks the tenth anniversary of the creation of Xstrata plc Ten years on, our company is unrecognisable from our starting point as a $500 million minnow, with limited growth prospects, constrained finances and an uncertain future Xstrata is one of the largest diversified mining companies in the world and we employ over 70,000 people in more than 20 countries

Our vision for Xstrata 10 years ago was based on a set of convictions about our industry and about the business model best placed to respond to the emerging trends we saw at that time Demand for commodities was undergoing a secular shift, driven by China, after a long period of declining prices At the same time, we saw that the supply side of our industry was severely constrained from a lack of investment, ageing operations and declining grades New supply would be slow to materialise In that environment, with commodity prices likely to be higher than their historical averages, we believed there was room for a nimble, entrepreneurial, diversified mining company that could act quickly to seize opportunities and grow We recognised that scale and a diversified portfolio across operating geographies and commodities were essential to succeed in our industry and that access to resources and a social licence to operate would only be achieved if we could operate responsibly and in partnership with communities and governments

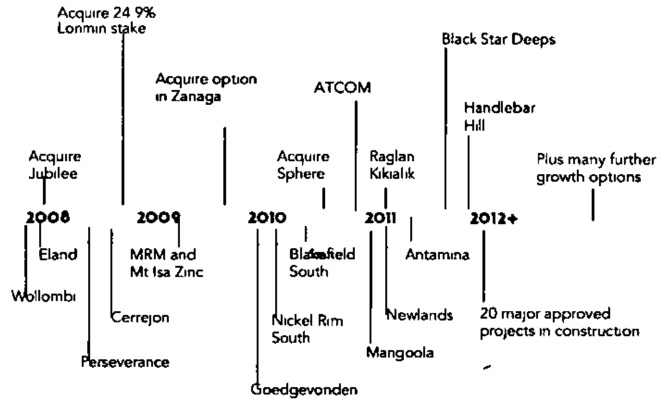
Those founding principles and beliefs have served us well and our company's rate of growth has been prolific Our market value today of around $60 billion is over 100 times Xstrata's equity value when the current management team joined the Company in late 2001

We have grown considerably in 10 years through major acquisitions and developing our industry leading project pipeline



"We have spotted opportunities to create value that others haven't seen and we have captured those opportunities and enhanced them."

Mick Davis
Chief Executive Officer



with the same management team

We have retained almost entirely the same management team over the past 10 years, and not a single member has gone to a competitor

Mick Davis
Chief Executive

Trevor Reid Chief Financial Officer	**Santiago Zaldumbide** Executive Director	**Charlie Sartain** Chief Executive Xstrata Copper	**Peter Freyberg** Chief Executive Xstrata Coal
Ian Pearce Chief Executive Xstrata Nickel	**Peet Nienaber** Chief Executive Xstrata Alloys	**Benny Levene** Chief Legal Counsel	**Thras Moraitis** Executive General Manager Group Strategy & Corporate Affairs

Of course it is not just about size Our mantra from the start has been an unerring focus on value and our shareholders have enjoyed total returns of some 370% since our IPO in March 2002, compared to 54% for the FTSE100 index overall We have spotted opportunities to create value that others haven't seen and we have captured those opportunities and enhanced them So we have bought well, integrated well built well and we have also managed well Our operational management teams have improved the quality of their assets every year finding new ways to reduce costs enhance productivity and increase the useful life of our operations, often in incremental steps that together add up to a very powerful result We have had some bumps along the way, but where we have made mistakes we have learned from them, and the fact that we have created this world-class business in such a short space of time indicates I think, that our strategy has been sound and our execution generally very good

We have grown over our first 10 years with almost entirely the same management team – in my view that is both a measure of our success and an important contributing factor to it Over 10 years, we have not lost a single member of our Executive Committee to a competitor, with only Peter Coates and Marc Gonsalves retiring in that period, and we have retained around 90% of the next level of senior management That cohesion and our shared focus on value optimisation and creation has allowed us to run a highly decentralised business that nonetheless operates as one organisation with a core set of values and a common purpose

Sustainability

As we have grown as a company we have integrated an ethos of sustainability into the way we work, running responsible and efficient operations and engaging constructively with communities We have challenges in some countries as all mining companies do – from governments seeking to change the fiscal or regulatory regime to managing environmental impacts or high community expectations – but we approach those challenges with a spirit of openness and a genuine desire to find mutually beneficial outcomes

Throughout Xstrata s evolution we have delivered a value proposition for our shareholders, employees, suppliers and customers, and for governments and the communities in which our people live and work Value creation is not an 'either/or' situation where you either make money for shareholders or deliver value to society The two go hand in hand To be successful over the long-term, businesses must produce something valuable for society in a responsible way and be able to demonstrate the value they deliver by providing jobs, skills, infrastructure, paying taxes and royalties to governments and so on Equally, society needs a flourishing business sector replete with executives who are bold and innovative but also prudent risk takers, who are motivated not only by the financial reward that should go with success but the support and validation they should get from society Ignoring either side of this symbiotic relationship is unsustainable and short-sighted

Over our short history we have generated $182 billion of revenues of which we have spent some $93 billion – or over half of the total – with suppliers, paid wages and salaries of $19 billion, paid taxes and royalties of some $16 billion, distributed $6 billion to providers of capital and contributed $517 million on a voluntary basis to community initiatives We have invested a further $30 billion in sustaining or expanding our operations and building modern, efficient new mines or metallurgical facilities or infrastructure The full economic benefit of our presence is of course much larger and extends to the many families, communities, local businesses and other industries that indirectly benefit from our activities

The 10 years of our history has culminated in a record year for Xstrata in 2011 EBITDA rose to $11 6 billion and net earnings increased to $5 8 billion, in each case exceeding our previous record year in 2007 Reflecting our increased profitability, we raised the final dividend to 27¢ per share to bring the full year dividend to 40¢, 60% higher than in 2010

Chief Executive Officer's strategic review *continued*

The evolution of our strategy since IPO

Organic growth

Operational excellence

Mergers and acquisitions

We spent our first few years growing mainly through acquisition, identifying, executing and integrating major transformational deals and smaller additions to our commodity businesses We continuously look for ways to improve the quality of our assets and we are now developing a range of organic growth projects to increase volumes, reduce costs and deliver value to all our stakeholders

14 For more information on our strategic priorities

Phase 1· Mergers and acquisitions

In the beginning, we grew our business through the opportunistic identification and execution of value-adding bolt-on or transformational acquisitions, while simultaneously improving the quality of our assets

Key mergers and acquisitions

2002 IPO and acquisition of Duiker and Enex coal assets to become the world's largest thermal coal exporter

2003 Our $2 96 billion acquisition of Mount Isa Mines provided exposure to copper and coking coal and established our Australian zinc division

2006 Our $18 8 billion acquisition of Falconbridge added significant scale and diversity, including an entry into nickel, Canadian and South American copper assets and growth options and additional zinc

Our acquisitions have created a major diversified mining group with the scale and diversity required to both compete with the leading players in the industry and develop new operations We continue to look for growth through acquisition

Operating performance

Our results must be viewed against an extremely challenging year for the global economy The tragic earthquake, tsunami and Fukushima disaster in Japan in March was followed by unrest in the Middle East and the Eurozone crisis which severely undermined confidence Many OECD economies experienced weak growth, while developing economies implemented policies to dampen high inflation In our own industry, we faced the most extraordinary confluence of bad weather in Australia, South Africa and Colombia in the early part of the year, a significant weakening of commodity prices in the second half and high price inflation for many vital inputs The fact that we achieved record profitability in this environment underlines the robust business we have created and the benefit of the actions we have taken to optimise our operations and take out costs on a sustainable basis

On that note, every year our businesses progressively reduce costs in real terms and 2011 was no exception In 2011, sustainable real cost savings of $391 million mitigated the full impact of a weak US dollar against local currencies and CPI and specific mining sector inflation Our coal business accounted for the majority of the savings, primarily due to increased volumes from low cost operations, in particular from the early start-up of the low-cost Mangoola mine which resulted in $230 million of unit cost savings and productivity improvements at the open cut mines in New South Wales These and other initiatives have moved our coal business back into the lower half of the industry cost curve, offsetting the significant adverse impact of our leverage to a stronger Australian dollar compared to competitors operating currencies Each of our commodity businesses is now amongst the most cost competitive within their respective industries with first or second quartile cost positions

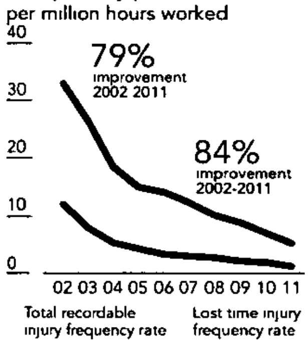
Safety performance, in terms of total recordable injuries, tells a similar story of progressive improvement At Group level we reduced the frequency of total recordable injuries by 26%, including particularly strong performances in our coal nickel and copper businesses Since 2002, we have reduced our total recordable injury frequency rate by some 84% And we continue to focus on addressing the root causes of fatal and near-miss incidents, in particular to tackle repeat incidents and understand behavioural factors However six people lost their lives at our operations in 2011 All loss of life or serious injury is a tragedy and is deeply felt in the community of Xstrata I firmly believe we can and indeed must avoid such occurrences to be a true leader in our industry

Phase 2 Operational excellence

Our ongoing focus on improving the value and quality of our operations has transformed our operations, with each of our commodity businesses positioned amongst the lowest cost producers in their respective industries

Industry-leading cost savings
% of operating costs

Group safety performance
per million hours worked



Our decentralised business structure supports finding new and innovative ways to improve the quality of our assets through year-on-year operating cost reductions, productivity improvements, mine life extensions and health, safety and environmental improvements

Phase 3 Organic growth

We are now developing a range of organic growth projects to transform our portfolio again, reducing average operating costs and increasing volumes by over 50% by 2015

We have successfully completed 22 major projects to expand existing mines and construct new operations, including 10 projects successfully delivered in 2011 Our project pipeline comprises a further 20 approved projects and we are on track to commission seven major expansion projects during 2012

36 See page 36 to 39 for progress on our projects

Our reserves and resources base continues to grow in scale and certainty and during 2011 we announced particularly significant increases to copper resources, particularly in South America, an important region for our future growth plans In total, contained copper resources increased by 15%, or over 13 million tonnes, to 100 million tonnes

Our strategy

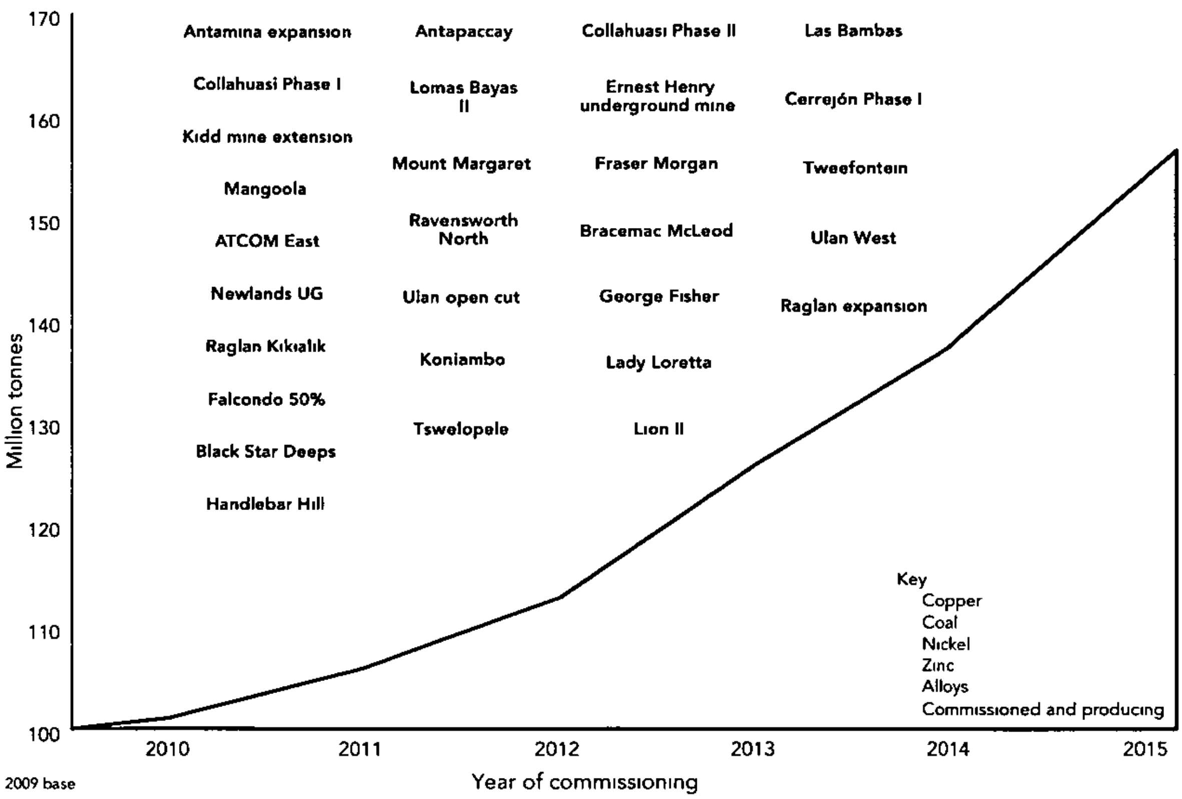
Our organic growth strategy is ramping up as planned Record cash generation of $11 billion together with a successful refinancing of our bank facilities and $3 billion from a US bond issue during the year bolstered our balance sheet to support our growth Despite total capital expenditure of over $8 billion, we ended 2011 with gearing of 15% We commissioned 10 new projects, five of which came on line in the final quarter The Mangoola greenfield thermal coal operation was commissioned ahead of schedule and within budget and this new, low cost operation and the successful restart of the Falcondo ferronickel operation made a significant contribution to volumes during the year The Kikialik expansion to the Raglan nickel mine, Newlands underground and ATCOM East coal operations were commissioned during the second half of 2011 and between October and the beginning of 2012 we commissioned a capacity expansion at the Collahuasi joint venture an extension to the Kidd operations mine life, the Black Star Deeps and Handlebar Hill zinc projects and an expansion at the Antamina copper/zinc joint venture, all of which are now contributing to volumes

But it is from the second half of 2012 that we will start to see the transformational impact of our organic growth strategy in particular on our copper and nickel businesses The Antapaccay expansion in southern Peru will replace production from the Tintaya mine and increase annual output to an average of 160,000 tonnes per annum for the first five years of its 20-year mine life Antapaccay is an important milestone in developing our interests in southern Peru into a major copper-producing division with further growth potential and all the benefits of a regional network of operations logistics, skilled personnel and stakeholder relationships The mine is 56% complete, we have purchased all of the equipment required for the project and detailed engineering is complete Our teams are now installing the crusher and conveyor systems and the operation is on track to start production later this year

Progress against our priorities

Strategic priorities	Progress in 2011	Priorities in 2012	Key performance indicators
To deliver a Tier 1 portfolio of projects to increase our production volumes and meet society's demands	• 10 projects successfully commissioned during 2011, four of which were delivered ahead of schedule • Seven projects approved with a capital spend of $2 6 billion	• Deliver seven major projects during the year across five countries and four commodities	• Targeted 50% volume growth over 2009 levels by the end of 2014 • 20% reduction in operating costs by the end of 2014
To increase the net present value of our business by improving the quality of our assets and by operating safely and efficiently	• Real cost savings of $391 million delivered, moving all businesses into the lower half of industry cost curves • 26% improvement in total recordable injury frequency rate on 2010	• Ongoing focus on improving the quality of our assets through year-on-year cost reductions, mine life extensions and productivity and safety improvements	• Real costs savings (page 31) • Total recordable injury frequency rate (page 32)
To maintain our industry-leading standards of health, safety and environmental performance and to be viewed as a responsible partner within the communities in which we operate	• Six fatalities at our managed operations • 26% improvement in total recordable injury frequency rate on 2010 • Zero category 3 environmental incidents • Corporate social involvement of $102 million	• Zero fatalities • Further reduction in our total recordable injury frequency rate • Zero category 3 environmental incidents	• Zero fatalities • Total recordable injury frequency rate (page 32) • Environmental incidents (page 33) • Corporate social involvement (page 35)
To foster a high-performance, entrepreneurial, non-hierarchal culture that attracts the best people, and empowers them to succeed and build the capabilities necessary to deliver our strategy	• On average 48 hours of training provided for each employee • $1 028 spent on training on average for each employee – 9% more than in 2010 • Career development programmes in place that include annual reviews	• Rollout of employment value proposition programme that supports the retention and attraction of high-calibre individuals	• Voluntary turnover (page 35) • Training hours and spend (page 35)
To conduct our business activities in an ethical and commercially transparent manner	• Training across all businesses on our Code of Conduct • Courses undertaken on human rights training • No confirmed transgressions of human rights	• Ongoing human rights training and awareness-raising across our business	• Zero incidents of bribery, fraud or corruption
To maintain a strong and flexible capital structure capable of supporting our growth plans	• Our syndicated loan facilities were renegotiated into a $6 billion five-year facility • $3 billion bond successfully launched	• Continued cash generation to support the development of our project pipeline	• Gearing (net debt/net debt + equity) • Cash generation from operations (page 42) • Net debt position (page 43)
To identify and take advantage of opportunities to deliver value through strategic partnerships, acquisitions or divestments	• We acquired First Coal Corporation in Canada, E1 and Monakoff copper tenements in Australia, and Hackett River and Wishbone exploration properties in Canada	• To continue our disciplined approach towards acquisitions and divestments	• Successful integration of acquired assets realisation of anticipated synergies

Xstrata's approved copper equivalent production growth



The second major project to start up this year, our Koniambo nickel project, is advancing at a good pace Our teams are progressively starting up the key elements of the substantial infrastructure involved in building this remote, large-scale project ahead of delivering first ore to the furnace later this year Koniambo will ramp up to full production in 2014 and will transform our nickel business in terms of volumes, costs and industry position

The greenfield Las Bambas project will share some of the infrastructure at Antapaccay and early works and detailed engineering started during the second half Las Bambas will be a major, low cost new copper mine producing 400,000 tonnes per year and will contribute to our projected total copper production of 1 5 million tonnes by 2015 Despite some severe cost pressures, and the incorporation of detailed engineering design into the cost estimates, the copper team has contained capital costs to 15% of the original indicative $4 23 billion budget we approved last year Uncontrollable costs of $460 million represent over two-thirds of the total and include inflation in the cost of land acquisition and social infrastructure, a challenge we are facing around the world, and delays to our permitting process resulting from the wholesale change in the civil service which followed the Peruvian presidential election in July The project remains on schedule for commissioning in the second half of 2014

We approved a further seven growth projects in 2011 with a total capital commitment of $2 6 billion, including a significant expansion to the Cerrejón thermal coal joint venture in Colombia and the development of the Ulan Open Cut coal mine and the greenfield Lady Loretta zinc mine in Australia We also remain alive to prospective opportunities to replenish our growth pipeline and we completed six bolt-on acquisitions in copper, zinc and coal

Our strategy to execute the best growth options within our portfolio is now well underway and will reduce average operating costs, increase volumes and deliver significant value to our shareholders over the coming years to respond to the positive market outlook we see for commodities

Chief Executive Officer's strategic review *continued*

Our merger with Glencore, the logical next step for both companies

xstrata

Mick Davis appointed Chief Executive	IPO and Duiker/Enex acquisitions	MIM acquisition	Cerrejon, Tintaya acquisitions	Falconbridge acquisition	Jubilee acquisition	Commissioned 22 major organic growth projects
2001	2002	2003	2006	2006	2008	2002 11

Equity value US$0 5bn | **IPO market value US$3bn** → **Xstrata total shareholder return since IPO 339%**
FTSE100 TSR 58%
S&P Index TSR 38%

Current market value
US$56bn

GLENCORE

Prodeco and Kazzinc acquisitions	Xstrata IPO	First public bond issue	Formation of UC Rusal	Katanga/ Nikanor merger	Convertible bond issue	IPO
1995/7	2002	2004	2007	2008	2009/10	2011

Management buyout (MBO) equity value (1994) US$1 2bn → **Glencore compound annual return on equity since MBO +28%**

Current market value
US$50bn

Merger with Glencore

On a standalone basis, Xstrata is a strong business with a bright future and Glencore as a 34% shareholder But a combination of Glencore and Xstrata represents an outstanding opportunity to create additional value for our shareholders By bringing together two companies that have grown in parallel – a major global diversified mining company and the leading marketer of commodities – and which have a long-standing relationship, I believe we have an exciting opportunity to create a unique business better able to capture value from changing industry dynamics and redefine the competitive landscape Three questions seem to me to apply Is this a value-adding proposition? Is this the best governance structure? And are these the best terms?

A value-adding proposition and a logical next step

A merger between Glencore and Xstrata is the logical next step for both companies This transaction represents a natural combination of two complementary businesses, each with an outstanding track record of shareholder value creation, entrepreneurial management teams and a proven ability to see valuable opportunities and execute them Glencore Xstrata would be positioned to create value from each step of the commodities value chain, from resource extraction to customer sales at a time when demand for our combined products continues to grow A growing world population a rising middle class and ongoing urbanisation and industrialisation in emerging economies will underpin demand for our expanded range of products for years to come At the same time, supply remains constrained due to historic underinvestment ageing operations and the challenges of bringing new production to fruition

We will become a highly diversified major resources group in our sector with a unique business model that could not be replicated in any reasonable timeframe Increased scale will improve our risk profile enhance access to capital markets and allow us to participate in industry consolidation With access to superior market intelligence, relationships with thousands of suppliers and customers and the sustainability and operating expertise to operate in emerging producing regions, Glencore Xstrata will be well placed to capture new opportunities across the globe

Positioned for a changing environment

Ten years ago we positioned Xstrata to capture value in a world that was changing As I look ahead to our next 10 years it seems to me that the industry landscape is again evolving in a way that is quite profound and that demands new approaches to value creation, supporting the strategic rationale for a combination of these two businesses

The shift in the locus of global demand growth for commodities away from the OECD to the large developing nations, led by China, has had an important impact on global trade flows The value chain for commodities is becoming longer, in geographic terms, and more complex with new logistical infrastructure being required to address new trade flows New relationships are being developed between suppliers and customers who also face new risks and therefore have new product and service requirements

Well placed to benefit from positive industry dynamics

Demand drivers		Glencore Xstrata is uniquely positioned to capture value
Population growth	**Metals** Growing commodity intensity including early cycle commodities	Leading marketer of zinc and copper
Urbanisation	**Energy** BRICs still far below developed country per capita energy consumption	Leading trader in seaborne thermal coal and oil
Increase in wealth	**Agriculture** Growing food demand and changing consumption patterns	Leading grain exporter from Europe/CIS/Australia
Supply constraints		
Industry at full capacity	**Metals** Mine supply growth constraints New supply increasingly challenged by infrastructure	Top five producer of copper, nickel, zinc ferrochrome
Ageing mines/falling grades Capital expenditure underinvestment	**Energy** New resources and reserves situated in challenging locations and limited infrastructure	Number one export thermal coal, and a growing oil producer
Challenging new geographies	**Agriculture** Growing imbalance between regional demand and supply leads to greater seaborne trade	Growing production base

At the same time, the sources of supply of commodities are also diverging Producers are looking further afield for access to new resources to highly prospective emerging geographies as traditional mining regions approach depletion New small-and medium-sized producers are rapidly emerging from these countries seeking access to core markets but with limited marketing capabilities and constrained access to infrastructure, finance and logistics In addition, the social licence to operate and gain access to new resources irrespective of the region will be determined increasingly by companies' sustainability credentials and their relationships with their communities The convergence of these trends means that our space and Glencore's areas of expertise are merging, to create opportunities for those companies that can position themselves to compete in an integrated way in this evolving environment

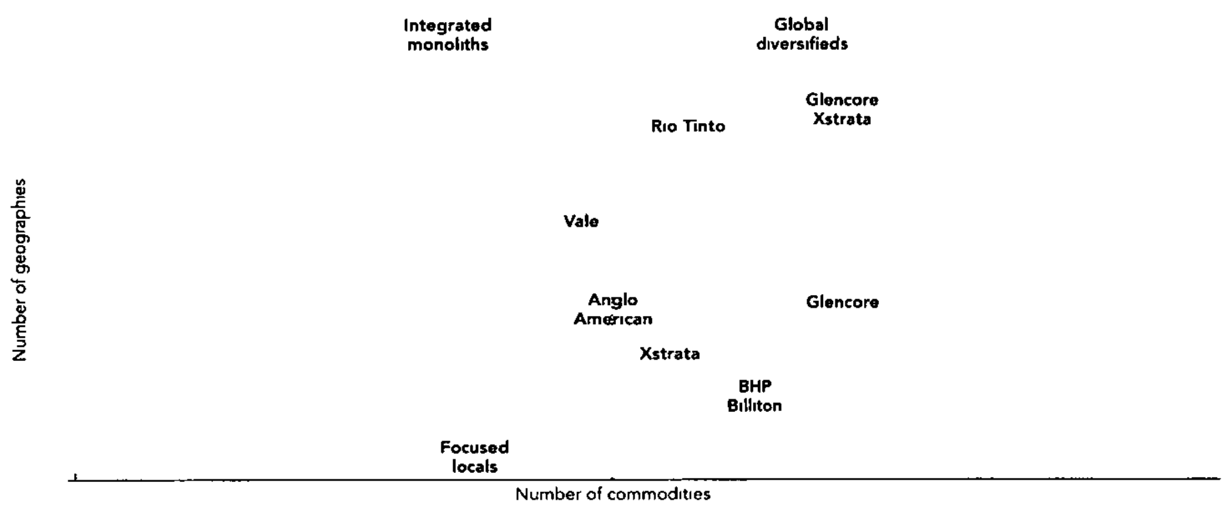
Our strategy for Glencore Xstrata envisages the delivery of value to shareholders over the short, medium and longer term The combination promises to deliver EBITDA synergies of at least $500 million per year in the first year, primarily from the marketing all the combined entities' production by the marketing business unit By combining Glencores more immediate delivery of organic growth with our industry leading project pipeline, we accelerate the overall growth of the combined entity to 11% compound annual growth rate to 2015, compared to an average of 7% for our peers Increased scale and diversity result in an improved risk profile and greater financial flexibility Our customers will gain additional security of supply as we are able to leverage a more diverse range of sources of production and from our improved ability to tailor products to their needs

In the medium term, our intention is to review the combined entity's portfolio of assets and projects with a view to improving overall returns We will be able to diversify further into new attractive commodities and to apply world-class operational excellence across the entire portfolio of assets Greater scale will facilitate the acceleration of growth in the more prospective emerging regions while a broader range of acquisition opportunities will become available to Glencore Xstrata Importantly, the unique market insights gleaned from the most comprehensive marketing and trading network in our industry will lead to new opportunities to create value which, with an entrepreneurial and nimble culture, Glencore Xstrata will be well positioned to capture

The longer term potential of a combined group is even more exciting Our distinctive competitive positioning will allow Glencore Xstrata to see and access opportunities from new sources of growth across multiple geographies and commodities and along an evolving value chain We will be able to create deeper and more responsive customer and supplier relationships leveraging the power of an integrated global network, expertise and operational capabilities to provide enhanced security of supply a broader range of products and qualities, and new services to manage evolving risks, for example in logistics, financing or sourcing And we will continue to focus on doing this in a way that delivers vital products for society to where they are needed in a responsible manner that creates lasting benefits for the countries and communities in which we operate

Chief Executive Officer's strategic review *continued*

Diversification a key competitive advantage



Governance and management structure to deliver strategy
The governance structure of the combined group is an essential element of the transaction we are proposing to shareholders The agreed structure protects our shareholders interests and ensures that the merged entity will be able to execute its strategy to its maximum potential Experience tells us that securing a sustainable governance structure that deploys management according to its respective strengths and protects both sets of shareholders' interests is one of the most important factors in creating lasting shareholder value from mergers

The combined group will unite two entrepreneurial management teams each focusing on their respective strengths to maximise the combined group s potential The Board of 11 will comprise Sir John Bond, current Xstrata plc Chairman, who will be its Chairman with eight additional non-executives – four from each company – plus myself and Ivan Glasenberg I would assume the role of Chief Executive with Trevor Reid as Chief Financial Officer and Ivan Glasenberg currently Glencore Chief Executive Officer, would become Deputy Chief Executive Officer and President Key elements of our integration approach have already been agreed to retain our decentralised business model and entrepreneurial culture, and to allow both businesses to continue to operate successfully – but now in a joined up way –uniquely to create added value for all shareholders of the combined company

The right terms
Although both companies are of a similar size and trade on similar multiples the terms we have agreed with Glencore provide our shareholders with an advantageous share of the merged entity

The merger will be earnings accretive to Xstrata shareholders from the first year Our shareholders will continue to benefit from our organic growth potential, complemented by Glencore's near-term, high-return growth to give the combined group a compound annual growth rate of 11% per annum in copper equivalent tonnes from 2011 to 2015

While the terms are clearly advantageous to Xstrata shareholders, they do not cause a punitive dilution that would be unacceptable to Glencore shareholders and would probably be reflected in the share price Both companies shareholders will benefit from the value-adding potential of the combination, immediate synergies of $500 million per annum from the first full year post completion and the financial and strategic flexibility to pursue opportunities within and external to our expanded business I believe these are the best possible terms from a combination of Glencore and Xstrata that I could achieve for our shareholders When taken together with the superior governance structure outlined above, the terms reflect both the rigour of our negotiation and the universe of the possible

2011A and combined 2011 EBIT by division extracted without material adjustment from the Xstrata unaudited preliminary results for the year ended 31 December 2011 and Glencore's unaudited profit estimates for certain financial information in respect of the year ended 31 December 2011 Information in respect of 2009A and 2010A has been extracted without material adjustment from Glencore's IPO prospectus and Xstrata's audited financial statements in respect of the year ended 31 December 2010 Adjustments have been made to eliminate trading and balances between Xstrata and Glencore

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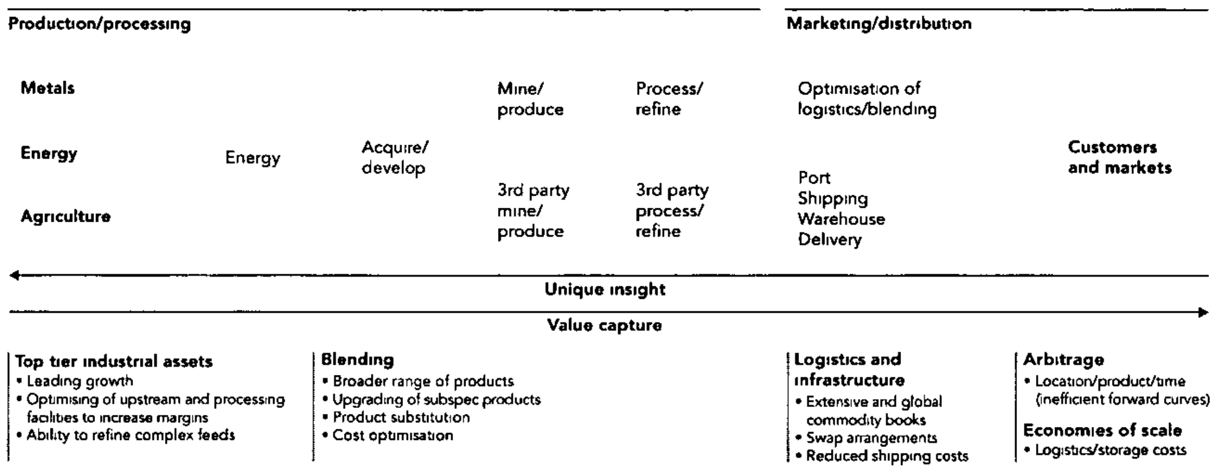
Full integration through the value chain

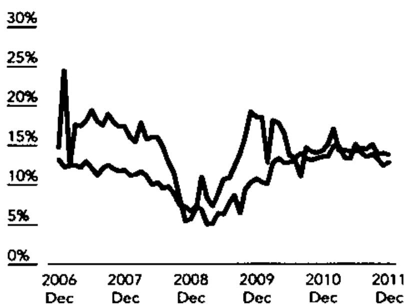


The strategic rationale for combining our companies is both exciting and compelling Glencore Xstrata will create a vertically integrated strategically flexible and nimble business Our company will have an aligned strategy a robust board and a highly entrepreneurial and dynamic management team Combined with the strategic flexibility and capabilities to respond to an industry that is evolving ever more rapidly Glencore Xstrata will be positioned to continue both companies track record of creating superior shareholder value – the whole will be greater than the sum of its parts Xstrata's independent directors have unanimously recommended the transaction to Xstrata s shareholders

Mick Davis
Chief Executive Officer

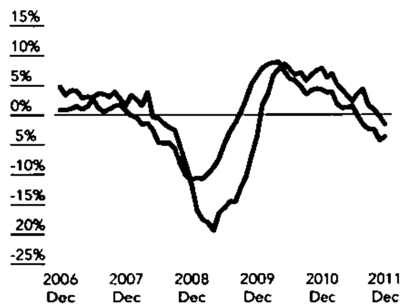
Market outlook

China year-on-year changes



China industrial production China leading indicator

European Union year-on-year changes



EU industrial production EU leading indicator

United States year-on-year changes

US industrial production US leading indicator

Markets

Global demand for commodities remained strong during 2011 and is continuing to grow into 2012, despite mixed economic growth across the major markets Demand for commodities is closely correlated with global economic growth and in particular industrial production

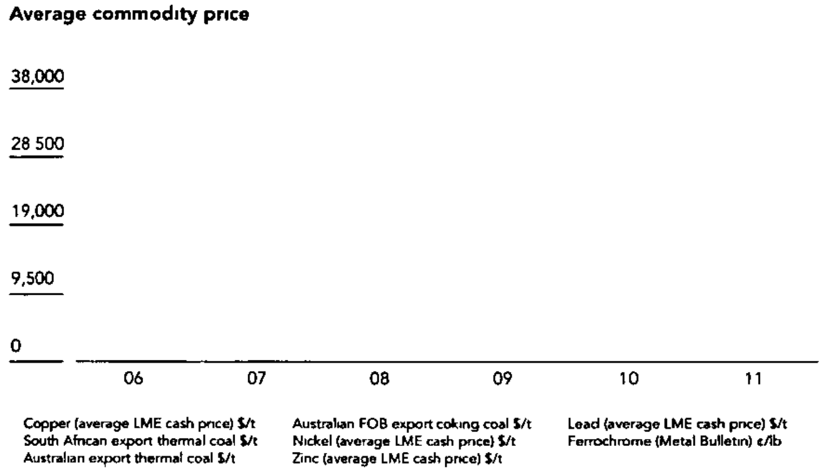
Fast-growing economies including China and India, experienced high inflation due to the combination of elevated commodity prices and domestic constraints such as tightening labour markets or insufficient physical infrastructure Growth in these markets is tempered by government actions in response to inflationary pressures, but rates of economic growth and demand for commodities are expected to remain robust Overall the outlook for the global economy presents a picture of moderate growth for the coming year

In 2011, Chinese industrial production maintained its strong growth trajectory, despite fears of a drop in export demand The People s Bank of China began to ease monetary policy as inflation receded and economic growth receded from the 10% average annual growth rate of the last few years Government initiatives and continued domestic demand will mitigate the slowdown being witnessed in the high-end Chinese property market

For many European countries, public austerity measures undermined domestic demand and reduced confidence in 2011 Large scale monetary stimulus to the banking system at the end of 2011 and in early 2012 has eased fears of an imminent implosion of the Eurozone However, the region s problems of high debt, low growth and uneven competitiveness will take many years to address and low growth is likely to continue, even if the currency union can be preserved Germany is the major exception benefitting from a relatively weak euro and strong competitiveness due to the fact that it undertook its own reforms at a time of buoyant external demand

In the US, employment is rising and economic growth has become more robust and self-sustaining following the deepest and longest labour market slump in post war US history The US property market continues to restructure in response to the huge number of foreclosed properties and its construction sector is only likely to recover once this has been accomplished

Average commodity price



Revenues and earnings for mining companies depend to a large extent on the commodities produced As these commodities are traded globally, we do not, in common with our competitors, control the prices we receive for our commodities Commodity prices are significantly affected by global economic conditions and, in particular, industrial production, which drives global demand for metals and energy

Outlook

Significant short to medium-term uncertainty remains despite signs that the global economy has managed to avoid another recession The massive monetary stimulus provided by Western central banks has supported financial markets and banking systems, in turn stabilising growth Major emerging markets are slowing from very high growth rates to more sustainable levels and, despite the Eurozone sovereign debt crisis remaining unresolved, economic indicators suggest a moderately robust outlook for global growth

Our proprietary early-warning tracking shows real economy and industrial production indicators pointing towards stable growth for the two largest economies, the US and China This, along with rising prosperity in Southeast Asian and African countries, will underpin demand for commodities In contrast, the Eurozone faces a deteriorating outlook as the southern periphery drifts into recession

High energy prices could undermine demand in advanced economies and further limit output growth in emerging markets The long-term solvency of major economies such as Spain and Italy will depend on their ability to reform labour markets and raise their growth potential This slow and difficult process may yet falter, possibly leading to a public debt default with major implications for the global banking system

The longer-term prospects for the world economy are positive and global demand for commodities remains high and looks set to continue The increasing number of middle class consumers and heavy investment in emerging markets' physical infrastructure are important long term drivers These should persist regardless of recent developments in emerging markets as government measures to control inflation temper growth rates In addition rising living standards mean that large numbers of households are joining the middle class in developing countries This trend will support a substantial increase in the consumption of basic materials via demand for consumer goods and for more modern residential and commercial buildings

The Chairman s statement (pages 4 to 7) and Chief Executive Officer's strategic review (pages 10 to 19) include commentary on the outlook for Xstrata's markets More detailed commentary on each of Xstrata's key commodites is included in the Operating review (pages 46 to 77)

Risk management

Risk is inevitable in business it goes hand-in-hand with opportunity But it is possible to manage risk We have created a risk management system that allows us to pursue business opportunities and grow shareholder value as well as developing and protecting our people, our assets, our environment and our reputation

Our comprehensive risk management system has been implemented across our businesses Its processes are defined within a risk framework that is well understood across all operations Managing risk is a continuous challenge Self-assessment is ongoing within each business unit to identify, evaluate and manage significant risks, and results are regularly updated on our Group risk registers

Each commodity business and corporate function is required to undertake a comprehensive annual risk review These results are then implemented into the annual business plans presented for Board approval

Progress against these plans, significant changes in the unit's risk profile and actions taken to control and mitigate risks are reported regularly to its audit committee, the Group Audit Committee, the Executive Committee and our Board

Many risks inherent in an international mining business will always exist The challenge is to manage them effectively Our principal risks relate to operational challenges, mining activities and project management, and include health, safety, environmental and community risks We also face risks associated with commodity price and currency exposure and the management challenge to deliver on investor expectations

The principal risks and uncertainties that may impact our ability to execute our stated business strategy are detailed on the following pages They have been assessed according to materiality, likelihood and the residual risk after controls have been implemented Further information on our risk management controls and processes is provided in the Corporate Governance report on pages 87 to 95

How risk is managed at Xstrata

Board
Overall responsibility

Board Audit Committee
Oversight role of the effectiveness of controls and the ongoing management of identified risks

Commodity businesses
- Comprehensive annual risk review
- Alignment of business plan objectives with risk
- Ongoing process to identify, evaluate and manage risk
- Actions taken and progress made to address controls and mitigate risks reported to the commodity businesses audit committees who oversee the effectiveness of controls and the ongoing management of identified risks

Internal audit
The global head of internal audit and risk reports significant commodity business risk matters to the Board Audit Committee

"Our comprehensive risk management system has been implemented across our businesses"

Peter Hooley
Chairman of the Audit Committee

Principal risks

Risk	Impact	Mitigation
Commodity price volatility Our revenues and earnings are dependent on prevailing commodity prices which are determined by the supply of, and demand for, raw materials and are closely linked to global economic growth Consequently, commodity prices, and particularly those for exchange-traded commodities may fluctuate widely	The impact that fluctuations in the price of our commodities had on our operating profit is detailed in the consolidated operational results section of the Financial review on page 40 to 41 Commodity price trends and commentary on the outlook for each of our commodity markets are provided in the Operating review section on pages 46 to 77	We maintain a diversified portfolio of commodities to reduce the impact of price movement in any one commodity We do not typically implement large scale hedging of price movement initiatives Instead, we aim to continually reduce costs and maintain low cost efficient operations while optimising our portfolio and returns throughout the commodity price cycle We maintain an investment grade credit rating Our Group Treasury policy is actively monitored and reported to our Executive Committee on a monthly basis All our debt is now covenant-free, which reduces our financial risk during periods of low prices
Fluctuations in currency exchange rates Our products are generally priced in US dollars while our operations and operating costs are spread across 20 countries with fluctuating currencies	Fluctuations in exchange rates, particularly movements in the Australian dollar, Canadian dollar and South African rand against the US dollar, may have a material impact on our financial results or affect our investment grade credit rating The impact of exchange rate fluctuations on our operating profits and average exchange rate comparisons are detailed in the consolidated operational results section of the Financial review on page 41	We maintain a diversified portfolio of assets across several geographies and operating currencies to reduce the impact of price movement in any one commodity We may use currency cash flow hedging to reduce our short-term exposure to fluctuations in the US dollar against local currencies Information on our foreign currency hedging is provided in the Financial review We regularly review our financial structure, including exposure to interest payments, interest rate changes and amendments to taxation regulations to ensure that we comply with all relevant regulations and to maximise our financial efficiency We maintain an investment grade credit rating Our Group Treasury policy is actively monitored and reported to our Executive Committee on a monthly basis
Political and fiscal intervention Our operations and projects span 20 countries Some of these have complex and unstable political or social climates and, as a result, present higher risks Political risks range from changes in legislation or regulation, taxes or royalties, expropriation of assets, infrastructure issues, currency restrictions, and renegotiation of or changes to, mining leases and permits	Political risk can adversely impact our profitability in various geographies or at certain operations Changes to the political, community or fiscal structure of a country could render it an unsuitable location for efficient operations or the development of new projects and impact investor confidence	We manage a broad geographic spread of assets thereby diversifying political risk A thorough risk assessment is conducted on any country where we are considering investments or activities We also regularly review political, regulatory and social risk within the countries in which we operate to ensure that these have been identified and are being managed to within acceptable levels Our business is built on partnerships We work in partnership with our people and local communities to ensure we all share the benefits of our success, thereby earning and maintaining a social licence to operate We regularly review investment terms in joint venture and partnership agreements to ensure fairness and reduce the risk of renegotiation We maintain an extensive, transparent and open dialogue with regulators and local regional and national government bodies and, where possible, enter into tax stability agreements We also work closely with our competitors and peers to facilitate industry-wide participation in negotiations around tax changes We follow and address all changes to legislation and ensure we are compliant at all times with new laws and regulations and with the standards set out in our Sustainable Development Framework

Risk management *continued*

Risk	Impact	Mitigation
Security of energy supplies Increasing global demand and limited new supplies impacts the price and availability of energy Many factors that reduce the reliability of energy supply or increase energy prices are beyond our control These include strong demand from the Asia Pacific region, political regulatory and economic uncertainties, costs associated with emissions from fossil fuels and problems related to local generation and transmission of power, such as electricity constraints in South Africa and natural gas shortages in Chile We are sometimes dependent on one energy company, such as Eskom in South Africa	The price of energy greatly impacts our operating costs because many of our operations and facilities are intensive users of natural gas, oil and other fuels Constrained energy supplies may impact our ability to operate, or threaten planned operational expansions or the development of new mines Approximately 10% of our total operating costs relate to energy	We constantly assess and monitor energy related risks and regularly revisit and revise assumptions At the design stage of our projects we assess risks associated with energy supply Energy efficiency plans have been implemented across our operations We have developed proprietary energy generation facilities, such as a gas-fired power plant at Mount Isa Mines, and feasibility studies are currently being conducted into a hydro electric power plant in southern Chile We have also developed energy efficient technologies Xstrata Alloys' proprietary Premus technology reduces the energy consumption of ferrochrome smelting by more than 20% compared to conventional processes We are also pursuing the recovery of existing resources, such as capturing coal methane for electricity generation, and exploring opportunities to use lower-carbon power sources, including renewable energy We negotiate long term energy contracts to reduce dependence on spot markets and continuously seek to diversify power sources and identify alternatives
Emissions and climate change regulations We operate in several jurisdictions in which legislation to limit or reduce emissions has been introduced or is being considered Climate change related legislation could lead to increased costs for fossil fuels electricity and transportation, restricted industrial emissions, the imposition of charges for emissions in excess of permitted levels and expenditure on monitoring, reporting and accounting Our customers and suppliers are becoming increasingly aware of their own carbon and water footprints and are selecting partners who are actively reducing their impact on the environment	Climate change related legislation such as carbon pricing proposals in Australia Canada and South Africa, may result in direct financial and production costs, higher energy costs or even restricted energy supply, which could have a material adverse impact on our ability to maintain production or contain operating costs Failing to meet and exceed best practice for monitoring and reporting our emissions will have a reputational impact As the world s largest producer of export thermal coal, our financial position will be materially adversely impacted by any significant decline in the use of coal as a power source as a result of carbon taxes, emissions trading or similar legislation Climate change may lead to weather-related events or other physical threats, such as disruption to transport infrastructure that could hamper production or damage assets	Our management place a high priority on climate change issues and are committed to measuring, controlling and reducing our impact We continually seek ways to understand our carbon footprint and reduce the carbon intensity of our operations and activities We regularly undertake studies to better understand potential physical and weather related risks of climate change on our operations and logistics, and incorporate those findings into our longer-term planning The cost of carbon is also included in our existing business and investment decisions Our commodity businesses actively develop and implement relevant climate change strategies, which include performance targets and time frames to achieve these We monitor all our emissions to air Operations that emit SO_2 set annual targets to reduce their emissions and increase the proportion of emitted gas they capture, their progress is reported annually in our Sustainability Report Xstrata Coal actively invests in and advocates government support for research and development projects to reduce greenhouse gas (GHG) emissions from the use of coal in power generation Increased global demand for energy, particularly in developing countries, and its relative cost position, availability and secure supply should ensure demand for coal is supported We participate in industry and regulatory initiatives to address climate change and associated issues, and our executive management team is actively involved in the International Council on Mining & Metals Executive's working group on climate change We also actively engage with governments through industry associations and independently to discuss the potential implications of proposed legislation and to understand and manage potential impacts

Risk	Impact	Mitigation
Project development Part of our three pronged business strategy rests on organic growth from a pipeline of projects across many countries Their development can be affected by many factors, some are outside our control These include technical uncertainties, availability of suitable financing, infrastructure constraints, cost overruns overstretched management and insufficient skills or resources Problems obtaining, renewing or extending relevant operating, social or environmental permits or other legislative requirements can cause unexpected delays Anti mining sentiment by local communities and/or non governmental organisations can slow or halt the development of projects or influence government processes	Any restriction on our ability to develop our pipeline of projects and replace older operations with new, lower cost supply will impact future revenues, costs and the Company's reputation Severe shortages of resources required to complete projects, such as labour, equipment and raw materials, can create an inflationary environment which would impact our ability to control associated costs	Cost control is the key to project development Our commodity businesses have an excellent track record of delivering major capital growth projects both on time and on budget We also benefit from extensive project development experience within our management teams Each business has a comprehensive project approval process that governs every stage, from approval to commissioning, and includes future scenario planning This ensures that material risks are comprehensively assessed and, where possible mitigated before the project proceeds to its next phase We have an embedded Internal Audit focus on project development, which includes an early warning system to ensure projects are on track Regular detailed progress reports on each major project are provided to our Executive Committee Projects are regularly audited against the specific performance standards of our Sustainable Development Framework to ensure social, environmental and ethical risks are properly identified and managed We regularly communicate and work in partnership with government bodies, communities and stakeholders on project development We rigorously evaluate our project pipeline and, if appropriate, earmark specific projects for disposal, postponement or partner introduction Such actions depend on risk profile and an assessment of potential value
Talent management – recruitment and retention Increased demand for commodities and higher commodity prices have led to greater investment in the mining industry and, as a result, increased competition to recruit and retain a limited number of experienced and qualified people The development of our pipeline of organic growth projects requires large-scale recruitment programmes to attract new employees to our business At the corporate centre, as a result of our decentralised structure, we have a streamlined management team	Our future success as we expand will be dependent on our ability to attract and retain highly skilled and qualified personnel Production and project development will be affected if we are unable to attract the right people to our business Our lean management structure is dependent on a small number of key employees The loss of any of these individuals could significantly disrupt our business	We aim to attract and retain the best people at every level of our business The strategy for how we will meet our personnel requirements is regularly discussed at Board and Executive Committee level Our human resource teams meet regularly to increase co-operation among our commodity businesses programmes, to share best practice and to further our strategy of achieving a competitive advantage for attracting and retaining personnel We regularly review and adapt our recruitment and retention programmes to reflect changes in the labour market We provide our people with industry leading career development opportunities, well structured employment contracts, competitive remuneration and incentives and fair and non-discriminatory workplaces We believe that our devolved management structure, coupled with our support for entrepreneurial initiative, offers unparalleled career development opportunities and is a key retention feature Each of our people can play an active role in our success Fast track and executive development programmes are in place and formal succession planning is regularly reviewed

Risk	Impact	Mitigation
Social and community Our operations and the development of our project pipeline can impact local communities On occasion, communities may need to be resettled or local infrastructure moved In some regions, communities may oppose mining activities	Projects could be delayed without broad local community support, impacting future operating profit development costs and our corporate reputation	We work with affected communities to identify and evaluate their needs and concerns at every stage of a project's development and to assess the likely impact on them We carry out social and human rights baseline studies and risk assessments, and engage with communities in a transparent and culturally appropriate manner respecting local laws, customs and heritage
Health, safety and environment Our operations are subject to extensive health safety and environmental (HSE) regulations and legislation and community expectations We must comply with current new and upcoming laws and our Sustainable Development Framework	New or amended HSE regulations and legislation may lead to increased operating costs or, in the event of non-compliance, potential fines, penalties or other actions that may adversely affect our financial position Rehabilitation costs, which are usually estimated and provided for over the life of operations and based on the best information available, may subsequently increase affecting earnings Any breach of our own best practice standards on HSE performance and community relations could damage our reputation and, as a result, our licence to operate HSE standards at acquired operations may also not meet our standards	Our commitment to sustainable development, incorporating environmental, economic and social performance, is embedded in our operating philosophy Our businesses operate in accordance with our Sustainable Development Framework and aspire to achieve the highest international standards regardless of location They are regularly audited through our Sustainable Development Assurance Programme, and health, safety, environmental and social performance indicators are reported to our Executive Committee and Board We have effective management processes in place that support our businesses and sites in complying with regulations and legislations in each country in which we operate We are in regular contact with governments and regulators to ensure we are aware of and able to comply fully with upcoming regulations and legislation We assess HSE risks and opportunities of acquired operations during integration and implement action plans to address underperformance
Cost control We are unable to directly set the prices of our commodities and, as such, our competitiveness and long term profitability are largely dependent on our ability to reduce costs and maintain low-cost operations The cost of extracting and processing raw materials is affected by the costs of consumables, such as reductants and reagents, energy, labour transport and equipment Many of these elements are susceptible to supply and demand forces which create inflationary pressures	Cost control can help in the creation of value and is also a measure of the quality of our operational management and our stewardship of assets Cost performance is an important management measure, and is regularly reported to our Executive Committee	We conduct regular internal audits at operations to identify potential efficiencies, and incentivise our managers to reduce their operating costs on a year-on-year basis In each of the past ten years we have achieved real cost savings within our operations, including 1 9% in 2011 Our world-leading Xstrata Technology Services develops technologies to improve efficiencies and reduce operating costs for mineral processing and metals extraction Our commodity businesses also invest in the development of lower cost proprietary technologies

Risk	Impact	Mitigation
Operational risks Our operations are affected by factors, such as the availability of raw materials, water and power, that are, to a large extent, outside our control We also face myriad operating risks These include unusual or unexpected geographical features, ground conditions or seismic activity climatic conditions, such as flooding, drought or a reduction in permafrost, interruption to power supplies, congestion at commodities transport terminals, industrial action or disputes, environmental hazards, and technical failures, fires and explosions and other incidents at a mine, processing plant, terminal or related facility	Changes to our operating environments may adversely affect operating performance, production levels, unit costs and operating profits	Our stated objective is to ensure 'an environment where we can confidently grow shareholder value through developing and protecting our people, our assets, our environment and our reputation' Consequently, we have a robust and comprehensive programme in place that identifies, understands and manages the risks that affect our business This includes a crisis management planning process connecting operations businesses and the corporate headquarters through clearly defined escalation requirements Each commodity business also conducts an annual risk review and updates its risk register accordingly
Reserves Mine reserves decline as commodities are extracted Successful exploration and development activities that extend the lives of existing mines and access to new properties containing economically recoverable reserves are vital to our future success Various government permits must be obtained to develop reserves	If we are unable to access new reserves or extend the lives of existing mines, future profitability may be impacted Declining ore grades at existing operations will increase operating costs	We conduct annual updates of the quantity and quality of estimated proven and probable reserves to reflect the extraction of commodities, additional drilling or other data We publish reserve and resource estimates on our website We maintain a transparent and open relationship with regulators and local regional and national government bodies and closely monitor compliance with legislation and with the standards set out in our Sustainable Development Framework

Paul O'Grady's story

Group Manager – Planning
Xstrata Coal Queensland, Australia

"The biggest issue for us is making sure people are safe. The safest way is often the most efficient and easiest way of doing it as well..."

Key performance indicators

Financial key performance indicators

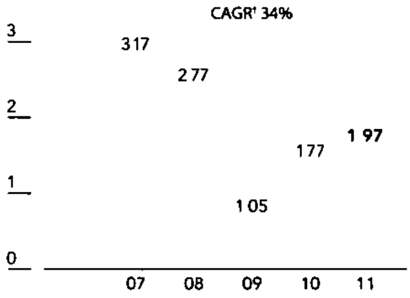
Xstrata's financial performance during 2011, including key performance indicators (KPIs), is discussed in more depth within the Financial review, on pages 40 to 45

Our management use these financial KPIs as benchmarks by which t o monitor the Group's progress in delivering our stated strategy of creating shareholder value by growing and managing a diversified portfolio of mining and metals businesses

Earnings per share* (U$¢)
Earnings per share (EPS) shows attributable profit or net earnings, that is earned per share Our growth in earnings per share, compound annual growth rate (CAGR), is shown compared to the average for the FTSE diversified miners Anglo American, BHP Billiton and Rio Tinto

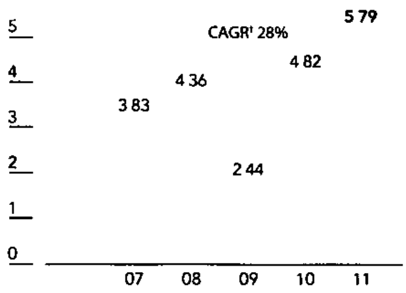
Xstrata

$1.97 | 11% increase



FTSE diversifieds*

$5.79 | 20% increase

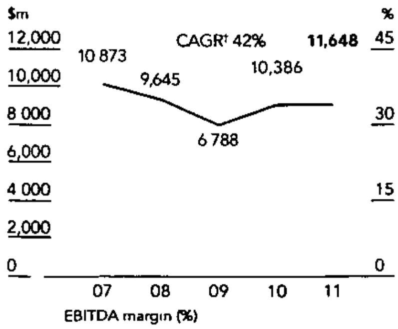


EBITDA* ($m)
Our growth in earnings before interest, tax depreciation and amortisation (EBITDA) before exceptional items is compared against the average for the FTSE diversified miners It indicates the rate at which our earnings grew

The EBITDA margin demonstrates how efficiently revenue is converted into EBITDA The margin calculates EBITDA before exceptional items as a percentage of revenue

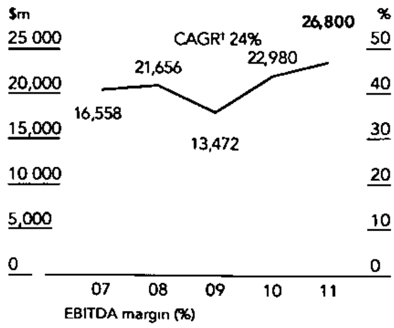
Xstrata

$11,648m | 12% increase



FTSE diversifieds*

$26,800m | 17% increase



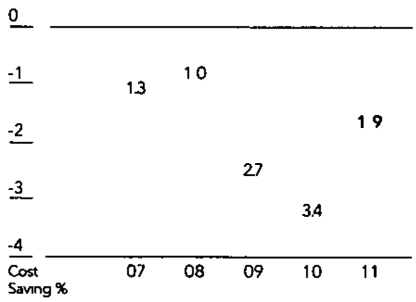
Real cost savings
(% of operating costs)
Sustainable real cost savings are an important driver of value and a measure of our operational excellence In 2011, we achieved real cost savings equivalent to 1 9% of our operating cost base

Cost savings as a percentage of an inferred cost base, in other words revenue less profit, are shown to the right This percentage figure offers a comparable measure against FTSE diversified miners using publicly available data

Xstrata

1.9%
cost saving

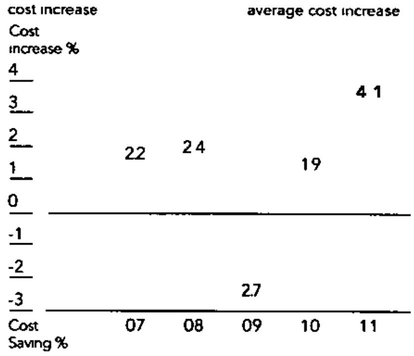
2.1%
average cost reduction



FTSE diversifieds*

4.1%
cost increase

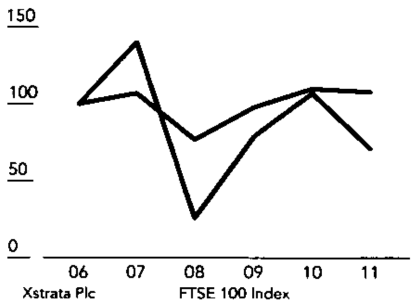
1.5%
average cost increase



Total shareholder return
Total shareholder return is calculated by adding together the growth in the share price and dividend income, with the assumption that all dividend income is reinvested in the shares

The graph shows the total shareholder return on a £100 investment in Xstrata, and benchmarks this against the total shareholder return from an equivalent investment in the FTSE 100 index of the UK's largest companies

Total shareholder return
Value of investment (£)



* Xstrata EPS and EBITDA on pre exceptional items statutory basis (i e acquisitions included from date of transaction completion), EPS adjusted for rights issues

** Weighted average for Anglo American BHP Billiton and Rio Tinto BHP Billiton adjusted to December financial year for comparison purposes

† Compound annual growth rate (CAGR) 2003–2011

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Non-financial key performance indicators

Our Board regularly monitors a range of non-financial KPIs to assess the Group's performance against sustainable development targets and strategic objectives These non-financial KPIs are considered alongside our financial performance against a range of stated objectives

Our industry-leading Sustainable Development (SD) Framework, which provides guidance on how we can implement, review and improve our management of sustainability across the organisation, is set and overseen by our Board

Our SD Framework has been mapped to international standards, and comprises our Statement of Business Principles, SD Policy and SD Standards and Assurance Programme

Our management model is highly devolved, and each commodity business is responsible for the implementation of our SD Framework across their operations They review and evaluate their performance against the SD Framework every quarter and report progress to our Board, Health, Safety, Environment and Community (HSEC) Committee The HSEC Committee benchmarks our performance against other mining and extractive sector companies

The non-financial KPIs within the SD Framework relate to safety, environmental incidents, water and energy usage, employee turnover, training, and support for community initiatives Progress is reported regularly to our Board, Executive Committee and senior management

Our internal audit programme examines health, safety, environment, ethical and community risks

Safety
(Injury frequency rate)
We believe that every work-related incident, illness and injury is preventable and are committed to providing a safe workplace

Six people (four contractors and two employees) lost their lives at our managed operations in 2011 (2010 three people) We do not distinguish between contractors and employees, the safety of all our workers is of equal and paramount importance

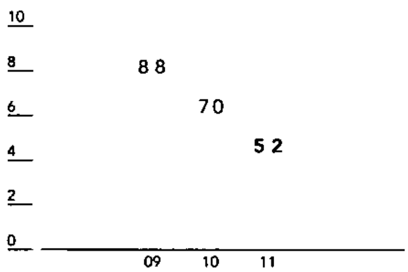
We insist that our contractors comply fully with our safety standards and procedures, and monitor their compliance All our sites hold regular and appropriate behaviour based training with particular emphasis on identifying and managing major hazards Our managers work with their supervisors and field operators to identify appropriate topics to be covered in daily team talks and safety training

We track lost time injuries and also total recordable injuries, which is a broader measure including lost time injuries medical treatment injuries and restricted work injuries for our total workforce, including contractors We track frequency rates for both these measures per million hours worked

For the eleventh consecutive year, there was a significant reduction in the frequency of total recordable and lost time injuries Total recordable injuries fell by 26% and lost time injuries were 34% lower than in 2010

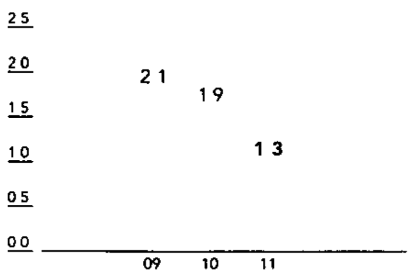
Total recordable injury frequency rate
(per million hours worked)

26%
decrease



Lost time injury frequency rate
(per million hours worked)

34%
decrease



Greenhouse gases
Greenhouse gas (GHG) emissions are measured as (CO_2) equivalent (CO_2-e) tonnes Electricity usage, methane released during coal mining in some regions and post mining fugitive methane emissions from our closed coal operations represent our main sources of GHG emissions

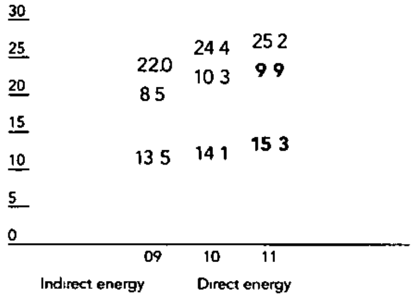
We are seeking to reduce these GHG emissions through improved energy efficiency and where possible by capturing coal-seam methane to generate power

Xstrata Coal's Australian operations continue to invest in technology to use as much as possible of the methane emissions it has caused for energy generation Generating capacity from our methane-fired power stations was 31MW in 2011 This electricity is either used by our mines or sold to the local grid

Greenhouse gas emissions
(CO_2-e mt)

4%
decrease indirect emissions

8%
increase direct emissions



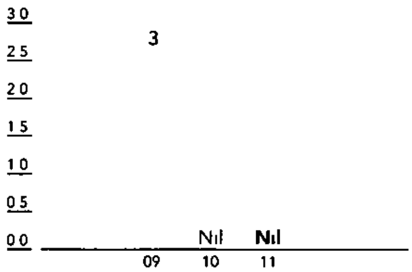
CO_2-e by commodity business
(% of Group total)

Alloys	31%	Nickel	7%
Coal	42%	Zinc	9%
Copper	11%		

Environmental incidents
We grade environmental incidents according to severity Category 1 represents very minor incidents with negligible impact Category 3 incidents cause moderate, reversible environmental impact and require moderate remediation Categories 4 and 5 represent major or disastrous incidents with medium to longer-term impacts respectively We aim for zero category 3, 4 and 5 incidents This target was achieved for a second consecutive year in 2011

Environmental incidents
(Category 3)

0
Category 3 or above environmental incidents



Energy usage

Energy is measured in petajoules (PJ) and includes both electricity usage and energy from the combustion of fuel. Efficiency and energy consumption reductions drive both cost savings and emissions reductions.

We aim to continually improve energy efficiency across our operations. Our commodity businesses have bespoke energy efficiency plans and regular energy audits are carried out.

Many of our operations use energy intensively. Our metallurgical operations are driven by electricity which represents more than half of all the energy we use. Diesel is the primary source of energy at our mines. It is used to run the mining fleet and mobile equipment.

Energy usage
(Petajoules)

2%
decrease in indirect energy

17%
increase in direct energy

	09	10	11
Total	104 5	1131	121 0
Indirect energy	54 1	60 1	58 7
Direct energy	50 4	53 0	62.3

Indirect energy / Direct energy

Energy source
(% of Group total)

Electricity	51%	Coal/coke	4%
Diesel	28%	Other fuels	9%
Natural gas	8%		

Water

Large volumes of water are used in the extraction and processing of minerals and metals. Many of our operations are located in arid regions, making effective water management and conservation critical.

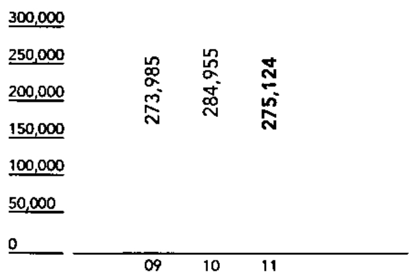
We have endorsed the United Nations CEO Water Mandate, publicly recognising that we have a responsibility to make water resources management a priority. We are working with governments, non-governmental organisations and other stakeholders to address the global water challenge.

We measure total water used and water recycled. Our operations have an ongoing responsibility to increase the use of processed and recycled wastewater in order to reduce our impact on local water supplies. Recycled water is predominantly used in place of fresh water for processes such as dust suppression.

Each site has in place a bespoke water management programme, tailored to specific activities and local environmental conditions.

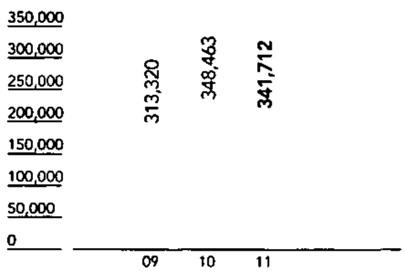
Total water withdrawn
(Megalitres)

3%
decrease



Total water recycled
(Megalitres)

2%
decrease



Employee turnover and training

Employee turnover is a measure of our success in retaining people Our long-term success relies on our ability to attract and retain the best, most appropriately skilled people at every level

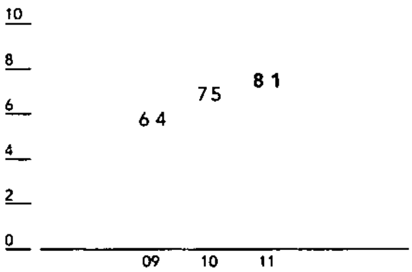
Voluntary turnover is calculated as a percentage of total permanent employees excluding contractors It excludes compulsory redundancies or performance-related terminations

We aim to provide our people with the requisite resources to progress and excel in their careers They also receive access to training and skills development to further their career progression

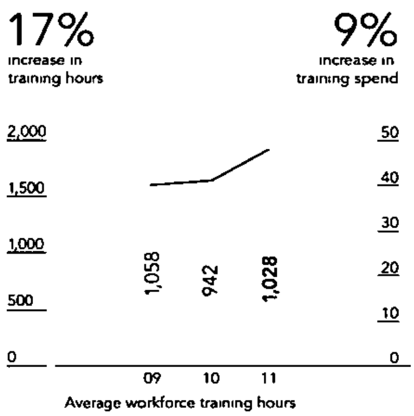
Ongoing training and education is conducted both in the workplace and at external institutions Both training hours and training spend are calculated as an average per employee, including contractors

In 2011, the average number of hours of training undertaken by each employee was 48, 17% more than in the previous year

Employee voluntary turnover (%)



Average workforce training spend and hours ($/hour)

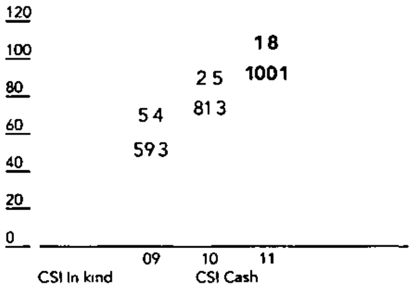


Corporate social involvement

At least 1% of annual Group profits before tax is set aside to fund initiatives that benefit local communities We also make in-kind contributions, such as equipment and management We support programmes for community development, culture and the arts, enterprise and job creation, health, education and the environment

In 2001, we set aside $109 million or 1 3% of Group profit before tax and contributed a total of $102 million, including $2 million of in-kind contributions, to support initiatives that benefit the communities in which we operate In 2011, $59 million funded social and community development projects, $23 million was spent on education initiatives $6 million on enterprise and job creation programmes, $7 million on health projects $4 million on culture and art activities, and $3 million on environment initiatives

Corporate social involvement spend ($m)



Corporate social involvement by region 2011 (cash only)

South America	37%	North America	10%
Africa	23%	Europe	1%
Australasia	29%		

Growth projects

We are expanding a number of our mines and smelters and developing a number of world-class new operations and we remain on track to commission seven major expansion projects during 2012 Our projects will increase copper equivalent volumes by 50% by the end of 2014 and reduce overall operating costs We are also progressing a range of projects at each stage of the project development cycle Our organic pipeline comprises

- 20 approved major projects in implementation, comprising a further $12 billion of capital expenditure, and
- 46 projects in feasibility, pre feasibility or concept stage that will provide future growth options across a range of geographies and commodities

Once commissioned our approved projects will cement our top-five market position in major commodities New lower cost production will reduce overall average operating costs by around 20% and our projects will deliver robust returns, even at conservative long-run commodity prices

Commissioned in 2011

Since 2002, we have successfully commissioned a total of 22 major projects In 2011, we commissioned 10 projects in total four of which commissioned ahead of schedule

Project, location	Commodity and capacity*†	Budgeted capex*	Estimated capex*	Schedule
Falcondo restart Dominican Republic	15ktpa nickel in ferronickel	$24m	$15m	Planned restart to 50% production capacity commenced in February 2011, under budget
Mangoola NSW Australia	8mtpa thermal coal	$1 1bn	$880m	Project commissioned ahead of schedule in March 2011
Kikialik deposit (Raglan) Canada	7ktpa nickel	$87m (CAD98m)	$91m (CAD93m)	First ore delivered ahead of schedule in July 2011
ATCOM East South Africa	4mtpa thermal coal	$407m (ZAR3 151m)	$464m (ZAR3 151m)	Project commissioned in August 2011
Newlands Northern Underground Queensland Australia**	3mtpa thermal coal	$150m	$150m	Project commissioned in October 2011
Collahuasi (150ktpd ore – Phase I) Chile	10ktpa (44% interest)	$54m‡	$65m‡	Project commissioned in October 2011
Black Star Deeps Queensland, Australia**	120ktpa zinc	$116m (AUD130m)	$116m (AUD130m)	Project commissioned in October 2011 on schedule and on budget
Handlebar Hill Queensland, Australia**	40ktpa zinc	$38m (AUD39m)	$38m (AUD39m)	Project commissioned in December 2011 on schedule and on budget
Kidd Mine extension Canada**	50ktpa copper	$111m (CAD129m)	$111m (CAD129m)	Project commissioned in December 2011 on schedule and on budget
Antamina expansion Peru	40ktpa copper‡ ‡‡ (33 75% interest)	$435m	$435m	Commissioning commenced in December 2011

* 100% unless otherwise stated

† Coal capacity stated as saleable production

** Mine life extension

‡ Xstrata share

‡‡ First five years annual production (Xstrata share)

In implementation

We approved seven key projects representing total capital expenditure of $2 6 billion during the year

- the Fraser Morgan nickel mine and an expansion to 40,000 tonnes per annum at the Raglan nickel operation, both in Canada,
- the Lady Loretta zinc project in the Mount Isa region, Australia,
- our share of capital to expand the joint venture Cerrejon thermal coal operation in Colombia to 40 million tonnes per annum,
- the Tweefontein optimisation coal project in South Africa, subject to receipt of final environmental approvals,
- the Ulan Open Cut coal project in Australia, and
- the Mount Margaret copper project in Australia

Planting programme at our Las Bambas, Peru

The large scale, long life and low-cost Las Bambas project is scheduled to commence production in the second half of 2014

Brownfield projects in execution

Project and location	Xstrata interest	Annual project capacity/commodity*†	% complete**	Start-up
Ravensworth North New South Wales, Australia	90%	8mtpa thermal coal	14%	H2 2012
Ulan open cut New South Wales Australia	90%	1mtpa thermal coal	Approved December 2011	H2 2012
Antapaccay Peru	100%	160ktpa copper‡	56%	H2 2012
Lomas Bayas II Chile††	100%	75ktpa copper	77%	H2 2012
Tswelopele pellet plant South Africa	79 5%	600ktpa chromite pellets	71%	H2 2012
Mount Margaret Australia	100%	30ktpa copper	3%	H2 2012
Collahuasi (160kt ore per day – Phase II) Chile	44%	10ktpa copper	15%	2013
Ernest Henry underground and associated magnetite plant Queensland, Australia††	100%	50ktpa copper	48%	2013
Fraser Morgan Canada	100%	6ktpa nickel	6%	2013
George Fisher expansion Queensland, Australia	100%	64ktpa zinc	35%	2013
Lion II South Africa	79 5%	360ktpa ferrochrome	11%	2013
Cerrejón (Phase I) Colombia	33 3%	3mtpa‡ thermal coal	Approved July 2011	2014
Ulan West New South Wales, Australia	90%	7mtpa thermal coal	18%	2014
Tweefontein†† South Africa	79 8%	4mtpa thermal coal	0% Approved Q4 2011	2014
Qakimajurq and Mine 2 Lower Zone infrastructure and concentrator upgrade Raglan, Canada	100%	6ktpa nickel from mine (2014), 8ktpa nickel from mine and concentrator capacity (2016)	7%	2014/ 2016
Eland mine and concentrator South Africa	74%	300koz PGM	41%	2016

* 100% unless otherwise stated
** As at 31 December
† Coal capacity stated as saleable production
†† Mine life extension
‡ First five years annual production (Xstrata share)
‡‡ Xstrata share

Greenfield projects in execution

Project and location	Xstrata interest	Annual project capacity/commodity*†	% complete**	Start up
Koniambo New Caledonia	49%‡	60ktpa nickel	78%	H2 2012
Bracemac-McLeod Canada	65%	90ktpa zinc	30%	2013
Lady Loretta QLD, Australia	100%	126ktpa zinc	23%	2013
Las Bambas Peru	100%	400ktpa copper‡‡	8%	2014

* 100% unless otherwise stated

† Indicative amount

** As at 31 December

‡ Effective share of cashflows and financing 90%

‡‡ First five years annual production

During 2011, we achieved a number of significant milestones at our projects currently in implementation including

- At Xstrata Copper
  - We have completed the installation of the main concentrator SAG and ball mills and all of the earthworks at Antapaccay We have purchased 100% of equipment for the project and have finalised all detailed engineering The crusher and conveyor systems are being installed as scheduled and the project is on track to start production in the second half of 2012,
  - We have completed construction and commissioning of the main run-of mine (ROM) leach system, as well as the power and piping infrastructure for the Lomas Bayas copper expansion (Lomas Bayas II) The expansion will extend the Lomas Bayas mine life by more than 10 years to 2024 and is on track to commission the full system in the second half of 2012
  - We commenced initial underground ore mining production from the access decline at Ernest Henry in December Commissioning of the hoisting operations from the main shaft is scheduled to commence in 2013 The associated base plant magnetite facility was commissioned in February 2011 and first exports began in June The magnetite regrind plant was commissioned in the third quarter of 2011, and
  - We have commenced early works at Las Bambas, following the approval of the project's environmental and social impact assessment in March We are continuing to construct the new town to house the resettled Fuerabamba community and access routes to the site Despite some severe cost pressures, and incorporation of detailed engineering design, our copper team has contained significant cost pressures to 15% of the original $4 23 billion budget Uncontrollable costs of $460 million represent over two thirds of the total and include inflation in the cost of land acquisition and social infrastructure as well as delays to our permitting process resulting from the wholesale change in the civil service which followed the presidential election in July The project remains on schedule for the second half of 2014
- At Xstrata Coal
  - Ravensworth North received archaeological and cultural heritage approvals in 2011 and earthworks are now well advanced First production is on track for the second half of 2012,
  - At the Ulan West project, we substantially completed excavation of the box cut for underground access and completed the earthworks for the run of mine stockpile, and
  - Cerrejon's P500 phase 1 project commenced construction in the third quarter of 2011 and is on schedule to be completed by 2013 Production will progressively ramp up to 40 million tonnes per annum by the end of 2015
- At Xstrata Nickel
  - The Koniambo project remains on schedule to produce first metal in the second half of 2012 In the last half of 2011, the project commenced the powering up process of the electrical distribution network and the ore preparation facility
- At Xstrata Zinc
  - We awarded contracts for the major infrastructure items, including the hoisting system for the underground expansion project at George Fisher

Ravensworth North, New South Wales

Earthworks are well advanced at the 8 million tonne per annum thermal coal brownfield Ravensworth North project, which is on track for first production in the second half of 2012

- At Xstrata Alloys
  - We commenced construction during April of the Tswelopele pelletizing and sintering plant and are on track to complete in the second half of 2012 and reach full production in 2013 The bulk earthworks are complete and the civil work on the critical path is over 80% complete
  - We commenced construction of the phase two expansion of the Lion ferrochrome smelter complex expansion and associated Magareng mine development in South Africa The bulk earthworks are almost complete and all the long lead items have been ordered with some of the kiln components already manufactured We are accelerating the development of the Magareng mine and now expect the mine and processing plant to be fully operational in the first quarter of 2013, and
  - We have progressed the development of the underground mine infrastructure at Eland and completed the bulk of the surface infrastructure At both decline shafts the ore reserve development and initial stoping operations have commenced and combined production volumes of around 50,000 tonnes per month run of mine ore have been achieved since year end

Platinum mine, South Africa

The underground operations at Eland will produce 250 000 tonnes per month by the end of 2013 and stead state production of 500,000 tonnes per month will be reached during the last quarter of 2015, doubling production levels to 300,000 platinum ounces per annum

Next phase of growth projects

We have a broad range of unapproved projects that are currently completing feasibility studies

Project	Location	Xstrata's interest	Commodity	Stage
El Pachón	Argentina	100%	Copper	Feasibility
Energía Austral	Chile	100%	Power generation	Feasibility
Frieda River	Papua New Guinea	81 82%	Copper	Feasibility
Tampakan	Philippines	62 5%	Copper	Feasibility
Agua Rica	Argentina	50%	Copper	Feasibility
Bulga optimisation	NSW, Australia	68 25%	Thermal coal	Feasibility
Rolleston expansion	QLD, Australia	75%	Thermal coal	Feasibility
United open cut	NSW, Australia	95%	Thermal coal	Feasibility
Wandoan (Phase I)	QLD Australia	75%	Thermal coal	Feasibility
Sphere – Askaf	Mauritania	87 78%	Iron ore	Feasibility
Sphere – El Aouj	Mauritania	43 89%	Iron ore	Feasibility study review
Kabanga	Tanzania	50%	Nickel	Feasibility
Falcondo energy conversion	Dominican Republic	85 3%	Nickel	Feasibility
McArthur River Mine integrated expansion	NT Australia	100%	Zinc	Feasibility
Black Star South	QLD, Australia	100%	Zinc	Feasibility

Financial review

Consolidated operational results

Consolidated results

$m	Year ended 31 12 11	Year ended 31 12 10
Alloys	1,689	1 894
Coal	9,981	7,788
Copper	15,037	14,004
Nickel	3,192	2,738
Zinc	3,756	3,922
Other	222	153
Total Group revenue	**33,877**	30,499
Attributable total Group revenue	32,684	29 350
Alloys	294	477
Coal	3,853	3,061
Copper	4,915	4 693
Nickel	1,234	973
Zinc	1,223	1,327
Other	23	31
Corporate and unallocated	106	(176)
Total Group operating EBITDA	**11,648**	10,386
Attributable total Group EBITDA	11,233	9,897
Alloys	153	353
Coal	2,810	2 216
Copper	3,924	3,820
Nickel	611	503
Zinc	814	917
Other	16	25
Corporate and unallocated	103	(180)
Total Group operating profit	**8,431**	7 654
Attributable total Group operating profit	8,102	7,258

Basis of presentation of financial information

Financial information is presented in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union The reporting currency of Xstrata plc is US dollars Unless indicated to the contrary revenue, operating earnings before interest, taxation depreciation and amortisation (EBITDA) and operating profit are reported in the Chief Executive Officer's strategic review and the Operating and Financial reviews before exceptional items Exceptional items are significant items of income and expense that, due to their nature or expected infrequency, are presented separately on the face of the income statement All dollar and cent figures provided refer to US dollars and cents Operating profit excludes Xstrata s share of earnings from associates

In 2011, we achieved record EBITDA of $11 6 billion and the highest net earnings of $5 8 billion in our history Operating profit rose by 10% to $8 4 billion

The record result was due to increased volumes, cost savings and higher commodity prices which outweighed some significant headwinds from adverse currency movements and ongoing regional and mining specific inflationary pressures

Average commodity prices

	Unit	Average price 2011	Average price 2010	% Change
Ferrochrome (Metal Bulletin)	¢/lb	125 0	124 3	1
Platinum (LPPM cash price)	$/oz	1,720	1 611	7
Australian FOB export coking*	$/t	265 0	204 3	30
Australian FOB export semi-soft coking*	$/t	202 5	137 3	47
Australian export thermal coal*	$/t	109 6	85 7	28
Americas FOB export thermal coal*	$/t	101 0	72 6	39
South African export thermal coal*	$/t	101 2	74 4	36
Copper (average LME cash price)	$/t	8,826	7 536	17
Nickel (average LME cash price)	$/t	22,831	21,809	5
Zinc (average LME cash price)	$/t	2,190	2,159	1
Lead (average LME cash price)	$/t	2,399	2 148	12

* Average received price

"In 2011, we achieved record EBITDA of $11.6 billion and the highest net earnings of $5.8 billion in our history."

Trevor Reid
Chief Financial Officer

Commodity prices began 2011 strongly, responding well to returning confidence in the US, a positive outlook for continued Chinese growth and ongoing supply constraints across our commodities We achieved significant increases in contract prices for both thermal and coking coal in 2011, contributing $1 8 billion to operating profit We also agreed significant increases in semi-soft and quarterly hard coking coal contract prices in 2011 In total, improved coal prices added $1 8 billion to operating profit Average LME copper prices rose by 17%, reflecting supply disruptions and continued strong demand LME prices remained highly volatile throughout the year The cash price for copper rose above $10,000 per tonne in February and remained strong throughout the first half before weakening due to macroeconomic concerns and, by October, prices had eased to less than $7,000 per tonne Average nickel and zinc prices followed a similar trend While the average price for ferrochrome was higher than in 2010, prices weakened progressively throughout the year

Overall volumes improved over 2010 and added $90 million to operating profit The beneficial impact of new, lower cost production from the expansions and new mines we have commissioned more than compensated for interruptions from heavy rainfall in Australia and Chile in the early part of the year one off operational issues including an underground fire at Blakefield South coal mine, reduced ferrochrome capacity utilisation, and lower grades at a number of ageing mines

Operating profit variances

	$m
Operating profit 31 12 10	**7,654**
Sales price*	2,658
Volumes	90
Unit cost – real	391
Unit cost – CPI inflation	(412)
Unit cost – mining industry inflation	(608)
Unit cost – foreign exchange	(820)
Other income and expenses	(127)
Depreciation and amortisation (excluding foreign exchange)	(395)
Operating profit 31 12 11	**8,431**

* Net of commodity price linked costs, treatment and refining charges

During the year, our businesses achieved real unit cost savings of $391 million in total Our coal business achieved over two thirds of the total from productivity improvements across our open cut operations in New South Wales, lower cost production from the Mangoola operation and the benefits of previous capital investment in the Cerrejon joint venture Zinc C1 cash costs continued to fall, reflecting productivity improvements in particular in Australia, which resulted in $85 million of sustainable cost savings for our zinc business in 2011 despite the impact of weather related issues at McArthur River Mine and the Mount Isa Mine operations in the first quarter of the year and net of a $17 million impact from lower ore grades Our copper business achieved cost savings of $49 million as a result of improved by product credits from magnetite production at Ernest Henry and the optimisation of our molybdenum plant at Alumbrera, together with the positive impact of the 2010 closure of the Kidd metallurgical facilities The full benefit of these improvements was offset by a $62 million increase in costs due to lower ore grades

Other income and expenses mainly relate to one-off incidents in the first half of the year including flooding in Australia and the underground fire at Blakefield South

Currency table to $

	Average 2011	Average 2010	% change	**At 31 12 11**	At 31 12 10
USD ARS	**4 13**	3 91	6	**4 31**	3 98
AUD USD	**1 03**	0 92	12	**1 02**	1 02
USD CAD	**0 99**	1 03	4	**1 02**	1 00
USD CHF	**0 89**	1 04	14	**0 94**	0 93
USD CLP	**484**	510	5	**520**	468
USD COP	**1,848**	1 898	3	**1,938**	1,920
EUR USD	**1 39**	1 33	5	**1 30**	1 34
GBP USD	**1 60**	1 55	3	**1 56**	1 56
USD PEN	**2 75**	2 82	2	**2 69**	2 81
USD ZAR	**7 26**	7 32	1	**8 08**	6 63

During 2011, adverse exchange rates in our major producing regions against the US dollar dampened the positive impact of higher average commodity prices The Australian dollar, South African rand and Canadian dollar were all stronger relative to the US dollar, resulting in an increase in costs of $820 million

Earnings summary

$m	**Year ended 31 12 11**	Year ended 31 12 10
Operating profit statutory (before exceptional items)	**8,431**	7,654
Share of results from associates	**29**	15
Net finance costs	**(315)**	(468)
Income tax expense	**(2,140)**	(1,782)
Effective tax rate	**26%**	25%
Non-controlling interests	**(220)**	(267)
Attributable profit (before exceptional items) from continuing operations	**5,785**	5 152
Earnings per share (before exceptional items) from continuing operations	**$1 97**	$1 77
Loan issue costs written off	**(19)**	(35)
Restructuring and closure costs	**15**	(5)
Liability fair value adjustments	**–**	19
Profit on sale of operations	**48**	–
Acquisition costs	**(4)**	(7)
Net impairment of assets	**(6)**	(559)
Available for sale assets write-down	**(43)**	–
Share of exceptional items in associates	**12**	(6)
Income tax benefit on exceptional items	**(75)**	129
	(72)	(464)
Attributable profit	**5,713**	4,688
Earnings per share	**$1 95**	$1 61

Financial review *continued*

The pre-exceptional items effective tax rate in the year remained at 26%, slightly higher than the prior year due to increased profitability in higher tax jurisdictions Net earnings for the year rose to record levels Attributable profit increased by 12% year-on year to $5 785 million corresponding to earnings per share of $1 97

Operating profit sensitivities

$m	Impact on 2012	Indicative full year**
1¢/lb movement in ferrochrome price	**11**	13
$1/kg movement in ferrovanadium price	**3**	3
$1/tonne movement in Australian thermal export FOB coal price	**36**	41
$1/tonne movement in Australian coking export FOB coal price	**8**	8
$1/tonne movement in South African export thermal FOB coal price	**9**	12
$1/tonne movement in South American export thermal FOB coal price	**8**	9
1¢/lb movement in copper price	**21**	21
$10/oz movement in gold price	**5**	5
$1/lb movement in nickel price	**182**	182
1¢/lb movement in zinc price	**20**	20
$100/tonne movement in zinc treatment charge price	**24**	24
1¢/lb movement in lead price	**5**	5
$100/oz movement in platinum price	**11**	11
$100/oz movement in palladium price	**5**	5
10% movement AUD	**692**	742
10% movement CAD	**194**	194
10% movement EUR	**40**	40
10% movement ZAR	**223**	233

* After impact of currency and commodity hedging and contracted priced sales as at 31 December 2011

** Assuming current annualised production and sales profiles, no currency or commodity hedging and no contracted, priced sales and purchases

Cash flow, net debt and financing summary

Xstrata's operations generated record cash flows of $11 3 billion in 2011, an increase of 14% on 2010, due to a strong operational performance and improved commodity prices Net debt in the period increased by $511 million, or 7%, to $8 1 billion as we increased our investment in expansionary capital projects Cash tax payments increased by 15% to $1,664 million due to higher earnings

Movement in net debt

$m	Year ended 31 12 11	Year ended 31 12 10
Cash generated from operations	**11,335**	9,949
Net interest paid	**(313)**	(294)
Tax paid	**(1,664)**	(1,442)
Cash flow before capital expenditure	**9,358**	8 213
Sustaining capital expenditure	**(2,430)**	(1,717)
Disposals of fixed assets	**33**	22
Free cash flow	**6,961**	6,518
Expansionary capital expenditure	**(5,709)**	(4,113)
Cash flow before acquisitions	**1,223**	2 405
Exercise of Prodeco option	**–**	2,250
Purchase of assets	**(327)**	–
Purchase of share in associate	**–**	(58)
Purchase of subsidiaries and operations net of cash acquired	**(209)**	(365)
Proceeds from sale of subsidiaries and joint ventures	**–**	463
Other investing activities	**22**	322
Net cash flow before financing	**738**	5,017
Net sales of own shares	**(3)**	3
Equity dividends paid	**(967)**	(379)
Dividends paid to non-controlling interests	**(209)**	(243)
Redemption of convertible debenture	**–**	339
Loan issue costs written off	**(19)**	(35)
Other non-cash movements	**(51)**	(50)
Movement in net debt	**(511)**	4,652
Net debt at the start of the year*	**(7,638)**	(12 290)
Net debt at the end of the year*	**(8,149)**	(7,638)

* Includes derivative financial instruments that have been used to provide an economic hedge

Reconciliation of operating EBITDA to cash generated from operations

$m	Year ended 31 12 11	Year ended 31 12 10
Operating EBITDA statutory	**11,648**	10,386
Exceptional items	**(4)**	(12)
Share based charges	**(4)**	178
Increase in inventories	**(604)**	(38)
Decrease/(increase) in trade and other receivables	**637**	(1,178)
Increase in deferred stripping and other assets	**(487)**	(414)
Increase in trade and other payables	**450**	691
Movement in provisions and other non-cash items	**(301)**	336
Cash generated from operations	**11,335**	9 949

Net debt summary

$m	As at 31 12 11	As at 31 12 10
Cash	**1,948**	1,722
External borrowings	**(9,893)**	(9 109)
Finance leases	**(204)**	(251)
Net debt	**(8,149)**	(7 638)
Net debt to net debt plus equity*	**15%**	15%

* Includes derivative financial instruments that have been used to provide an economic hedge

Working capital

Working capital

$m	As at 31 12 11	As at 31 12 10
Inventories	**5,242**	4,763
Trade and other receivables	**3,742**	4,463
Prepayments	**347**	270
Trade and other payables	**(5,102)**	(4,802)
Net working capital	**4,229**	4,694

Treasury management and financial instruments

Our revenues are generally denominated in US dollars As a result, we typically source debt capital in US dollars, either directly or by borrowing in other currencies and swapping them into US dollars

From time to time we also use currency cash flow hedging to reduce our short term exposure to fluctuations in the US dollar against local currencies We realised currency hedging gains for the year of $86 million, reflected in the income statement These gains are related to coal sales for which prices were contractually fixed We did not enter into any strategic long-term base metals hedging contracts in the year

In September, we agreed a new $6 billion bank loan facility with a consortium of banks to refinance our existing debt facilities well in advance of their maturity dates The five-year maturity date of the facility can be extended by a further year on both the first and second anniversaries of the loan, providing there is consent from both the lenders and borrower

On 4 November 2011 we took the opportunity of a short-term stabilisation in the debt markets to launch and price successfully a $3 billion issue of notes The US dollar-denominated notes were issued through Xstrata Finance (Canada) Limited and comprise four tranches $800 million 2 85% guaranteed notes due November 2014, $700 million 3 60% guaranteed notes due January 2017, $1 billion 4 95% guaranteed notes due November 2021 and $500 million 6 00% guaranteed notes due November 2041

Consolidated capital expenditure

Consolidated expenditure summary (excludes deferred stripping expenditure)

$m	Year ended 31 12 11	Year ended 31 12 10
Alloys	**137**	126
Coal	**801**	568
Copper	**654**	572
Iron Ore	**1**	–
Nickel	**287**	237
Zinc	**504**	316
Technology	**3**	2
Unallocated	**5**	2
Total sustaining	**2,392**	1,823
Attributable sustaining	**2,335**	1,774
Alloys	**250**	141
Coal	**1,193**	1,430
Copper	**2,424**	1,162
Iron Ore	**171**	67
Nickel	**1,351**	1,319
Zinc	**381**	177
Technology	**3**	–
Total expansionary	**5,773**	4,296
Attributable expansionary	**5,170**	3,677
Alloys	**387**	267
Coal	**1,994**	1 998
Copper	**3,078**	1,734
Iron Ore	**172**	67
Nickel	**1,638**	1 556
Zinc	**885**	493
Technology	**6**	2
Unallocated	**5**	2
Total	**8,165**	6,119
Attributable total	**7,505**	5,451

We continue to ramp up investment in our portfolio of approved organic growth projects Major items of expansionary capital spending in 2011 included

- $1 2 billion at the greenfield Koniambo nickel project in New Caledonia as it approaches first ore to the furnace in the second half of 2012
- $777 million at the greenfield Las Bambas copper project in Peru, and
- $651 million in respect of the Antapaccay brownfield expansion to the Tintaya copper mine in southern Peru which is on track to commence production in the second half of this year

Our copper business commissioned three brownfield projects in late 2011 Expansions at the Collahuasi joint venture in Chile to raise daily processing capacity to 150 000 tonnes and at Kidd Mine to extend the mine life to 2018 were successfully commissioned in October and December respectively The commissioning of expanded milling capacity and mining operations at the Antamina copper-zinc operation in Peru commenced in December 2011 and is expected to ramp up to full production during the first half of 2012 Production of the first ore from the Ernest Henry underground mine also commenced as the open pit operations at the mine closed by the end of 2011

During the second half of 2012, we will commission the major Antapaccay and Koniambo growth projects together with the Lomas Bayas phase 2 expansion in Chile and the Tswelopele pelletizing and sintering plant in South Africa to improve the cost and energy efficiency of our ferrochrome operations In 2013 we expect to commission the brownfield George Fisher zinc-lead expansion and two greenfield zinc developments the Bracemac-McLeod project in Canada and the Lady Loretta mine in Australia, together with the Lion phase 2 expansion

Acquisitions and disposals

On 4 February Xstrata Zinc acquired the outstanding 25% interest in the Lady Loretta lead and silver deposit in Australia held by Cape Lambert Lady Loretta Pty Ltd for AUD30 million ($30 million) The acquisition increased our ownership of the Lady Loretta assets to 100% In July we started construction on the development of the deposit as a new greenfield underground mine

On 8 February, we announced the exercise of our option to acquire 50% plus one share in Jumelles Limited (BVI) in respect to the Zanaga iron ore project in the Republic of Congo Under the agreement, we will fund a minimum of $100 million towards a feasibility study

On 30 June, Xstrata Copper completed the acquisition of the E1 and Monakoff copper tenements in north-west Queensland Australia, from Exco Resources for AUD175 million ($186 million) The tenements are located close to our Ernest Henry mine and contain open pit copper mineral resources with completed feasibility studies Ore from the projects will be processed through the existing concentrator at Ernest Henry Initial production is anticipated from the second half of 2012

On 4 August, Xstrata Coal completed the acquisition of First Coal Corporation for CAD141 million ($144million) providing us with access to coking coal exploration leases in British Colombia, Canada

After announcing a Letter of Intent earlier in the year, on 1 September, Xstrata Copper and Goldcorp Inc reached an agreement with Yamana Gold Inc providing our managed joint venture Minera Alumbrera the exclusive option to acquire Yamana's 100% interest in the Agua Rica project Agua Rica is a feasibility stage project in the province of Catamarca, Argentina, located approximately 35 kilometres from the Alumbrera mine It has the potential to substantially expand production from Alumbrera and to extend the mine life by more than 20 years Goldcorp and Xstrata Copper made a payment of $20 million to Yamana on execution of the definitive agreements, in addition to the $10 million paid previously

On 4 October 2011, we completed the acquisition of the Hackett River and Wishbone zinc exploration properties, located in the Western Kitikmeot region of Nunavut, Canada, from Sabina Gold and Silver Corp for a cash consideration of CAD50 million

On 13 October we completed the acquisition of the Lossan metallurgical coal deposit from Cline Mining Corporation for CAD40 million Lossan is located in the Peace River Coalfield of north eastern British Columbia Canada, and is surrounded by a group of licences recently acquired by Xstrata Coal through the acquisition of First Coal in early August 2011

On 2 November, we completed the acquisition of the remaining 23 6% interest in the Pallas Green property in the Republic of Ireland from the current joint venture partner in the project Minco plc, for $19 million

Dividends

The Directors have proposed a 2011 final dividend of 27 0¢ per share, amounting to $792 million, which will be paid on 23 May 2012 The interim 2011 dividend of 13¢ per share, amounting to $381 million, was paid on 7 October 2011

Dividend dates

	2012
Annual General Meeting	1 May
Ex-dividend date	2 May
Record date	4 May
Last date to receive currency election forms and completed mandate forms	8 May
Applicable exchange rate date	15 May
Payment date	23 May

From January 2011, Swiss tax resident companies are able to return share premium to shareholders free of Swiss withholding tax (35%) To enable us to pay the 2011 final dividend and future dividends without deduction of withholding tax we expect to seek approval from our shareholders at our 2012 Annual General Meeting to reduce a relevant amount of share premium account, following which we will be required to apply to the Court to obtain its consent to this reduction As a result, we expect to pay our final 2011 dividend on 23 May

Share data

Under IFRS, own shares (treasury stock) are deducted from the total issued share capital when calculating earnings per share During the year, we disposed of 2,635 979 shares and purchased 777,678 shares

Share price

	XTA LSE (GBP)	XTA SWX (SFR)
Closing price 31 12 10	15 06	21 90
Closing price 31 12 11	9 78	14 20
Year high	15 50	23 35
Year low	7 64	10 75
Year average	12 27	17 49

Shares in issue for EPS calculations

	Number of shares (000s)
Weighted average for year ended 31 12 11 used for statutory EPS calculation	2,931,448
Weighted average for year ended 31 12 10 used for statutory EPS calculation	2,910,942
Total issued share capital as at 31 12 11	2,932,088

Publicly disclosed major shareholders

Name of shareholder	Number of ordinary shares of $0 50 each at 31 12 2011	% of ordinary issued share capital	Number of ordinary shares of US$0 50 each at 08 03 2012	% of ordinary issued share capital
Glencore International plc*	1,010,403,999	34 08	1,010,403,999	33 64
BlackRock, Inc	184,002,078	6 21	170 097 051	5 66
Qatar Holding LLC		Less than 3%	107,634,086	3 58

* The voting rights associated with this interest are directly controlled by Finges Investment B V, a wholly-owned subsidiary of Glencore International plc

Operating review: **Copper**

Copper growth projects

Charlie Sartain
Chief Executive, Xstrata Copper

Market summary

- Global copper demand grew by 3% with China accounting for two thirds of the overall growth
- Global mine supply was restricted to less than 1% growth with the industry challenged by declining grades weather conditions and industrial action

Financial review

- Our operating profit rose by 3% to $3 9 billion
- We achieved net cost savings of $49 million through management initiatives and operating efficiencies

Operations

- Higher production from our Ernest Henry, Tintaya, Antamina and Lomas Bayas mines was offset by operating challenges or lower grades at our Alumbrera, Collahuasi, Mount Isa and Kidd mines
- Our Altonorte and Isa copper smelters achieved record annual production performances

Developments

- Project construction progressed at our Antapaccay, Las Bambas, Ernest Henry, Lomas Bayas II Antamina, Collahuasi, Kidd projects
- We commenced commissioning of Antamina expansion in December, began magnetite production and initial underground ore production at Ernest Henry and commissioned our Kidd extension
- We further increased our total Mineral Resources by 15% to over 100 million tonnes of contained copper

Progress in sustainability

- We further improved our safety performances by between 30% and 60% in key safety indicators
- ESIA approved for Las Bambas and submissions substantially progressed for Tampakan and Rio Cuervo (Energia Austral)

Strategic priorities for 2012

- Commissioning of Antapaccay, Lomas Bayas II and Mount Margaret in second half of 2012
- Move into full site construction at Las Bambas
- Evaluate feasibility outcomes of El Pachón, Tampakan and Frieda River

Approved projects

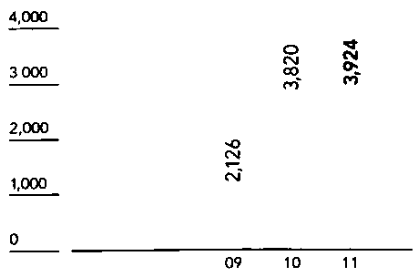
Antapaccay, Lomas Bayas II, Mount Margaret, Collahuasi 160k Ernest Henry underground, Las Bambas

60%

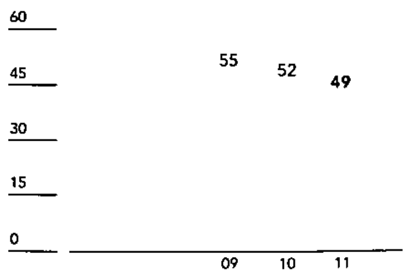
production increase by 2015

With the largest pipeline of undeveloped projects in the copper industry, Xstrata Copper is well placed to deliver further major copper projects into a supply challenged market

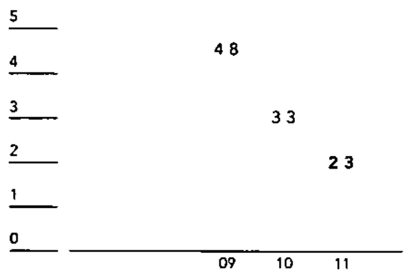
Operating profit
($m)



Cost savings
($m)



Total recordable injury frequency rate
(per million hours)



Xstrata story:
Edgardo Orderique

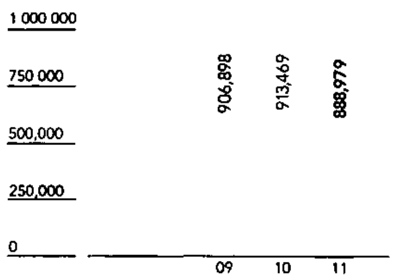
Extracting the full potential – fast

"We're a company that acts very quickly and takes advantage of opportunities very quickly. And we're not satisfied only with what we have – we look to keep expanding the resources, because this is what increases the value of the company."

Edgardo Orderique
Mining Engineer
Xstrata Las Bambas, Peru

Read more of Edgardo Orderique's story at www.xstrata.com

Total mined copper production
(t)



Operating review: Copper *continued*

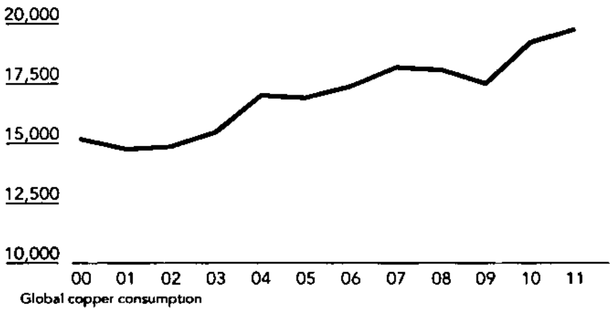
Market

Copper prices rose to record highs of $4 60 per pound in February due to robust demand before growing uncertainty and weakening macroeconomic conditions led to softer prices later in the year Prices fell to a low point of $3 08 per pound in early October before steadily regaining ground into early 2012 Market volatility persisted throughout the year as investor reaction to economic developments increased price fluctuations The average LME cash copper price rose by 17% or 58¢ per pound to an average of $4 00 per pound over the period

Global mined copper supply again failed to keep pace with demand growth during 2011, although the deficit was largely obscured during the first half of the year by consumption of off-exchange inventory Global copper exchange stocks reached a high of 684,000 tonnes in March However, severe disruptions to mine supply in the second half, along with renewed Chinese buying caused a sharp decline in stocks Global exchange stocks fell by more than 100,000 tonnes during the fourth quarter to end the year at 544 000 tonnes or 10 days consumption – 24,000 tonnes below the closing level in 2010

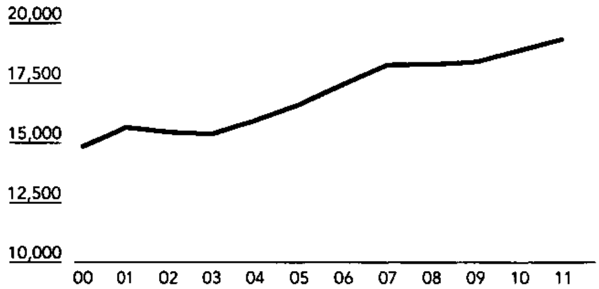
Global copper demand continued to grow despite uncertain macroeconomic conditions in 2011 and rose by around 3% China accounted for more than two-thirds of global demand growth Domestic Chinese consumption grew strongly in spite of weakening export markets and government efforts to control high inflation Demand was largely met from inventory during the first half of the year, limiting spot cathode purchases However, as inventories were exhausted and copper prices softened Chinese buyers re entered the market and refined cathode imports surged during the fourth quarter to an average of 340,000 tonnes per month, compared with an average of 198,000 tonnes per month from January to September In total China imported 2 65 million tonnes of refined copper in 2011, 8% less than in 2010, with the shortfall offset by increased domestic refined production as well as inventory drawdowns End use demand in China softened somewhat during the final months of the year as a result of government policies to control inflation

Refined copper consumption
(kt)



Global copper consumption

Refined copper production
(kt)



Global copper production

In Western markets, copper demand held firm on 2010 levels despite the combined impact of the sovereign debt crisis in Europe, the weak US economy and the Japanese earthquake and tsunami Minimal inventory throughout the supply chain helped to limit any decline in demand and firm demand from the power sector in the US and Germany partly countered universally weak construction markets Southern Europe was worst affected by the sovereign debt crisis and demand from the region weakened considerably, particularly during the second half

Global copper mine supply endured another year of extreme disruption and underperformance resulting in an estimated one million tonnes of lost output Many of the worlds largest copper mines suffered heavy losses due to a combination of low grades, lengthy labour disputes technical difficulties and weather-related disruptions while new projects experienced lengthy ramp-up periods, further constraining output Overall, global mine supply recorded its weakest performance since 2002, growing by less than 1% year-on year

Some of the shortfall in mine supply was offset by stronger secondary copper production during the first half of the year, as high copper prices encouraged copper scrap generation and usage However, the scrap market tightened later in the year as economic conditions weakened, limiting secondary output during the fourth quarter

In the first half of the year the spot concentrates market was dominated by the impact of the Japanese tsunami on smelter production, which drove spot treatment and refining charges to high levels and resulted in a mid year benchmark settlement of $85 per tonne and 8 5¢ per pound However, growing rates of mine supply disruption during the second half tightened the market and generated a sharp decline in spot treatment and refining charges below $20 per tonne and 2¢ per pound In the 2012 annual concentrate contract negotiations, multiple settlements have been agreed for annual contracts within a range of $60-65 per tonne and 6-6 5¢ per pound rather than a single benchmark level as in previous years The range of settlements represents a modest increase on the 2011 benchmark of $56 per tonne and 5 6¢ per pound

Outlook

While the global macroeconomic outlook for 2012 remains uncertain and demand in Western markets is likely to continue to be influenced by concerns about the European sovereign debt crisis and lower growth China is again likely to drive consumption growth We expect Chinese demand to grow strongly as the government relaxes its policies aimed at cooling the economy and controlling inflation

Copper mine supply is likely to recover from 2011 levels, as a number of new mine projects and expansions are commissioned although the potential for disruption, underperformance and project delays remains high

Operating profit variances

	$m
Operating profit 31 12 10	**3,820**
Sales price*	659
Volumes	9
Unit cost – real	49
Unit cost – CPI inflation	(102)
Unit cost – mining industry inflation	(241)
Unit cost – foreign exchange	(164)
Other income and expenses	(14)
Depreciation and amortisation (excluding foreign exchange)	(92)
Operating profit 31 12 11	**3,924**

* Net of commodity price linked costs, treatment and refining charges

Operating profit rose 3% to $3 9 billion as a result of higher realised copper and gold prices, offset by the impact of the weaker US dollar and lower copper sales volumes Provisional price settlements in respect of sales booked in 2010 but priced in 2011 reduced our earnings by $12 million As at 31 December 2011, our provisionally priced copper sales amounted to 201 000 tonnes to be settled in 2012

Mined copper production of 889,000 tonnes was 3% down on the previous year Higher production from Antamina, Ernest Henry Tintaya and Lomas Bayas mines was offset by challenging operating conditions and lower grades at Collahuasi, Alumbrera, Mount Isa and Kidd mine

We achieved real unit cost savings of $49 million, after absorbing the $62 million impact of lower grades, through a combination of management initiatives and operating efficiencies These included the initiation of magnetite production at Ernest Henry the rationalisation of the Canadian assets with the closure of the Kidd metallurgical facilities and the optimisation of the molybdenum plant at Alumbrera

Mining sector inflation decreased operating profit by $241 million as a result of increased energy and fuel costs in Australia, Argentina and Chile CPI inflation, predominantly in Canada and Argentina, further reduced operating profit by $102 million and adverse local currency exchange rates against the US dollar predominantly in Australia and Canada, had a $164 million impact

Depreciation and amortisation reduced operating profit by $92 million mainly due to increased waste amortisation compared to 2010

Ongoing cost management initiatives mitigated the full impact of increased C1 cash costs for the year C1 costs averaged 96 4¢ per pound in 2011 compared to 89 4¢ per pound the previous year Our unit costs were adversely affected by lower production and the impact of a weaker US dollar

Xstrata Copper
Financial and operating data

$m	Year ended 31 12 11	Year ended 31 12 10
Revenue	**15,037**	14 004
Alumbrera, Argentina	**1,522**	1,590
North Queensland, Australia	**2,722**	2,205
Canada*	**4,029**	3 948
Collahuasi††, Chile	**1,734**	1,978
Chile	**3,187**	2,594
Antamina‡ Peru	**1,121**	932
Tintaya, Peru	**722**	757
Operating EBITDA	**4,915**	4,693
Alumbrera, Argentina	**638**	770
North Queensland, Australia	**1,232**	1,034
Canada*	**486**	307
Collahuasi†† Chile	**995**	1,230
Chile	**384**	299
Antamina‡, Peru	**742**	576
Tintaya, Peru	**438**	477
Depreciation and amortisation	**(991)**	(873)
Alumbrera, Argentina	**(92)**	(100)
North Queensland Australia	**(390)**	(315)
Canada*	**(48)**	(24)
Collahuasi††, Chile	**(181)**	(178)
Chile	**(98)**	(104)
Antamina‡, Peru	**(92)**	(85)
Tintaya, Peru	**(90)**	(67)
Operating profit	**3,924**	3,820
Alumbrera, Argentina	**546**	670
North Queensland, Australia	**842**	719
Canada*	**438**	283
Collahuasi††, Chile	**814**	1,052
Chile	**286**	195
Antamina‡, Peru	**650**	491
Tintaya, Peru	**348**	410
Share of Group operating profit	**46 5%**	49 9%
Capital employed†	**18,745**	16,887
Return on capital employed	**29 0%**	27 1%
Capital expenditure	**3,078**	1 734
Alumbrera Argentina	**92**	63
North Queensland, Australia	**587**	549
Canada*	**108**	108
Collahuasi†† Chile	**384**	257
Chile	**193**	185
Antamina‡, Peru	**220**	128
Tintaya Peru	**1,494**	444
Sustaining	**654**	572
Expansionary	**2,424**	1 162

* Canada includes Xstrata Recycling that operates businesses in Canada, the US and Asia
†† Xstrata's 44% share of Collahuasi
‡ Xstrata Copper's pro rata share of Xstratas 33 75% interest in Antamina
† Includes goodwill allocation on acquisition of Falconbridge

Operating review: Copper *continued*

Ernest Henry mine, Australia
We successfully commissioned the magnetite plant at Ernest Henry mine in the first quarter of 2011

Operations

Argentina
Minera Alumbrera's operating profit decreased by 18% to $546 million compared to the previous year, largely due to lower sales volumes as a result of declining head grades

Higher commodity prices, real unit cost savings, favourable exchange rates, lower depreciation and lower export tax payments partially offset the impact of reduced volumes and inflationary pressures

Copper in concentrate production decreased by 17% to 116,700 tonnes compared to the previous year, primarily as a result of lower head grades and associated reduced recoveries Geotechnical issues experienced in 2010 restricted access to the pit s high grade zones and resulted in lower grade stockpiled ore being processed and reduced mined ore volumes We partially offset this by increasing throughput with improvements to the grinding and pebbles circuit Total gold production decreased by 12% compared to 2010 to 356,000 ounces for the same reasons

Australia
Operating profit for the North Queensland copper division increased by 17% to $842 million, due to higher commodity prices and increased gold and copper volumes, offset by unfavourable exchange rates and depreciation impacts

North Queensland copper mining operations, comprising the Mount Isa and Ernest Henry mines, produced 249,100 tonnes of copper in concentrate, a 7% improvement over 2010 At Ernest Henry, mining operations reached the final high grade ore zone of the open pit and copper in concentrate production increased by 34% We successfully commissioned the magnetite plant at Ernest Henry in the first quarter of 2011 and sold a total of 258,700 tonnes of contained magnetite metal between June and December This was partially offset by lower production at Mount Isa operations, where output decreased by 6% to 148,800 tonnes, as a result of restricted access to some areas due to localised geotechnical issues and planned major maintenance activities

In the fourth quarter of 2011, we successfully commenced initial underground mine production at Ernest Henry, marking the site's transition from the open pit to underground mining

Our Mount Isa smelter produced a record 237 700 tonnes of anode an improvement of 11% on 2010 The Townsville refinery produced 276,500 tonnes of cathode from a mixture of North Queensland mined production and Altonorte anode, a 4% decrease compared to 2010 primarily due to a temporary plant shutdown after a severe tropical cyclone in North Queensland in February

Canada
We achieved $438 million operating profit at our Canadian operations, a 55% improvement over the previous year Our profitability in Canada continued to benefit from the decision in 2010 to close the Kidd metallurgical site along with stronger commodity prices, improved treatment charges, higher metal recoveries and lower unit energy costs and cost savings across all sites This improvement was partially offset by reduced production at Kidd mine lower output from the Horne smelter, and a stronger Canadian dollar relative to the US dollar

Horne smelter, Canada
We achieved $438 million operating profit at our Canadian operations a 55% improvement over the previous year

Cathode storage yard at our Lomas Bayas mine in Chile
The expansion at Lomas Bayas will extend the mine life by more than 10 years to 2024 and is on track to commission in the second half of 2012

We produced 42,300 tonnes of copper in concentrate production at our Kidd mine, 19% less than the previous year as a result of lower copper head grades and lower mined volumes due to restricted access caused by two seismic events in the second half of the year Zinc in concentrate production at 71,500 tonnes was 17% lower than the previous year for the same reasons The Horne smelter produced 187,400 tonnes of copper anodes, a 4% decrease compared to the previous year due to operational issues as the smelter adapted to a change to the feed stream and a scheduled shutdown The volume of recycled material processed by the Horne smelter rose by 5% to 113,000 tonnes

Our CCR refinery produced 264,000 tonnes of copper cathodes, a 4% decrease compared to the previous year due to lower anode supply from the Horne smelter

Chile

Collahuasi

Our 44% share in Collahuasi generated an operating profit of $814 million 23% lower than in 2010 mainly as a result of reduced sales volumes and additional freight costs The successful implementation of a contingency plan that included shipping copper concentrate via the Arica, Iquique and Antofagasta ports ensured the December 2010 Patache Port shiploader failure did not impact sales volumes, but increased freight costs compared to 2010 The shiploader was fully operational again by July 2011 Higher commodity prices were more than offset by increased US dollar costs as a result of an unfavourable average exchange rate and inflationary pressures

Our share of copper production decreased by 10% to 199,400 tonnes compared to 2010 mainly due to planned lower mill head grades and associated lower recoveries, together with decreased throughput caused by abnormally high rainfall in the first quarter heavy snow in July and a conveyor belt failure that impacted feed to the plant for 18 days in September

Lomas Bayas

Our Lomas Bayas open pit mine generated an operating profit of $205 million, a 3% decrease on the previous year despite higher realised copper prices and improved volumes Fuel and energy price inflation combined with adverse currency movements, outweighed a positive operational performance The first stage of the Fortuna pit development (Lomas II project) enabled us to increase cathode production by 3% to 73,600 tonnes Improved water and acid supply and equipment availability also contributed to the increase in cathode production and offset slightly lower heap leach grades

Altonorte

Altonorte's operating profit of $81 million was a significant turnaround on the previous year's operating loss of $15 million, driven by a strong operating performance, increased recoveries, higher acid prices and improved treatment and refining charges This was partially offset by inflationary pressures, driven principally by increased fuel, oxygen and energy costs

We achieved a record level of concentrate throughput at our Altonorte custom smelter of over 1 million tonnes, a 5% improvement on 2010 primarily achieved by improving equipment availability Copper anode production rose by 12% to 311,000 tonnes

Altonorte smelter, Chile
We achieved a record level of concentrate throughput at our Altonorte custom smelter

Operating review: Copper *continued*

Peru

Antamina

Our 33 75% attributable share of Antamina s financial performance is divided between Xstrata Copper and Xstrata Zinc on the basis of sales revenue Xstrata Copper's share of Antamina revenue increased by 20% to $1 1 billion in 2011 mainly due to higher realised copper and silver prices and higher production and sales volumes which increased operating profit by 32% to $650 million

Higher milled grades, improved recoveries and increased mill throughput increased our share of copper in concentrate production by 11% to 112,600 tonnes Increased mill throughput was mainly due to improvements in blast fragmentation and various plant debottlenecking initiatives as well as the processing of a larger proportion of softer copper-only ores compared to the previous year

Tintaya

Tintaya generated an operating profit of $348 million, a 15% decrease mainly due to the delayed sale of produced concentrates into the first quarter of 2012 and inflationary pressures on fuel and acid, partially offset by higher commodity prices

We increased total copper production by 2% to 95,200 tonnes Copper in concentrate production at 74,300 tonnes was 10% higher than the previous year due to improved fleet availability, higher recoveries and higher grade sulphide ore that was partially offset by adverse weather conditions in the first quarter

Copper cathode production of 21 000 tonnes was 17% lower primarily due to the drawdown of lower grade stockpile material

Higher gold grades and recoveries increased gold in concentrate production by 17% to 33,100 ounces

Sales volumes

	Year ended 31 12.11	Year ended 31 12 10
Argentina – Alumbrera†		
Copper in concentrate (t) inter-company (payable metal)	**2,512**	4 815
Copper in concentrate (t) third tparties (payable metal)	**111,806**	129,592
Total copper (t) (payable metal)	**114,318**	134,407
Gold in concentrate (oz) inter-company (payable metal)	**7,166**	13,217
Gold in concentrate (oz) third parties (payable metal)	**320,806**	333 279
Gold in doré (oz) (payable metal)	**29,344**	45,009
Total gold (oz) (payable metal)	**357,316**	391,505
Australia – North Queensland		
Refined copper – mined copper (t)	**234,122**	211,265
Refined copper – inter company and third party sourced (t)	**41,504**	74,572
Copper in concentrate (t) (payable metal)	**17,547**	16,075
Other products (payable metal)	**–**	–
Total copper (t) (payable metal)	**293,173**	301,912
Gold in concentrate and slimes (oz) (payable metal)	**136,425**	89 004
Magnetite (t) (payable metal)	**258,689**	–
Canada		
Copper in concentrate (t) (payable metal)	**4,354**	–
Refined copper – mined copper (t)	**42,724**	54,278
Refined copper – inter company sourced (t)	**71,112**	156,134
Refined copper – third party sourced (t)	**152,398**	106,894
Other products third parties (t) (payable metal)	**–**	–
Total copper (t) (payable metal)	**270,588**	317 306
Gold in concentrate and slimes (oz) (payable metal)	**419,897**	600 869
Chile – Collahuasi††		
Copper in concentrate (t) inter-company (payable metal)	**47,978**	29,064
Copper in concentrate (t) third parties (payable metal)	**134,442**	167,531
Copper cathode (t) (payable metal)	**15,909**	16,934
Total copper (t) (payable metal)	**198,329**	213 529

† 100% consolidated figures
†† Xstrata's 44% share of Collahuasi
‡ Xstrata Copper's pro rata share of Xstrata's 33 75% interest in Antamina

Antapaccay Project, Peru

Our Antapaccy project is around 10 kilometres from our Tintaya open pit mine and will use some of Tintaya's existing infrastructure The new mine will start operating as the existing mine at Tintaya reaches the end of its life in 2012

	Year ended 31 12 11	Year ended 31 12 10
Chile – Lomas Bayas and Altonorte		
Copper cathode (t) (payable metal)	73,727	71 676
Copper anode – inter-company (payable metal)	64,201	60,830
Copper anode – third parties (payable metal)	231,925	212 623
Total copper (t) (payable metal)	369,853	345,129
Gold in anodes and slimes (oz) (payable metal)	52,867	45 255
Peru – Antamina‡		
Copper in concentrate (t) inter-company (payable metal)	8,771	8 375
Copper in concentrate (t) third parties (payable metal)	100,749	85,749
Total copper (t) (payable metal)	109,520	94 124
Peru Tintaya		
Copper in concentrate (t) third-parties (payable metal)	58,313	63,835
Refined copper – mined copper (t)	20,796	25,481
Refined copper – third party sourced (t)	-	-
Total copper (t) (payable metal)	79,109	89,316
Gold in concentrate (oz) (payable metal)	21,449	24 429
Mined copper sales (t) (payable metal)	873,750	884,670
Custom copper sales (t) (payable metal)	561,140	611 052
Inter-company copper sales (t) (payable metal)	(123,462)	(103,084)
Total copper sales (t) (payable metal)	1,311,428	1 392 638
Total gold sales (oz) (payable metal)	980,788	1,137,846
Average LME copper cash price ($/t)	8,826	7,536
Average LBM gold price ($/oz)	1,573	1 225

† 100% consolidated figures
†† Xstrata s 44% share of Collahuasi
‡ Xstrata Copper's pro rata share of Xstrata s 33 75% interest in Antamina

Summary production data

	Year ended 31 12 11	Year ended 31 12 10
Total mined copper (t) (contained metal)	888,979	913,469
Total mined gold (oz) (contained metal)	517,861	524 791
Total copper cathode (t) (from mined and third party material)	650,917	715,499
Consolidated C1 cash cost – post by-product credits (US¢/lb)	96 4	89 4

Planting programme at our Las Bambas project, Peru
The large scale long life and low cost Las Bambas project is scheduled to commence production in the second half of 2014

Operating review: **Coal**

Coal growth projects

Peter Freyberg
Chief Executive, Xstrata Coal

Market summary

- Global seaborne thermal coal demand increased by 13%
- Supply shortages of both thermal and coking coal due to weather disruptions

Financial review

- Our operating profit increased by 27%
- We achieved real unit costs savings of $271 million

Operations

- Productivity improvements at all our open cut operations in New South Wales
- Strong second half recovery at our Australian operations, more than compensating for interruptions in the first half

Developments

- Our Mangoola thermal coal project commissioned ahead of schedule and under budget in March
- Our Newlands Northern thermal coal project commissioned in October

Progress in sustainability

- 11 201 hectares of land rehabilitated to date
- 34% reduction in fresh water intensity since 2006
- 45% reduction in total recordable injury frequency rate since December 2009

Strategic priorities for 2012

- Ravensworth North and Ulan Open Cut are both on track to commission in the second half of 2012
- Work to continue on the development of our 7 million tonnes per annum Ulan West project

Approved projects

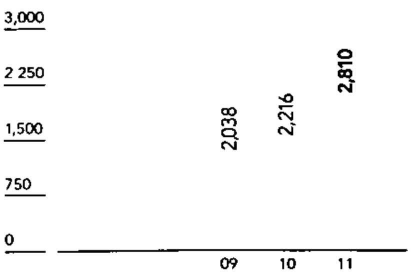
Ravensworth North, Ulan Open Cut, Cerrejón (Phase I), Ulan West, Tweefontein

43%

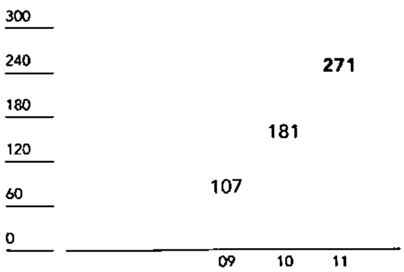
production increase by 2014

With a complementary mix of underground and open cut mines which produce thermal, coking and semi-soft coal products we run some of the most efficient coal mines in the industry

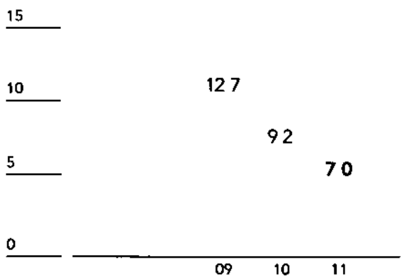
Operating profit
($m)



Cost savings
($m)



Total recordable injury frequency rate
(per million hours)



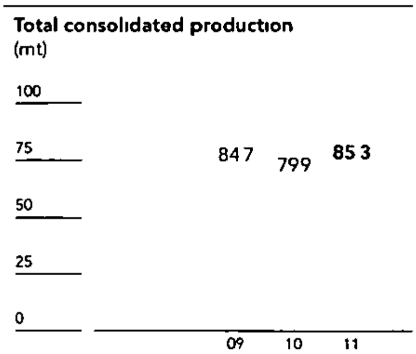
Xstrata story:
Ashley McLeod

Doing it better ourselves

"Doing things differently to create value is what I enjoy most at Xstrata I'm allowed the flexibility to operate and to make the decisions for both myself and the Company It gives you ownership and buy-in that ultimately makes you proud of the results"

Ashley McLeod
Operations Manager, Mount Owen
Xstrata Coal New South Wales, Australia

Read more of Ashley Mcleods story at www xstrata com



Operating review: Coal *continued*

Markets

Thermal Coal Markets

Weather–related supply issues in Australia, Indonesia, Colombia and South Africa constrained supply and underpinned higher prices in the first half of the year Thereafter prices eased somewhat due to the earthquake and tsunami in Japan and the weaker macroeconomic environment which slowed demand while production recovered from the weather–related disruptions

Global seaborne thermal coal demand increased by 13% in 2011, underpinned by growing energy demand in emerging markets and a rebound in European demand from a weak 2010

Total Chinese thermal coal demand increased by more than 350 million tonnes during 2011, while domestic production only grew by 310 million tonnes In 2011, China's seaborne imports increased by 34% to 174 million tonnes In the last quarter, as lower international market prices made imported coal more competitive relative to domestic coal record import 230 million tonnes annualised were achieved

Demand from India increased by 29% to 91 million tonnes due to the commissioning during 2011 of new coal-fired power stations with a total generation capacity of 12 gigawatts Thermal coal production in India fell by 3% having been constrained by permitting, transportation issues and employee industrial action Lack of domestic coal production growth continues to underpin demand growth for imported seaborne coal

The Japanese earthquake and tsunami resulted in the shutdown of 48 of Japan's 54 nuclear reactors However, damage to coal-fired power plants resulted in Japanese thermal coal demand declining by 5% to 109 million tonnes Demand gradually recovered as most coal-fired power stations returned to service by late 2011

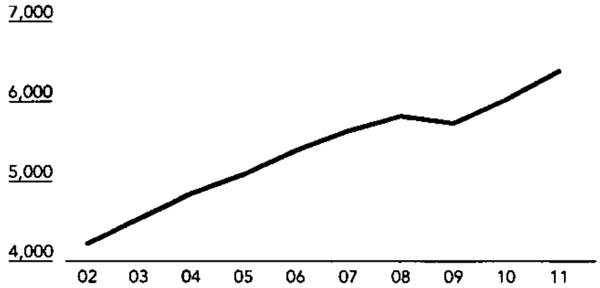
Atlantic demand rebounded in 2011 returning to near 2009 demand levels, with European import demand up 17% to 147 million tonnes Higher gas prices and lower carbon costs underpinned a preference for coal over gas Germany's shutdown of seven of its older nuclear power plants indirectly contributed to an increase of 5 million tonnes or 16% in coal demand

During 2011, there was a drawdown on global consumer stocks as imported thermal coal consumption exceeded supply Production did not fully recover until the third quarter from the severe flooding in Queensland, Australia in the first quarter contributing to a 21% decline in thermal coal exports from Queensland Total Australian thermal exports rose by 1 million tonnes during 2011, supported by a 13% growth in exports from New South Wales

Adverse weather conditions in Colombia in the early part of the year impacted first half production volumes although a strong second half resulted in exports increasing by nearly 8 million tonnes US exports more than doubled in 2011 to 34 million tonnes while imports declined 44% to 8 million tonnes

South African production is increasingly sold into the Pacific market, which accounted for 63% of South African exports in 2011 compared to 59% in 2010 Following a major mid year maintenance programme, a steady improvement in export rail performance supported the 4 million tonnes increase in coal exports

Global coal consumption
(million tonnes coal)



Global coal consumption

Source IEA, BP World Energy Outlook, Wood Mackenzie

Indonesian exports surged from 280 million tonnes per annum during the first quarter to over 320 million tonnes per annum for the second and third quarters of 2011 In total, Indonesian thermal coal exports grew by 37 million tonnes to 316 million tonnes for the full year Indonesia represented over 50% of global seaborne thermal coal supply growth in 2011, all of which came from lower grade sub-bituminous and lignitic coals The increased supply of lower energy coals from Indonesia, Australia, Colombia and South Africa are contributing to significant market and pricing differentiation

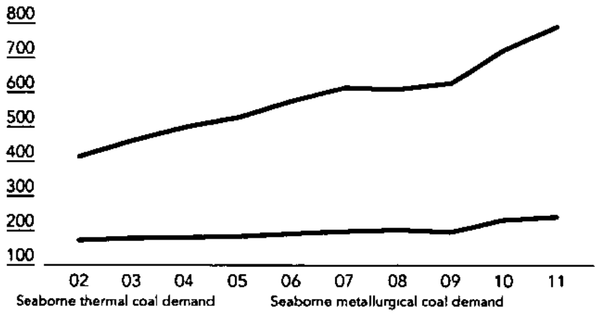
Outlook

Thermal coal continues to represent the lowest cost fuel for power generation in most economies, particularly among the major Asian and emerging economies A continued shift away from nuclear power following the Fukushima disaster in Japan will likely result in incremental demand increases for both coal and gas, with a positive impact on short- and longer-term prices for thermal coal Higher energy coal is expected to perform well in the near term against more widely available lower energy coals which have additional supply availability from Indonesia In the medium to longer term, we expect continued demand growth in emerging economies combined with the challenges of developing new supply and the associated infrastructure capacity, to result in a strong pricing environment for both low and high energy coals

Coking coal markets

Global seaborne coking coal demand during 2011 remained in line with 2010 with increased demand from India, Korea Europe and Brazil offsetting reduced volumes into Japan, China and Poland Chinese seaborne coking coal imports were impacted by the very high international prices with a year-on-year decline of 8 million tonnes Chinese coking coal consumers continue to seek high quality, low- to mid volatile hard coking coals to improve domestic coke blends

Global seaborne coal demand
(million tonnes)



Source Wood Mackenzie

Global pig iron production increased by 5%, over 50 million tonnes during 2011 Korean and Taiwanese pig iron production grew by 27% and 37% respectively as the Hyundai and Dragon steel facilities ramped up to capacity After a slow start, Chinese production growth accelerated and was 7% higher than in 2010 Japanese production, impacted by the earthquake and tsunami fell by 2% year-on-year Indian pig iron production increased slightly in 2011 despite the closure of an iron ore mine in Karnataka In Brazil, 2011 pig iron production grew 5% while the European debt crisis suppressed economic and steel demand growth resulting in a 1% decline in pig iron production

Coking coal supply increases from the US and incremental growth from Indonesia and China partially offset declining volumes from Australia Overall, global coking coal supply fell by 5 million tonnes during 2011 Extensive flooding in Queensland in the first quarter continued to impact volumes into the third quarter and Australian coking coal exports ended the year 14% or 19 million tonnes, lower than in 2010 Reduced Australian volumes led to significant price increases for coking coal for the first half of the year and prices rose to $330 per tonne during the second quarter The high price environment supported a 9 million tonne increase in export volumes from the US

Outlook

A weaker global economic outlook largely driven by Europe is impacting demand for steel and coking coal The commissioning of new integrated steel plants in India during 2012 is expected to support increased demand for seaborne coking coal The decline of hard coking coal contract prices in the first quarter of 2012 brings international pricing close to Chinese domestic prices and is expected to underpin continued demand from China for seaborne imports particularly high-quality and low- to mid volatile hard coking coals

Xstrata Coal
Financial And operating data

$m	Year ended 31 12 11	Year ended 31 12 10
Revenue operations†	**9,470**	7,449
Coking	**1,902**	1,596
Thermal Australia	**5,260**	4 095
Thermal South Africa	**1,229**	998
Thermal Americas	**1,079**	760
Revenue other	**511**	339
Coking	**22**	25
Thermal Australia	**408**	311
Thermal South Africa	**80**	2
Thermal Americas	**1**	1
Total revenue	**9,981**	7,788
Coking	**1,924**	1 621
Thermal Australia	**5,668**	4,406
Thermal South Africa	**1,309**	1,000
Thermal Americas	**1,080**	761
Operating EBITDA	**3,853**	3,061
Coking	**1,019**	911
Thermal Australia	**1,928**	1,525
Thermal South Africa	**380**	277
Thermal Americas	**526**	348
Depreciation and amortisation	**(1,043)**	(845)
Coking	**(130)**	(110)
Thermal Australia	**(596)**	(466)
Thermal South Africa	**(220)**	(175)
Thermal Americas	**(97)**	(94)
Operating profit	**2,810**	2,216
Coking	**889**	801
Thermal Australia	**1,332**	1 059
Thermal South Africa	**160**	102
Thermal Americas	**429**	254
Share of Group operating profit	**33 3%**	29 0%
Australia	**26 3%**	24 4%
South Africa	**1 9%**	1 3%
Americas	**5 1%**	3 3%
Capital employed	**14,616**	14,019
Australia	**9,986**	9 123
South Africa	**2,522**	3,002
Americas	**2,108**	1 894
Return on capital employed*	**20 4%**	17 4%
Australia	**24 2%**	22 8%
South Africa	**5 7%**	3 8%
Americas	**23 4%**	13 6%
Capital expenditure	**1,994**	1,998
Australia	**1,625**	1,530
South Africa	**252**	377
Americas	**117**	91
Sustaining	**801**	568
Expansionary	**1,193**	1,430

† Includes purchased coal for blending with mine production
* ROCE % based on average exchange rates for the year

Mangoola, New South Wales, Australia
Mangoola, our greenfield, thermal coal project commissioned under budget and ahead of schedule in March 2011

Operating profit variances

	$m
Operating profit 31 12 10	**2,216**
Sales price*	1 823
Volumes	(72)
Unit cost – real	271
Unit cost – CPI inflation	(201)
Unit cost – mining industry inflation	(189)
Unit cost – foreign exchange	(584)
Other income and expenses	(338)
Depreciation and amortisation (excluding foreign exchange)	(116)
Operating profit 31 12 11	**2,810**

* Net of commodity price linked costs, and treatment and refining charges

After a number of one-off disruptions to operations in the early part of the year, our operations recovered to achieve a strong second half performance in 2011 and a 27% increase in operating profit from $2 2 billion in 2010 to $2 8 billion in 2011 Higher realised prices added $1 8 billion to operating profit with semi soft and coking coal prices up 47% and 30% respectively Thermal coal prices also increased across all markets due to increased demand resulting from weather related supply issues in the Pacific market and higher gas prices in the Atlantic markets

Total 2011 sales volumes rose by 3% to 84 3 million tonnes, 2 2 million tonnes higher than 2010 sales, reflecting a strong second half recovery from the operational interruptions encountered in the early part of the year Australian, South African and Colombian thermal coal sales improved in 2011, but were offset by a reduction in higher-margin coking sales Price increases and real unit cost savings were partly offset by the costs incurred from extensive flooding in Queensland, an underground fire at Blakefield South and water impacts at Ulan

We realised real unit cost savings of $271 million as a result of productivity improvements across the open cut operations in New South Wales and the commissioning ahead of schedule of our highly productive low cost Mangoola operation in the early part of 2011 Capital-driven productivity improvements were realised in Colombia while South African unit cost savings resulted from a higher proportion of low cost domestic sales

Our operating profit was reduced by $584 million due to the strengthening of the Australian dollar against the US dollar during 2011

Mining and CPI inflationary pressures adversely impacted operating profit by $390 million as a result of higher labour costs and increased fuel and steel prices across all geographies, in addition to rail price increases in South Africa and higher material input prices in Colombia

Increased depreciation and amortisation reduced earnings by $116 million, due primarily to the increased capital base in New South Wales In South Africa higher depreciation reflected capital expenditure on the continued ramp up of Goedgevonden and the Impunzi open cut mine during the year

Other expenditure related to costs associated with flooding in the Queensland operations an incursion of water underground at Ulan, and a fire in the underground operating area of Blakefield South, which in total reduced operating profits by $338 million

Australian thermal coal
Operating profit from the Australian thermal coal operations of $1,332 million was 26% higher than the previous year Higher average realised prices, increased volumes and associated unit cost savings resulting from productivity improvements across the open cut operations in New South Wales during 2011 more than offset inflationary cost increases, the uncontrollable events in New South Wales and Queensland and an adverse currency exchange rate

Our Australian operations recovered well in the second half of 2011 and more than compensated for interruptions to production in the first half Australian thermal sales rose by 4% or 1 9 million tonnes including semi soft to 48 1 million tonnes

Operations

Australian coking coal
Our Australian coking coal business achieved an operating profit of $893 million in 2011 an increase of 11% from 2010 The improved result was primarily driven by higher realised prices, partly offset by lower volumes following geological issues encountered at the Oaky North mine in Queensland, inflationary cost increases and the strengthening of the Australian dollar against the US dollar

South African thermal coal
South Africa s operating profit of $160 million was 57% or $58 million higher than 2010, primarily due to higher realised prices higher domestic volumes due to increased domestic demand and associated unit cost savings due to a higher proportion of low cost domestic tonnes compared to 2010 The full benefit was offset by inflationary cost increases and unit cost increases resulting from industrial action in 2011

Americas

Operating profit for the Americas division increased by 67% to $425 million due to higher realised prices and unit cost savings resulting from prior capital investment which enabled productivity improvements This was partly offset by inflationary impacts resulting from increased fuel and material input prices and the introduction of a new net worth tax in Colombia As the tax is not income based and does not fall within the scope of income tax under IFRS it has been recognised as an operating cost and impacts full year operating earnings The newly acquired First Coal Canadian assets have been incorporated into the Americas division

Summary production

(million tonnes)	Year ended 31 12.11	Year ended 31 12 10
Total consolidated production	**85 3**	79 9
Total thermal coal	**72 4**	65 6
Australian thermal	**44 5**	37 8
South African thermal*	**17 1**	17 7
Americas thermal	**10 8**	10 1
Total coking coal (Australia)	**7 6**	7 7
Total semi-soft coking (Australia)	**5 3**	6 6

Ravensworth North, New South Wales, Australia

Earthworks are well advanced at the 8 million tonne per annum thermal coal brownfield Ravensworth North project, which is on track for first production in the second half of 2012

Sales volumes

(million tonnes)	Year ended 31 12 11	Year ended 31 12 10
Total consolidated sales	**84 3**	82 1
Consolidated Australian sales total	**55 3**	53 9
Coking export	**7 2**	7 7
Semi-soft coking export	**5 3**	6 6
Thermal export	**35 4**	32 8
Thermal domestic	**7 4**	6 8
Consolidated South African sales total	**18 3**	17 7
Thermal export	**11 3**	11 1
Thermal domestic	**7 0**	6 6
Consolidated Americas sales total*	**10 7**	10 5
Total attributable sales	**79 4**	74 5
Attributable Australian sales total	**53 2**	49 2
Coking export	**7 2**	7 7
Semi-soft coking export	**4 8**	5 9
Thermal export	**33 9**	30 8
Thermal domestic	**7 3**	4 8
Attributable South African sales total	**15 5**	14 8
Thermal export*	**9 4**	9 2
Thermal domestic*	**6 1**	5 6
Attributable Americas sales total	**10 7**	10 5
Average received export FOB coal price ($/t)		
Australian coking	**265 0**	204 3
Australian semi-soft coking	**202 5**	137 3
Australian thermal	**109 6**	85 7
South African thermal	**101 2**	74 4
Americas thermal	**101 0**	72 6

* Mpumalanga is included in 2011 and 2010 production and sales volume reporting For financial reporting Mpumalanga is excluded from Xstrata Coal's ex-mine results but included in statutory results as it is classified as an asset held for sale for the 2010 and 2011 reporting period The sale of the Mpumalanga asset was effective December 31 2011

Iron ore

Sphere

Total capital expenditure of $47 5 million across the three Sphere Minerals Mauritanian iron ore projects enabled us to commence a feasibility study at the Askaf project following and to progress concept studies on the El Aouj and Lebtheinia projects Our shareholding in Sphere Minerals increased to 87 8% following a rights issue in July 2011

Zanaga

In the first half of 2011, we undertook value engineering and option studies in relation to the Zanaga project in the Republic of Congo (Brazzaville) to maximise the value of the project The value engineering studies supported an alternative decision by Xstrata to undertake a pre-feasibility study on a 30 million tonnes per annum pipeline project as an alternative to the 45 million tonnes per annum rail scenario that was scheduled in the previous pre feasibility We commenced work on the pipeline prefeasibility study in the third quarter, together with other feasibility work including drilling and environmental studies

Operating review: **Nickel**

Nickel pipeline update

Ian Pearce
Chief Executive, Xstrata Nickel

Market summary

- Global demand for nickel improved reflecting increased production of Chinese stainless steel
- Global nickel production was impacted by planned and unplanned disruptions
- There was volatility in the LME nickel price during 2011

Financial review

- Our operating profit increased by 21% to $611 million
- Improved operational performance and higher volumes added $286 million to our operating profit

Operations

- Our Nikkelverk refinery achieved all-time record production volumes
- The restart of Falcondo, our ferronickel operation in the Dominican Republic, out-performed expectations

Developments

- First ore was delivered ahead of schedule at the Kikialik deposit in Raglan
- We approved the extension of Fraser Mine in paternership with Vale, the development of our 6,000 tonnes per annum Fraser Morgan nickel mine and the expansion of the Raglan mine to 40,000 tonnes per annum

Progress in sustainability

- Our 2011 total recordable injury frequency rate was below our target achieving the best performance at Xstrata Nickel to date
- During the year $11 million ($10,995,345), includes monies from central CSI fund was spent on projects supporting our local communities

Strategic priorities for 2012

- Our Koniambo project remains on schedule to produce first metal in the second half of 2012
- We will continue to progress the Fraser Morgan project in Sudbury and the expansion of Raglan mine in Quebec

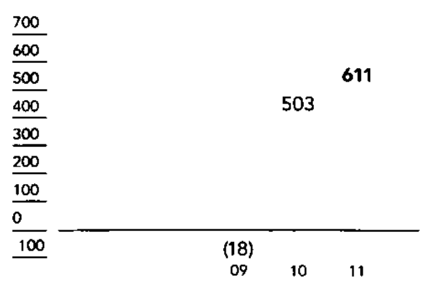
Approved projects

Koniambo, Fraser Morgan and Raglan expansion (Quakimajurq and Mine 2 Lower Zone, infrastructure and concentrator upgrade)

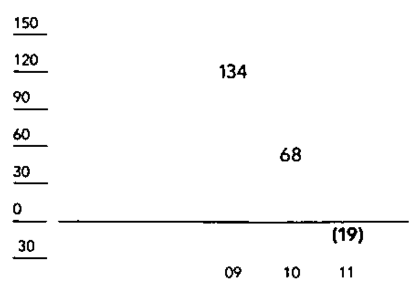
68%
Production increase by 2014

Our nickel business is the fourth largest producer of nickel metal globally and we are growing our production

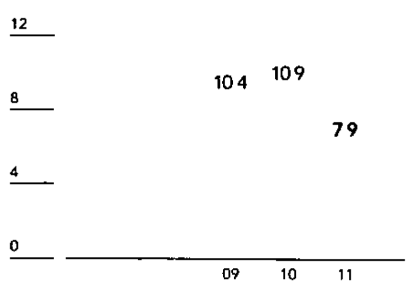
Operating profit
($m)



Cost savings
($m)



Total recordable injury frequency rate
(per million hours)



Xstrata story
Casey Enright

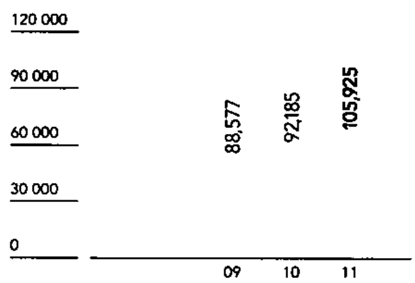
Getting the job done

"One of the things I like about this company is that when you are given a specific role, you're allowed to work that role People want you to make a decision here and you receive the support to do so"

Casey Enright
Operations General Foreman
Sudbury Operations, Canada

Read more of Casey Enright's story at www xstrata com

Total nickel production
(t)



Markets

Global demand for nickel improved during 2011 reflecting increased production of Chinese stainless steel, particularly austenitic grades, which mitigated much of the impact of a weaker macro environment for developed economies European stainless steel production softened in the second half of 2011, as concerns over sovereign debt and lower order intake levels prompted a draw-down of inventory levels While the US was slow to recover from the traditional summer slowdown, melt rates picked up towards the end of 2011 as industrial demand increased Although Japan's major stainless steel mills were largely undamaged by the earthquake and tsunami that hit the country in March, overall domestic industrial production remains curtailed and Japanese stainless steel melt rates were affected by a slowdown in export orders in part due to the strength of the yen which impacted competitiveness

Non-stainless steel demand represents approximately one third of total nickel consumption and is closely correlated to levels of industrial production A recovery in key industrial sectors such as aerospace, power generation and oil and gas supported higher levels of nickel consumption Super-alloy production and nickel plating for automotives were particularly robust market segments in 2011

Global production of nickel during 2011 was impacted by a number of planned and unplanned disruptions, including interrupted production at a ferronickel plant in Japan following the earthquake and tsunami in March and supply disruptions or planned shutdowns in Australia Canada and Colombia Several new nickel projects expected to start or ramp up production during the year also encountered setbacks The Talvivaara bio-heap, Vale New Caledonia (Goro) HPAL operations and Onca Puma and Barro Alto ferronickel projects all failed to meet targeted ramp up production and the start up of the Ramu and Ambatovy HPAL projects was delayed

During the year production of nickel pig iron in China continued to provide a flexible yet typically high cost source of nickel to supply China's stainless steel industry With nickel prices above the higher cost of nickel pig iron production for much of the year, this flexible source of supply offset disruptions and delays elsewhere

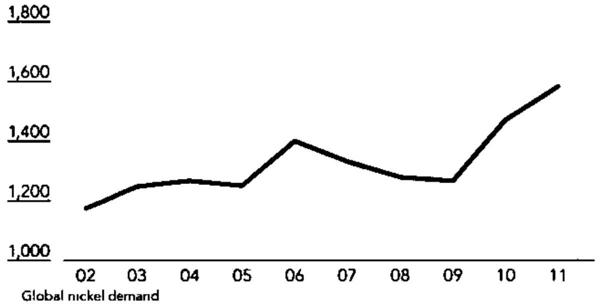
The LME cash settlement nickel price was volatile during 2011 ranging between $7 68 per pound and $13 17 per pound to average $10 36 per pound, 5% higher than the average in 2010 Average LME nickel prices were up 21% in the first half of the year, but prices in the second half were significantly lower LME inventory declined steadily between January and July reflecting continued demand growth in China coupled with supply disruptions and the delayed ramp up of a number of new projects Despite modest consolidation in August the decline in LME inventory continued from September to reach a 33 month low in November as Chinese stainless steel producers substituted nickel pig iron with primary nickel units Renewed concerns of a slowdown in developed markets and in particular the effects of the European sovereign debt crisis saw nickel prices retreat to reach lows for the year in late November Closing LME nickel inventory at year end totalled 90 516 tonnes, representing around three weeks of global supply, down from an estimated five weeks at the end of 2010

Outlook

Uncertainty over European sovereign debt and persistently high unemployment in the US is likely to impact market sentiment in 2012, however we expect continued growth in the developing world to continue to support global consumption of nickel

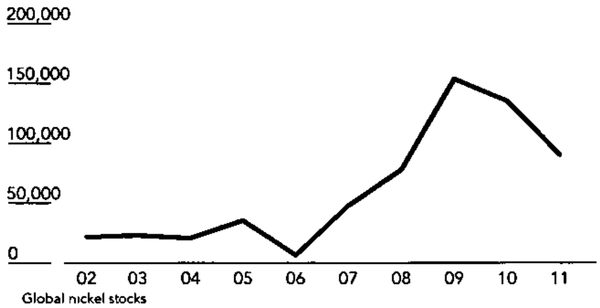
We expect additional supply from the ramp up and commissioning of new projects to meet higher demand in 2012 In the event that projects are again delayed or ramp up is slower than expected, nickel from nickel pig iron in China is largely expected to bridge any supply shortfalls

Global nickel demand
(kt)



Source CRU International Ltd

Global nickel stocks
(kt)



Source Bloomberg

Financial and operating data

$m	Year ended 31 12 11	Year ended 31 12 10
Revenue	**3,192**	2,738
INO†	**2,918**	2 738
Dominican Republic	**274**	-
Operating EBITDA	**1,234**	973
INO†	**1,186**	993
Dominican Republic	**48**	(20)
Depreciation and amortisation	**(623)**	(470)
INO†	**(607)**	(466)
Dominican Republic	**(16)**	(4)
Operating profit	**611**	503
INO†	**579**	527
Dominican Republic	**32**	(24)
Share of Group operating profit	**7 2%**	6 6%
INO†	**6 8%**	6 9%
Dominican Republic	**0 4%**	(0 3)%
Capital employed	**10,643**	9,624
Return on capital employed*	**10 5%**	8 9%
Capital expenditure	**1,638**	1,556
INO†	**459**	372
Dominican Republic	**15**	10
South America	**1**	1
Africa	**8**	6
New Caledonia	**1,155**	1 167
Sustaining	**287**	237
Expansionary	**1,351**	1,319

† Includes Canadian mines Xstrata Nickel Australasia (XNA) mines in Western Australia Sudbury smelter and Nikkelverk refinery
* ROCE % based on average exchange rates for the year and excludes assets under development

Operating profit/variances

	$m
Operating profit 31 12 10	**503**
Sales price*	62
Volumes	286
Unit cost – real	(19)
Unit cost – CPI inflation	(24)
Unit cost – mining industry inflation	(23)
Foreign exchange	(38)
Other income and expenses	16
Depreciation and amortisation (excluding foreign exchange)	(152)
Operating profit 31 12 11	**611**

* Net of commodity price linked costs and treatment and refining charges

Our 21% increase in operating profit to $611 million was driven primarily by an improved operational performance Higher nickel volumes added $286 million to operating profit and included all-time production records from our Nikkelverk refinery in Norway which operated above nameplate capacity and a record quarterly performance from the Sudbury smelter in the fourth quarter The successful restart of the Falcondo ferronickel operation in the Dominican Republic produced 8% more nickel than planned, and copper volumes from our Sudbury operations rose from the highly productive, polymetallic Nickel Rim South and Fraser mines

The average price of nickel was marginally higher than in 2010 and contributed $62 million to operating profit when combined with improved prices for our by-products, such as copper precious metals and platinum group metals (PGMs)

The weak US dollar against our operating currencies and inflationary pressures impacted operating profit by $38 million and $47 million respectively Higher volumes served to reduce our unit costs, and cash unit costs at our Integrated Nickel Operations (INO) fell by 15% The benefit of improved volumes was more than offset by lower nickel head grade at Raglan and Xstrata Nickel Australia (XNA), resulting in a $19 million increase in real unit costs Excluding the $78 million negative impact of the decline in grade, we were able to generate an overall real cost saving of $59 million in 2011

Our results were affected by increased depreciation and amortisation of $152 million due to higher volumes from the Falcondo restart and INO, including a transition period in which we mined increasingly disseminated ores at Xstrata Nickel Australasia

Other income and expenses of $16 million relate to the elimination of the care and maintenance costs at Falcondo which was incurred during 2010 before its restart in early 2011

Operations

Integrated Nickel Operations (INO)

INO comprise the Sudbury mines and smelter the Raglan mines in Canada, Xstrata Nickel Australia (XNA) in Australia and the Nikkelverk refinery in Norway Refined nickel sales volumes of 92,774 tonnes were marginally higher than last year Copper in concentrate sales increased 43% from 2010 due to a period of higher copper head grade from Nickel Rim South and improved ore volumes from the Fraser mine copper zone We reduced average INO cash costs by 15% to $1 83 per pound from $2 16 per pound in 2010 (the lowest level since establishing the nickel business unit in 2006), primarily due to improved volumes and higher by-product credits as a result of strong copper, precious metals and PGM prices

Overall mined nickel production increased for the fifth consecutive year, up 6% to 64,103 tonnes from 60,670 tonnes in 2010 due to higher volumes from Sudbury and Xstrata Nickel Australia (XNA)

Operating review: Nickel *continued*

Sudbury

Nickel production from our Sudbury mines increased by 28% to 19,795 tonnes of nickel in concentrate Nickel Rim South continued to achieve a strong operating performance and a full year's production from the Fraser mine also contributed to the increase Total ore mined from these two mines increased by 23% to reach 1 5 million tonnes We are building on this solid performance with the extension of Fraser mine in the fourth quarter of 2012 in partnership with Vale, and by delivering the Fraser Morgan project in 2013 Combined, these projects will extend Fraser's life of mine to 2025 Our agreement with Quadra FNX to lease our Craig mine infrastructure provides us with valuable revenue and cost offsets for unutilised assets, while offering possible future synergistic benefits for the development of the Onaping Depth project

A period of significant copper contained in Nickel Rim South ore and mining at Fraser's copper zone led to record mined copper in concentrate production of 50 000 tonnes from our Strathcona Mill up 38% from our performance in 2010 Our Sudbury smelter produced 6% less nickel in matte than last year but production exceeded our plans for the year of 69,000 tonnes This result was primarily due to lower planned concentrate grades a reduction in the custom feed materials processed and a one-week maintenance shutdown deferred from December 2010 to January 2011 Record fourth quarter production this year helped to offset these impacts We have successfully developed innovative technical responses to necessary enhancements of the smelter to meet regulatory emissions requirements in order to enable low cost and value accretive capacity enhancements up to 85 000 tonnes of nickel per year in 2016

Nikkelverk, Norway

Our Nikkelverk refinery achieved an all-time record production of 92,427 tonnes of refined nickel

Sudbury, Canada

Nickel production from our Sudbury mine increased by 28% to 19,795 tonnes of nickel in concentrate Nickel Rim South continued to achieve a strong operating performance and a full year's production from the Fraser mine also contributed to the increase

Raglan

Our Raglan mine treated 1 3 million tonnes of ore, in line with full capacity However, because of a planned period of lower nickel head grade, the amount of nickel in concentrate we produced from Raglan fell 3% to 27,274 tonnes We expect head grade to decline further in 2012 in accordance with our mine plan, before improving from 2013 Raglan s head grade will improve beyond 2013 with the development of the higher-grade Qakimajurq and Mine 2 Lower Zone deposits, and increase production of nickel in concentrate to 40,000 tonnes per year by 2016

Xstrata Nickel Australia (XNA)

At our Xstrata Nickel Australia (XNA) mines we more than offset the impact of mining more disseminated ore bodies with inherent lower nickel head grades by substantially increasing the amount of ore treated by 46% to 778,073 tonnes As a result we successfully increased the amount of nickel in concentrate from Xstrata Nickel Australia (XNA) over 2010 levels to 17,000 tonnes, including an 86% increase in volumes at Sinclair mine

We are progressing with studies of new exploration areas at XNA to enable us to continue to supply our downstream smelter and refinery and reduce fixed unit costs

Nikkelverk

At our Nikkelverk refinery we achieved all-time record production of 92,427 tonnes of refined nickel Healthy demand for our high-purity nickel product and Nikkelverk's reliable operation helped make this record possible, along with a continued focus on low capital cost debottlenecking We were successful in treating several different matte feeds while achieving record production levels

Copper metal production of 36,292 tonnes was slightly higher than last year as we processed more copper from the polymetallic feed sent to Nikkelverk We are increasing the refinery s copper capacity to 40,000 tonnes to take advantage of a period of increased copper grade in ore from Nickel Rim South and to release copper in intermediate inventory This increased copper capacity can also be readily transformed to enable expansion of our nickel capacity in the future when the period of increased copper feed ends

Falcondo
Total ferronickel sales volumes from our Falcondo operation in the Dominican Republic reached 12,880 tonnes since reopening to a planned 50% of total capacity in February 2011 following a 30-month period of care and maintenance Falcondo s restart outperformed our expectations by generating 8% more nickel than planned and operating at an annualised run-rate of almost 15,000 tonnes of nickel in ferronickel

The Falcondo operation has converted its energy source to fully procured power providing us with an improved cost structure A potential low cost expansion to 100% capacity remains in the feasibility stage This expansion entails a project to convert the long-term energy source for Falcondo's process plant from oil to natural gas

Raglan, Canada
Raglan's head grade will improve beyond 2013 with the development of the higher-grade Qakimajurq and Mine 2 Lower Zone deposits and increase production of nickel in concentrate to 40 000 tonnes per year by 2016

Sales volumes

	Year ended 31 12.11	Year ended 31 12 10
INO – Europe – Nikkelverk		
Refined nickel from own mines (t) (payable metal)	**58,913**	57,259
Refined nickel from third parties (t) (payable metal)	**33,748**	34,880
Refined copper from own mines and third parties (t) (payable metal)	**35,725**	36 133
Refined cobalt from own mines and third parties (t) (payable metal)	**2,915**	3,104
INO – North America		
Nickel in concentrate (t) inter company (payable metal)	**113**	–
Copper in concentrate (t) inter-company (payable metal)	**37,300**	26,166
Falcondo – Dominican Republic		
Ferronickel (t) (payable metal)	**12,880**	–
Total nickel sales (t) (payable metal)	**92,774**	92 139
Total ferronickel sales (t) (payable metal)	**12,880**	-
Total copper sales (t) (payable metal)	**73,025**	62,299
Total cobalt sales (t) (payable metal)	**2,915**	3 104
Average LME nickel cash price ($/tonne)	**22,831**	21,809
Average Metal Bulletin cobalt low grade price ($/lb)	**16 01**	17 91
Average LME copper cash price ($/tonne)	**8,826**	7 536

Summary production data

	Year ended 31 12 11	Year ended 31 12 10
Total mined nickel production (t) (contained metal) – INO	**64,103**	60,670
Total mined copper production (t) (contained metal) – INO	**55,629**	42,697
Total mined cobalt production (t) (contained metal) – INO	**1,302**	1 094
Total nickel production (t)	**105,925**	92,185
– Total refined nickel production (t)	**92,427**	92 185
– Total ferronickel production (t)	**13,498**	–
Consolidated nickel cash cost (C1) – post by product credits ($/lb)	**1 83**	2 16
Consolidated ferronickel cash cost (C1) ($/lb)	**8 09**	n/a

Operating review: **Zinc**

Zinc growth projects

Santiago Zaldumbide
Chief Executive, Xstrata Zinc

Market summary
- Global demand for refined zinc increased by 4% to 12 5 million tonnes
- Global lead consumption increased by 4% to over 9 8 million tonnes

Financial Review
- We achieved real cost savings of $85 million
- Our C1cash costs reduced by 17% to 25 43¢ per pound on an integrated basis

Operations
- Our San Juan de Nieva plant achieved a production record of 489,000 tonnes of zinc metal
- Zinc metal production at our Nordenham plant rose by 6%

Developments
- Our Black Star Deeps project commissioned on schedule and on budget in October
- Our Handelbar Hill project commissioned on schedule and on budget in December

Progress in sustainability
- We achieved a 17% reduction in our total recordable injuries frequency rate and 52% improvement in our lost time injury frequency rate

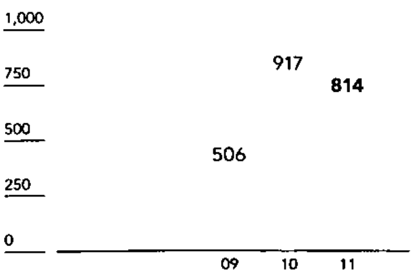
Strategic priorities for 2012
- To progress our expansion at George Fisher ahead of commissioning in 2013
- To continue our development of the greenfield 126,000 tonnes per annum Lady Loretta and 90 000 tonnes per annum Bracemac-McLeod zinc projects

Approved projects
George Fisher expansion Bracemac-McLeod
Lady Loretta

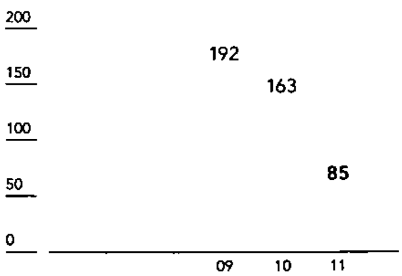
2%
production increase by 2014

We have created the worlds premier integrated zinc business over the past 10 years by investing prudently in our assets to expand production, reduce costs, expand resources and improve overall operating and safety performance

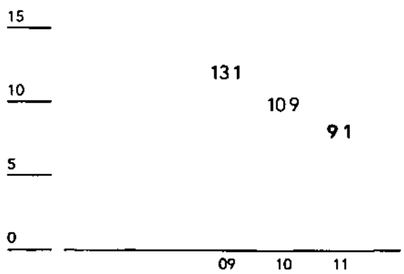
Operating profit
($m)



Cost savings
($m)



Total recordable injury frequency rate
(per million hours)



Xstrata story:
Denis Hamel

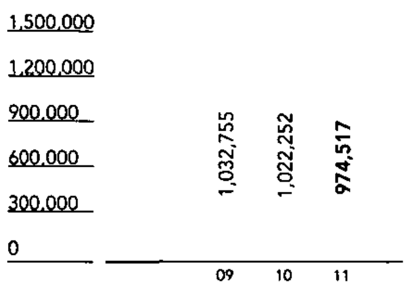
Doing it the right way

"We needed to find a way to grind our bulk concentrate to the right size Management supported us and we got the money to do what we had to do We worked together as a team Everyone did their work. Any one person could have slowed down the process We had a challenge and together we were able to deal with it We achieved this with no associated safety incidents, on time on budget and on scope We had an issue that we faced and we won"

Denis Hamel
Manager, Concentrator and Plant Operations
Xstrata Zinc Brunswick Mine, Canada

Read more of Denis Hamel's story at www xstrata com

Total zinc in mined zinc
(t)



Zinc

The growing market for zinc-coated galvanized steels supported a 4% increase in global demand for refined zinc to 12 5 million tonnes Demand growth from the construction sector in emerging economies more than offset weaker demand from developed economies Global automobile production was 2% higher than in 2010 in line with a small growth in consumer demand China continued to be the world's largest consumer of zinc for its construction and infrastructure sectors, despite the dampening effect of the government's inflation control measures on business investment and consumer spending

In 2011 global supply of mined zinc increased by 3% and smelter production grew by just over 2% China was the main contributor to production growth and the world's largest producing country, despite reports that some mines and smelters were operating at a loss during much of the year Mined zinc production also increased in India, Canada and Mexico but higher volumes from these countries were largely offset by declining volumes in Peru Production increased substantially at Indian, South Korean and Peruvian smelters while the earthquake and tsunami in Japan reduced output from domestic smelters

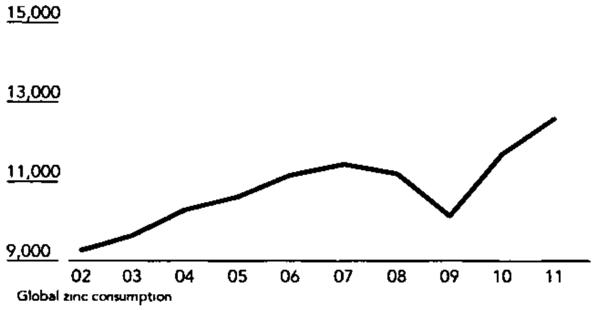
China s smelters imported nearly 3 million tonnes of zinc concentrate during 2011 to meet domestic zinc consumption needs Continuing over-capacity in the global smelting market and resultant low capacity utilisation rates, especially in China, ensured strong competition for concentrates and put pressure on treatment and refining charge settlements Average benchmark treatment charges for 2011 settled at $229 per tonne of concentrate on a $2,500 per tonne zinc price basis against $273 per tonne of concentrate on the same basis in 2010 Spot treatment charges started the year around $120 per tonne of concentrate and declined to $60 per tonne of concentrate by the end of the year

LME zinc prices ranged between $2,400 and $2,800 per tonne during the first half of the year but weakened significantly during the second half to end the year at $1,827 per tonne By year-end, refined zinc stocks at London Metal Exchange and Shanghai Futures Exchange warehouses had increased by a total of 172 326 tonnes to 1,184,486 tonnes The average LME zinc price of $2,190 per tonne for 2011 was marginally higher than the average of $2,159 per tonne in 2010 Refined metal premia were relatively steady in most regions but increased in the US where local refineries do not produce enough to meet demand

Outlook

In 2012 we expect demand for zinc to grow at similar levels to 2011 at around 4% to 5%, reflecting ongoing demand from urbanisation and industrialisation in Asia While we anticipate that supply will remain moderately ahead of demand in 2012, a number of pending mine closures the potential for disruptions to mined production and a more vigorous recovery in the global economy could rapidly deplete existing metal inventories in the medium term

Global zinc consumption
(kt)



Source Brook Hunt

Lead

Global lead consumption in 2011 was more than 9 8 million tonnes a 4% increase on the previous year Demand from China s automobile and electric-powered bicycle sectors continued to be the driving force behind global growth, with Chinese lead consumption increasing by 8% or an additional 300 000 metric tonnes US demand for lead continued to rebound, increasing by 5% while a buoyant German automotive market helped offset weakness elsewhere in Europe Demand was stable from end use sectors, including mobile power applications such as forklift machinery and standby power applications such as telecommunication networks

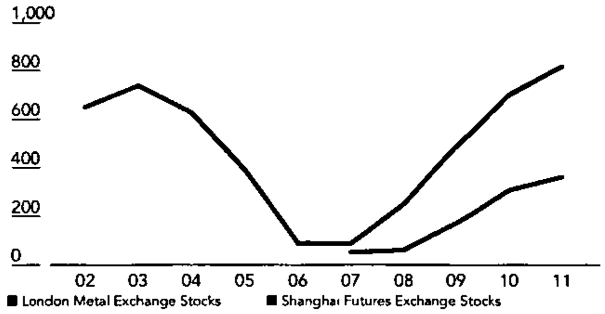
In 2011, global refined lead production increased by 5% to 10 million tonnes as China's output rose 7%, an additional 300,000 tonnes, and production of refined metal increased in South Korea the US and India Despite reduced production at its high cost operations and insufficient domestic concentrate supply for its smelters, China continues to be the largest supplier of both mined and refined lead Imports of lead concentrate into China were 1 3 million tonnes in 2011, 10% lower than in 2010

A moderate surplus of refined lead in 2011 resulted in an increase in stocks at London Metal Exchange and Shanghai Futures Exchange warehouses of 173,761 tonnes to total 382 311 tonnes at the end of December

LME lead prices ranged between $2,400 and $2 800 per tonne during the first half of 2011 and then declined in response to the deteriorating global outlook The lead price averaged $2 399 per tonne during 2011, compared to an average of $2 148 per tonne in 2010

Strategic review | Performance review | Governance | Financial statements

Global zinc stocks
(kt)



Refined premia were higher in the US due to a tight local market but were flat in Europe and declined in China due to cutbacks in the battery manufacturing industry as a result of environmental regulation The average benchmark treatment charge for 2011 was $230 per tonne of concentrate at a basis of $2,500 per tonne of lead Realised spot treatment charges for imports into China rose from $80 per tonne at the start of 2011 to $120 per tonne in December

Outlook
Over 80% of the lead produced globally is used in the production of lead-acid batteries, mostly installed in vehicles, including e-bikes and hybrid cars We expect strong demand for lead to continue as demand for vehicles power backups, and other battery applications grows in particular in emerging economies We anticipate a broadly balanced market in 2012, with a drawdown on exchange inventories commencing in the second half

Xstrata Zinc
Financial and operating data

$m	Year ended 31 12 11	Year ended 31 12 10
Revenue	**3,756**	3,922
Zinc lead Australia	**550**	600
Lead Europe	**602**	590
Zinc Europe	**1,605**	1,545
Zinc North America	**922**	1 078
Zinc Peru**	**77**	109

$m	Year ended 31 12 11	Year ended 31 12 10
Operating EBITDA	**1,223**	1,327
Zinc Lead Australia	**288**	437
Lead Europe	**20**	17
Zinc Europe	**282**	288
Zinc North America	**556**	471
Zinc Peru**	**77**	114
Depreciation and amortisation	**(409)**	(410)
Zinc Lead Australia	**(183)**	(167)
Lead Europe	**(2)**	(2)
Zinc Europe	**(46)**	(42)
Zinc North America	**(143)**	(167)
Zinc Peru**	**(35)**	(32)
Operating profit	**814**	917
Zinc Lead Australia	**105**	270
Lead Europe	**18**	15
Zinc Europe	**236**	246
Zinc North America	**413**	304
Zinc Peru**	**42**	82
Share of Group Operating profit	**9 7%**	12 0%
Australia	**1 2%**	3 5%
Europe	**3 1%**	3 4%
North America	**4 9%**	4 0%
Zinc Peru**	**0 5%**	1 1%
Capital employed†	**6,100**	5,576
Return on capital employed*	**18 9%**	24 0%
Capital expenditure	**885**	493
Australia	**736**	338
Europe	**66**	88
North America	**83**	67
Sustaining	**504**	316
Expansionary	**381**	177

* ROCE % based on average exchange rates for the year
** Xstrata Zinc's pro-rata share of Xstrata s 33 75% interest in Antamina
† Includes goodwill allocation on acquisition of Falconbridge

Operating profit variances

	$m
Operating profit 31 12 10	**917**
Sales price*	99
Volumes	(47)
Unit cost – real	85
Unit cost – CPI inflation	(43)
Unit cost – mining industry inflation	(85)
Unit cost – foreign exchange	(93)
Depreciation and amortisation (excluding foreign exchange)	(19)
Operating profit 31 12 11	**814**

* Net of commodity price linked costs, treatment and refining charges

Operating review: Zinc *continued*

Our zinc business achieved real unit cost savings of $85 million as a result of efficiency improvements and improved by product recoveries While higher sales prices added $99 million to operating profit, overall operating profit decreased by 11% to $814 million due to reduced overall sales volumes as a result of lower production and sales volumes at Antamina, adverse exchange rates and ongoing CPI and mining inflation A weaker US dollar against all of our operating currencies reduced our operating profit by $93 million, coupled with an impact of $128 million from CPI and mining inflation, particularly for consumables and energy

Our initiatives to achieve sustainable cost savings at our operations delivered $85 million net of a $17 million impact from lower head grades Mining C1 cash costs fell by 18% from 40 50¢ per pound in 2010 to 33 19¢ per pound in 2011 through cost savings initiatives and improved by-product credits We are a fully integrated zinc producer and on an integrated mine and smelter basis we continued to reduce C1 costs by 17% from 30 64¢ per pound in 2010 to 25 43¢ per pound in 2011

Operations

Zinc Lead Australia

Operating profit in 2011 from our Australian operations fell to $105 million compared to $270 million in 2010 reflecting lower zinc prices in the second half of the year and the revaluation of open sales at year end The stronger Australian dollar against the US dollar impacted operating profit by $54 million CPI and mining inflation also had a significant impact on the price of energy and consumables, reducing operating profit by a further $72 million Despite the impact of adverse weather at McArthur River Mine and the Mount Isa operations in the first quarter of the year and electricity supply issues at Mount Isa in the final quarter, our Australian operations achieved a 2% improvement in zinc in concentrate volumes during 2011

Bracemac-McLeod, Canada

At full production, the Bracemac McLeod mine will produce 80,000 tonnes of zinc and 10 000 tonnes of copper annually Development tonnes are expected in early 2012, ramping up to reach full production in the first quarter of 2013

George Fisher, Queensland, Australia

The AUD274 million (US$246 million) expansion of George Fisher mine in Mount Isa will increase the production rate by almost 30% from 2013 George Fisher mine contains one of the largest zinc reserves in the world

Mined volumes at the Mount Isa operations rose by 6% over 2010 levels to 9 1 million tonnes, including a production record of 5 3 million tonnes of ore at Black Star open cut mine Throughput at the Mount Isa zinc-lead concentrator also achieved record levels, up 8% to 9 2 million tonnes However lower head grades meant that zinc in concentrate production rose only slightly while lead bullion volumes recorded a small decrease year-on-year

Zinc Lead Europe

Operating profit for our European operations fell by 3% to $254 million as cost saving initiatives were offset by the negative impact of adverse foreign exchange rates and inflation

The San Juan de Nieva Plant achieved a new production record of 489,000 tonnes of zinc metal Operational improvements initiated last year to treat zinc concentrates with high copper content led to record copper production at the plant of 4 640 tonnes an increase of 12% compared to the previous year

Zinc metal production at our Nordenham plant in Germany rose by 6% to 154,000 tonnes while a change in the operation's inventory levels led to sales volumes decreasing by 2% to 148 000 tonnes compared to 2010 We achieved increased volumes through the successful commissioning in January 2011 of the new 20,000 tonnes per year direct leaching stage that uses our proprietary hydrometallurgy technology plant

The Northfleet refinery in the UK produced 130,000 tonnes of refined lead and 5 4 million ounces of silver during the year Volumes were lower than the previous year, largely due to delayed crude lead shipments from Mount Isa following flooding in Queensland in the first quarter Silver production was also lower than the previous year, for the same reasons

Zinc Lead Americas

Operating profit increased to $455 million up 18% from $386 million in 2010, as higher realised prices and cost reduction initiatives offset lower volumes at Antamina, where the mine plan is producing a greater proportion of copper only ores and lower zinc grades

Brunswick mine was able to maintain mill throughput at 3 1 million tonnes in line with 2010 levels, despite facing the challenges associated with an older mine Zinc in concentrate production fell 2% to 209,000 tonnes, lead in concentrate was 6% lower at 57,000 tonnes and copper in concentrate increased to 9,000 tonnes as improved mining techniques only partially offset declining head grades Cost saving and enhancement initiatives and better by-product credits reduced Brunswick mine's C1 cash costs to 9 5¢ per pound, a 68% reduction on 2010

Our Brunswick smelter processed a total of 247,000 tonnes of new feed materials in 2011 and reached a new silver dore production record of 432 tonnes as a result of an increment in the proportion of high-margin residues and high-silver contained concentrates over the total feed consumed Sales volumes were down as a result of lower lead content in feed ore reducing lead production to 76,500 tonnes, 10% lower than in 2010 Cost cutting initiatives generated savings of $7 million, helping to mitigate inflationary pressure particularly from higher fuel and coke prices

Our Matagami mine completed its third full operating year, milling 1 1 million tonnes of ore, 2 3% more than in 2010 Zinc metal production in 2011 decreased 3% to 135,000 tonnes and copper by 3% to 10,000 tonnes We achieved a 42% reduction in C1 cash costs compared to 2010 of 14 4¢ per pound from cost reductions and higher by-products credits

Sales volumes

	Year ended 31 12 11	Year ended 31 12 10
Australia – Mount Isa		
Zinc in concentrate (t) third party sales (payable metal)	**215,503**	220 427
Zinc in concentrate (t) inter-company sales (payable metal)	**89,611**	70,857
Total zinc (t) (payable metal)	**305,114**	291 284
Lead in concentrate (t) inter company sales (payable metal)	**–**	4,277
Lead in dross (t) third party sales (payable metal)	**3,854**	3,469
Lead in bullion (t) inter company sales (payable metal)	**131,808**	147,888
Total lead (t) (payable metal)	**135,662**	155,634
Silver in concentrate and dross (koz) third party sales (payable metal)	**337**	436
Silver in concentrates and in bullion (koz) inter company sales (payable metal)	**6,293**	7,313
Total silver (koz) (payable metal)	**6,630**	7 749
Australia – McArthur River		
Zinc in concentrate (t) third party sales (payable metal)	**117,572**	143,201
Zinc in concentrate (t) inter-company sales (payable metal)	**37,390**	8,665
Lead in concentrate (t) third party sales (payable metal)	**19,549**	19,643
Silver in concentrate (koz) third party sales (payable metal)	**258**	279
Europe – San Juan de Nieva		
Refined zinc (t)	**489,778**	480,103
Europe – Nordenham		
Refined zinc (t)	**148,816**	151,109
Europe – Northfleet		
Refined lead (t)	**127,753**	156,118
Refined silver (koz)	**5,452**	7,817
North America – Brunswick		
Zinc in concentrate (t) third party sales (payable metal)	**31,675**	41,201
Zinc in concentrate (t) inter company sales (payable metal)	**132,893**	120,697
Total zinc (t) (payable metal)	**164,568**	161,898
Lead concentrate (t) inter-company sales (payable metal)	**44,593**	45,371
Zinc in bulk concentrate (t) third party sales (payable metal)	**12,656**	13,278
Lead in bulk concentrate (t) third party sales (payable metal)	**6,420**	9,391
Silver in bulk concentrate (koz) third party sales (payable metal)	**289**	465
Refined lead & alloys (t)	**70,302**	80 579
Silver dore (koz) inter-company sales	**13,187**	13,328
North America – CEZ **		
Refined zinc (t)	**66,706**	67 281
Perseverance		
Zinc in concentrate (t) third party sales (payable metal)	**16,224**	19 272
Zinc in concentrate (t) inter–company sales (payable metal)	**97,695**	98,302
Total zinc (t) (payable metal)	**113,919**	117 574
North America – Kidd Creek refined zinc (t)		
Refined zinc (t)	**–**	48,560
Peru – Antamina zinc***		
Zinc in concentrate (t) third party sales (payable metal)	**66,289**	116,525
Total zinc (t) (payable metal)	**66,289**	116,525
Total zinc metal third party sales (t)	**705,299**	747,053
Total zinc in concentrate third party sales (t)	**459,919**	553,904
Total lead metal third party sales (t)	**198,055**	236 697
Total lead in concentrate third party sales (t)	**29,823**	32,503
Total silver metal third party sales (koz)	**5,452**	7,817
Total silver in concentrate third party sales (koz)	**884**	1,180
Average LME zinc price (US$/t)	**2,190**	2,159
Average LME lead price (US$/t)	**2,399**	2 148

* Xstrata Zinc's pro rata share of Lennard Shelf sales volumes (50%)
** Xstrata Zincs pro rata share of CEZ sales volumes (25%)
*** Xstrata Zinc's pro rata share of zinc sales from Xstratas 33 75% interest in Antamina

Summary production data

	Year ended 31 12 11	Year ended 31 12 10
Total zinc in concentrate production (t)	**974,517**	1,022,252
Total zinc in metal production (t)	**737,758**	765,867
Total lead in concentrate production (t)	**225,743**	235,616
Total lead in metal production (t)	**206,579**	238,735
Total copper in concentrate production (t)	**18,550**	18,205
Consolidated zinc cash cost (C1) – post by-product credits ($/lb)	**33 19**	40 50

Operating review: **Alloys**

Alloys growth projects

Peet Nienaber
Chief Executive, Xstrata Alloys

Market summary

- Record levels of global consumption of ferrochrome
- Platinum and palladium prices increased by 7% and 39% respectively on 2010

Financial Review

- Operating profit reduced to $153 million
- Stronger average prices for our commodities contributed $15 million

Operations

- Efficiency initiatives at our ferrochrome operations improved electricity consumption during peak tariff periods
- Our Mototolo platinum joint venture increased production and successfully maintained nameplate production throughout the year

Developments

- We progressed the development of the underground mine infrastructure at Eland platinum mine
- In April, we commence construction of the Tswelopele pelletizing and sintering plant

Progress in sustainability

- We have enhanced our processes to identify hazards and manage risk through the successful implementation of commitment-based safety programmes We are taking a risk-based approach to all activities to ensure out priorities are clearly defined and managed
- In 2011, our total recordable injury frequency rate decreased by 12%

Strategic priorities for 2012

- Commissioning of Tswelopele our 600,000 tonnes per annum chromite pellet plant in the second half of the year
- Continue the phase two expansion of the Lion ferrochrome smelter for commissioning in 2013

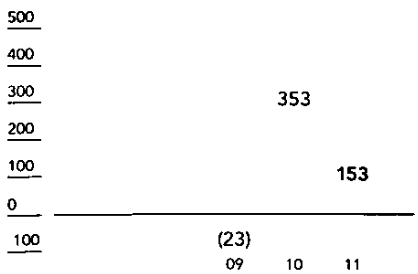
Approved projects

Lion II Tswelopele pellet plant Eland underground and concentrator

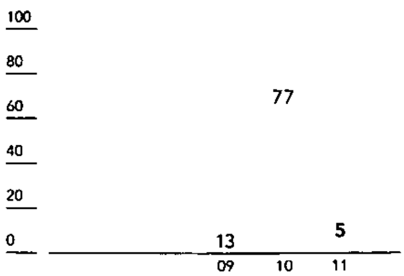
18%
ferrochrome production increase by 2014

Our ferroalloys business is one of the world's largest integrated ferrochrome producers in the world Thanks to our own Premus technology, developed by our alloys team and implemented at a number of our ferrochrome smelters we run some of the worlds most energy-efficient chrome operations

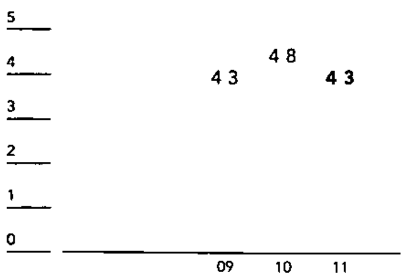
Operating profit
($m)



Cost savings
($m)



Total recordable injury frequency rate
(per million hours)



Xstrata story:
Ben Moolman

Taking responsibility and making decisions

"You realise that if you take a decision forward it's yours, the responsibility will lie with you That immediately changes your mindset You've got to be 100% sure that this is what you want and can do Immediately you look at your operations in a different way You have to cascade that responsibility down, which takes the decision-making to the most appropriate level – the operational level – the guys who keep the wheels going and make the money for the company"

Ben Moolman
Managing Director Platinum
Xstrata Alloys, South Africa

Read more of Ben Moolman's story at www xstrata com

Markets

Ferrochrome

Strong global stainless steel demand growth, driven mostly by continued double digit growth in China, resulted in record production of stainless steel in 2011 Global consumption of ferrochrome reached a record 8 7 million tonnes, exceeding the previous high of 8 3 million tonnes in 2010 Strong end-user demand and restocking by stainless steel distribution centres in the first half supported the growth in global demand for both stainless steel and ferrochrome

Despite rising oil prices and global events such as the natural disaster in Japan and political unrest in the Middle East, volumes in the global stainless industry remained healthy for the first half of 2011, albeit with considerably reduced margins In the second half of the year, falling prices for nickel and chrome, triggered by renewed concerns over global sovereign debt, began to erode sentiment in the stainless steel market

Global ferrochrome production rose in response to increased demand to reach a record 8 7 million tonnes in 2011, 1% higher than 2010 South African production rose during the first quarter of 2011, but overall volumes from South Africa declined by 9% due to progressively weaker demand during the year and reduced production during the high electricity tariff South African winter

In response to strong demand and an increased availability of chromite ore, Chinese ferrochrome production increased by 12% or 260 000 tonnes on the record production levels achieved in 2010 Despite producing around 2 4 million tonnes of ferrochrome in 2011 China remains a net ferrochrome importer with 1 8 million tonnes imported in 2011 This represents 44% of total Chinese demand of which South Africa supplied 1 1 million tonnes, an increase of 18% on the previous year

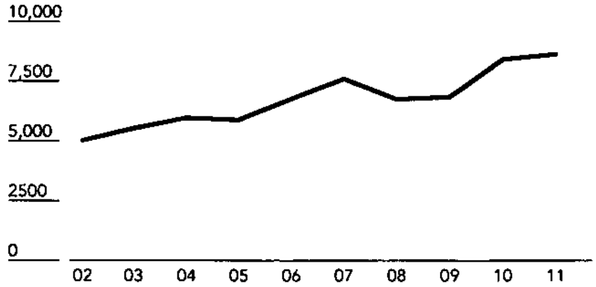
The Chinese chromite ore market continues to grow strongly with 9 4 million tonnes imported in 2011, an increase of 9% on the previous year South Africa supplied around 50% of the chromite imported into China, a 51% increase on 2010's record volumes At the end of the year approximately 3 6 million tonnes of chromite ore were estimated to be held in stocks at Chinese ports

During 2011, the European benchmark contract price for ferrochrome traded between 120¢ per pound and 135¢ per pound, averaging 125¢ per pound a 0 6% increase on the previous year

Outlook

We expect positive underlying fundamentals to support stainless steel demand and for the global market to grow at a higher rate than in 2011 Increased demand for stainless steel will lead to higher stainless steel melt production and, as a result, increased demand for virgin ferrochrome units and improved ferrochrome pricing Continued increases in global electricity and mining costs and the strengthening of the freight market, will result in margins remaining under pressure

Global ferrochrome consumption
(kt)



Global ferrochrome consumption

Platinum Group Metals (PGM)

Despite the global economic uncertainty, total demand for platinum showed modest year-on year growth in all sectors apart from the investment sector during the year

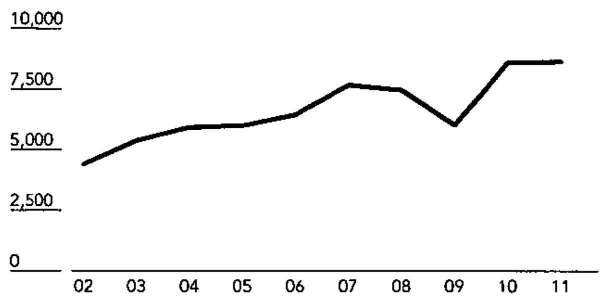
Autocatalyst demand continued to recover in 2011, with global light vehicle sales growing by 4% on 2010 levels This growth was largely supported by higher light vehicle sales and production in the US and China, both major consumers of gasoline vehicles that require palladium rich autocatalysts European vehicle sales, strongly affected by the financial situation in the Eurozone saw total passenger car sales fall by 1 4% in Western Europe Germany, however, enjoyed an 8 8% increase in vehicle sales in 2011 in contrast to declining sales volumes in Spain and Italy Demand for diesel vehicles in Europe, which use platinum-rich converters, has stabilised at above 50% of total European vehicle sales, a full recovery from the lows of 40% during the vehicle scrapping schemes in 2009

Jewellery continued to provide a floor for PGM prices during 2011, with sales, measured by trading on the Shanghai Gold Exchange, surging during the price dips in October High demand from China the largest single consumer of platinum jewellery supported growth in global demand during the year

Global economic concerns negatively impacted investment demand for PGMs in 2011, with investors following different strategies for platinum and palladium Platinum exchange traded funds (ETFs) showed a net investment of 140 000 ounces in 2011 while palladium ETFs showed a net outflow of 530,000 ounces

Global ferrochrome supply

(kt)



Global ferrochrome supply

In South Africa, the largest primary producing country supply was negatively affected by an increase in the number of safety-related legally enforced stoppages as well as industrial action Despite deepening shafts, falling head grades and depletion of the Merensky reef in South Africa, global primary supply of platinum increased by 160,000 ounces, or 3% on 2010 levels Secondary platinum supply from recycling increased by 15%, or 220,000 ounces, in 2011, largely due to an increasing volume of platinum-rich diesel vehicles being recycled

On average platinum and palladium prices increased by 7% and 39% on 2010 levels respectively and rhodium prices decreased by 18% For the first half of the year, platinum mostly tracked the gold price, reaching a high of $1,887 per ounce in August, at which point it was trading at parity with gold, for the first time since 2008 Since then, global risk aversion amid ongoing concerns over sovereign debt in the Eurozone, has seen the platinum price trade at a discount to gold Platinum closed the year at $1,381 per ounce, 22% lower than at the start of 2011 and palladium's year end price was 20% lower at $636 per ounce

Outlook

Global forecasts show overall growth, albeit at a slower pace than previously predicted for vehicle production and sales in 2012 Ongoing European economic concerns will continue to threaten platinum autocatalyst demand growth, as European vehicle sales represent 50% of autocatalytic platinum demand

Primary supply faces ongoing operating challenges which coupled with increasing labour and electricity costs are expected to place margins under pressure and may severely impact smaller producers

Xstrata Alloys

Financial and operating data

$m	**Year ended 31 12 11**	Year ended 31 12 10
Revenue	**1,689**	1,894
Operating EBITDA	**294**	477
Depreciation and amortisation	**(141)**	(124)
Operating profit/(loss)	**153**	353
Share of Group Operating profit	**1 8%**	4 6%
Capital employed	**3,165**	3,550
Return on capital employed*	**4 9%**	11 0%
Capital expenditure	**387**	267
Sustaining	**137**	126
Expansionary	**250**	141

* ROCE % based on average exchange rates for the year

Operating profit variances

	$m
Operating profit 31 12 10	**353**
Sales price*	15
Volumes	(86)
Unit cost – real	5
Unit cost – CPI inflation	(42)
Unit cost – mining industry inflation	(70)
Unit cost – foreign exchange	59
Other income and expenses	(65)
Depreciation and amortisation (including impairments of PPE and excluding foreign exchange)	(16)
Operating profit 31 12 11	**153**

* Net of commodity price linked costs treatment and refining charges

2011 was a challenging year for Xstrata Alloys with marginally higher pricing unable to offset ongoing inflationary input costs We reduced capacity utilisation to respond to lower demand while industrial action at a number of operations during the second half also curtailed production and increased unit costs As a result, our operating profit reduced to $153 million for 2011, compared to $353 million for 2010 Operating profit from our mature ferrochrome and vanadium businesses of $176 million was partly offset by an operating loss of $23 million in our platinum business The contribution from Mototolo, which has reached steady-state production was more than offset by reduced volumes and increased unit costs at Eland due to lower grades and challenging ground conditions amid the transition from open cut to underground Stronger average prices for commodities contributed $15 million, although this was outweighed by lower sales volumes which impacted operating profit by $86 million and mining inflation increases on key cost drivers which further reduced operating profit by $70 million

Double digit inflationary rises in key costs were experienced during 2011, increasing costs in nominal terms In real terms measured against the inflationary headwinds, our chrome business achieved $32 million of unit cost savings from efficiency improvements The impact of lower grades due to difficult operating conditions in the platinum division largely offset the chrome efficiencies, resulting in unit cost savings of $5 million The weakening of the rand against the dollar during 2011, compared to the inverse trend in 2010, had a positive impact of $59 million

Platinum mine, South Africa
The underground operations at Eland will produce 250,000 tonnes per month by the end of 2013 and stead state production of 500,000 tonnes per month will be reached during the last quarter of 2015 doubling production levels to 300,000 platinum ounces per annum

Other income and expenses of $65 million mainly consists of $21 million for the reversal of provisions not recurring in 2011, increased social and labour costs of $10 million and an increase in standing charges of $15 million due to idled capacity

Operations

Ferrochrome
During 2011, our total ferrochrome production of 1,021,000 tonnes, representing 72% of total operating capacity, was 12% lower than in 2010 as our operations responded to weaker market conditions

Our chrome division faced significant, above-inflation price increases for ore, which rose by 24%, and electricity which increased by 23% year on-year following similar increases in previous years Cash production costs rose by 14% in nominal rand terms, but we were able to mitigate above-inflation cost increases fully by improving the efficiency of our operations' electricity consumption during peak tariff periods, as well as using lower priced UG2 ore (a waste product from the platinum industry) and by implementing ongoing consumption efficiency improvements

Ongoing initiatives to optimise reductant mixes have contributed an additional 7% reduction in average reductant costs compared to 2010 We expect additional improvements from the commissioning of the Tswelopele pelletizing and sintering plant in 2012 and Lion Phase II project in 2013

Vanadium pentoxide and ferrovanadium production decreased by 4% and 8% respectively compared to 2010, mainly due to a 14-day planned maintenance shutdown

Platinum Group Metals
PGM volumes were 22%, or 42,417 ounces, lower than 2010 as Eland mine continued to transition from an open pit to an underground mine Production was also impacted by delays in obtaining mining rights extensions for the open cast mining areas and for the De Wildt mineral resource block and by industrial action at Eland in October The Mototolo joint venture increased throughput by 39,757 tonnes marginally more than in 2010, and succeeded in maintaining nameplate ROM production of around 200,000 tonnes per month throughout the year processing a total of 2,302,990 milled tonnes

Summary production data

	Year ended 31 12 11	Year ended 31 12 10
Ferrochrome (kt)*	**1,021**	1,165
Vanadium**		
Ferrovanadium (kkg)	**3,953**	4,311
V_2O_5 (klbs)	**21,039**	21,874
PGM**		
Platinum (oz)	**92,411**	117,659
Palladium (oz)	**46,968**	59,584
Rhodium (oz)	**15,049**	19,602
Indicative average published prices (Metal Bulletin)		
Ferrochrome (c/lb)	**125 0**	124 3
V_2O_5 ($/lb)	**6 6**	6 9
Ferrovanadium ($/kg V)	**28 7**	30 1
Average (London Platinum and Palladium Market) platinum price ($/oz)	**1,720**	1,611
Average (London Platinum and Palladium Market) palladium price ($/oz)	**733**	527
Average (Johnson Matthey) rhodium price ($/oz)	**2,022**	2 406

* Including Xstrata's 79 5% share of the Xstrata Merafe Chrome Venture
** 100% consolidated

Technology Services

Financial and operating data

$m	Year ended 31 12 11	Year ended 31 12 10
Revenue	**222**	153
EBITDA	**34**	32
Depreciation and amortisation	**(7)**	(6)
EBIT	**27**	26
Capital expenditure	**6**	2

Our Technology Services business provides expertise and technology to support the processes involved in mining and metallurgy Technology Services comprises Xstrata Technology, based in Brisbane, Australia, a specialist technology solutions provider and Xstrata Process Support, based in Sudbury, Canada, an independent group that provides highly specialised technological support both to Xstrata's operations and to third party customers

Revenue in 2011 increased by 45% compared to 2010, due to increased orders across all our Technology Services businesses, in particular those delivering hydrometallurgical and mineral processing technologies Overall Technology Services' EBIT remained at a similar level to 2010, as a result of a changing revenue mix and growing competition in some regions

Xstrata Technology

Albion Process™

Our Albion Process™ technology provides a robust method of treating refractory concentrates with low capital costs through combining fine grinding in the IsaMill™ with leaching under atmospheric conditions

A number of third party customers are now implementing our Albion Process™ technology, including Bass Metals' Hellyer gold project in Tanzania, and the GeoPro Mining Gold Project in Armenia In early January 2012 an Albion Process plant to treat refractory gold concentrates in the Dominican Republic began commissioning for Panterra Gold Limited

We are also operating two Albion Process™ plants at our Nordenham and San Juan de Nieva zinc smelters supporting improved zinc recovery from McArthur River Mine's bulk zinc-lead concentrates

IsaMill™

Our IsaMill™ technology originally developed for ultra fine grinding applications, is now successfully used for mainstream tertiary and regrind applications across a broad range of industrial applications During 2011, we saw strong demand growth from platinum and copper companies An iron ore grinding application has been added to our range of products

ISASMELT™

Our low capital cost, rapid startup ISASMELT™ technology is used to both modernise existing operations and to build efficient and clean greenfield smelters During the last 20 years, over 20 ISASMELT™ plants have been built in countries including Belgium, China, Germany, India, Malaysia, Peru, US and Zambia

In 2011, a new copper plant was commissioned in Kazakhstan and construction continued on a lead plant in Kazakhstan and a lead plant in China We signed a contract with Kansanshi Mining Plc to supply engineering and equipment for a new greenfield copper smelter in Zambia, which has the capacity to treat 1 4 million tonnes per year of copper concentrate We also completed a basic engineering package for a plant to recover zinc metal from lead blast furnace slag

Bottom Blown Oxygen Cupel (BBOC)

BBOC, a high intensity, cost effective silver refining technology was developed and is used at Xstrata's Britannia Refined Metals refinery in the UK During the year we delivered a BBOC package to Hindustan Zinc Limited in India and undertook a number of studies on BBOC for external customers

Jameson Cell

The Jameson Cell is a high intensity flotation technology that has traditionally been very successful in fine coal flotation During 2011, there was increased demand from base metal applications for copper and gold processing and we anticipate these customers will represent around 50% of future revenue

IsaKidd Technology

IsaKidd combines the Isa Process™ and Kidd Process™ copper refining technologies and offers a comprehensive technology package in electro-refining, electro-winning and full solvent-extraction/electro-winning plants

Revenue from our IsaKidd™ technology increased by 19% in 2011 on the previous year as a result of continued strong demand for our unique specification stainless steel cathode plates (both 316L and Duplex) Our patented XT Duplex steel has demonstrated superior corrosion resistance and is continuing to gain market share The new robotic stripping machine we successfully commissioned during 2011 has demonstrated improved stripping effectiveness and throughput consistency for single sheet requirements

Orders for our IsaKidd™ technology continue to be strong from major industrial regions including China, Africa, India, South America, Asia and Europe

Xstrata Process Support

Xstrata Process Support provides expert technical services to the minerals sector through four separate groups Interest has continued to recover and revenues from external customers for 2011 represented 49% of total revenue compared to 35% in 2010

Process Mineralogy

Our Process Mineralogy group a mineral processing and science business, continues to see strong demand from our operations and projects In 2011, the group provided GeoMet unit selection, ore characterisation, plant optimisation and flowsheet development services to Strathcona Mill and Bracemac-McLeod project in Canada and to the Pallas Green project in Ireland During the year, a new service focusing on support for plant operations was started and is enjoying strong demand from third-party customers

Extractive Metallurgy

Demand for the expertise provided by Extractive Metallurgy on pyrometallurgy and hydrometallurgy to smelters and refineries continued to grow for fluid bed roasting, thermal analysis and process modelling The group is expanding its pyrometallurgical capabilities through installation of a 300kW DC furnace for smelter piloting campaigns Demand for a metallurgical accounting audit package from third party customers was strong

Process Control

Demand continues to be strong for Process Control, a group of highly experienced engineers based in Sudbury, Canada, and at various Xstrata operations During the year, our engineers delivered best practice control solutions to Xstrata operations including Xstrata Alloys' Eland platinum concentrator in South Africa Xstrata Copper's Kidd Mine and concentrator in Canada and Xstrata Nickel s Strathcona concentrator in Canada In Sudbury, at Xstrata Nickel's new Nickel Rim South mine and Fraser mine projects, automation and control, particularly for energy savings in ventilation systems is being improved In South America our Process Control engineers are part of Xstrata Copper's Standard Concentrator Design team designing and building replicable copper concentrators and site facilities for the Antapaccay and Las Bambas growth projects in Peru

Materials Technology

Our Materials Technology team provides asset integrity management services during the development and implementation stages of capital projects and on through the full equipment lifecycle Plant inspections are specialised and are vital to minimise unexpected plant shutdowns In 2011 Materials Technology worked in Canada with Xstrata Nickel at the Sudbury concentrator and smelter and at Xstrata Copper's Horne smelter Several smelter acid plant inspections were also completed for external clients during the year

Materials Technology continues to experience strong demand for its services from external clients and expanded its workforce and services in 2011

Operations data

Xstrata Copper

Name of operation	Economic benefit	100% production 2011	100% production 2010	Accounting status	Location
Argentina					
Alumbrera	50%	**38 2mt ore**	37 5mt ore	Subsidiary	Catamarca Province
		117kt Cu in conc	140kt Cu in conc		
		327koz Au in conc	360koz Au in conc		
		28koz Au in doré	45koz Au in doré		
Australia					
Ernest Henry	100%	**10 4mt ore**	9 8mt ore	Subsidiary	North West Queensland
		100kt Cu in conc	75kt Cu in conc		
		129koz Au in conc	91koz Au in conc		
Mount Isa	100%	**5 9mt ore**	6 1mt ore	Subsidiary	North West Queensland
		149kt Cu in conc	158kt Cu in conc		
		238kt Cu in anode	215kt Cu in anode		
Townsville Refinery	100%	**277kt Cu cathode**	287kt Cu cathode	Subsidiary	North Queensland
Canada					
CCR	100%	**264kt Cu cathode**	276kt Cu cathode	Subsidiary	Quebec
Horne	100%	**187kt Cu in anode**	194kt Cu in anode	Subsidiary	Quebec
Kidd	100%	**42kt Cu in conc**	53kt Cu in conc	Subsidiary	Ontario
		71kt Zn in conc	38kt Cu in cathode		
			86k Zn in conc		
Chile					
Altonorte	100%	**311kt Cu in anode**	278kt Cu in anode	Subsidiary	Antofagasta Region
Collahuasi	44%	**47 8mt ore**	49 1mt ore	Joint venture	Tarapacá Region
		417kt Cu in conc	465kt Cu in conc		
		36kt Cu cathode	39kt Cu cathode		
Lomas Bayas	100%	**14 5 mt ore**	14 2mt ore	Subsidiary	Antofagasta Region
		74 kt Cu Cathode	72kt Cu cathode		
Peru					
Antamina (joint with Xstrata Zinc)	33 75%	**37 6mt ore**	36 5mt ore	Joint venture	Ancash Region
		334kt Cu in conc	301kt Cu in conc		
Tintaya	100%	**7 3mt ore**	7 3mt ore	Subsidiary	Espinar Province
		74kt Cu in conc	68kt Cu in conc		
		21kt Cu cathode	25kt Cu cathode		

Xstrata Coal

Name of operation	Economic benefit	100% production 2011	100% production 2010	Accounting status	Location
Americas					
Cerrejón	33 3%	**32,255kt**	30,180kt	Joint venture	Colombia
Australia					
Cumnock*	90%	–	466kt	Joint venture	Hunter Valley
Liddell	67 5%	**4,603kt**	3 922kt	Joint venture	Hunter Valley
Macquarie Coal JV					
– West Wallsend	80%	**2,760kt**	2,230kt	Joint venture	Newcastle
– Westside	80%	**907kt**	802kt	Joint venture	Newcastle
Mt Owen	100%	**9,227kt**	8,284kt	Subsidiary	Hunter Valley
Ravensworth Operations	100%	**3,980kt**	4,411kt	Subsidiary	Hunter Valley
Ravensworth Underground	70 2%	**1,696kt**	2,262kt	Joint venture	Hunter Valley
Oakbridge Group					
– Baal Bone	74 1%	**1,184kt**	1,321kt	Subsidiary	Western Coal Fields
– Bulga Underground	68 3%	**787kt**	3,972kt	Joint venture	Hunter Valley
– Bulga Open Cut	68 3%	**6,157kt**	5,663kt	Joint venture	Hunter Valley
Tahmoor	100%	**1,721kt**	936kt	Subsidiary	Southern Coal Fields
Ulan					
– Ulan Underground	90%	**3,940kt**	4 802kt	Joint venture	Western Coal Fields
– Ulan West Box Cut	90%	**572kt**	–	Joint venture	Western Coal Fields
Mangoola	100%	**7,791kt**	–	Subsidiary	Hunter Valley
United*	95%	–	223kt	Joint venture	Hunter Valley
Oaky Creek	55%	**8,020kt**	10,121kt	Joint venture	Bowen Basin
Newlands					
– Thermal	55%	**5,068kt**	8 122kt	Joint venture	Bowen Basin
– Coking	55%	**1,418kt**	1,273kt	Joint venture	
Collinsville					
– Thermal	55%	**2,747kt**	2 095kt	Joint venture	Bowen Basin
– Coking	55%	**1,210kt**	936kt	Joint venture	Bowen Basin
Rolleston	75%	**7,502kt**	5,776kt	Joint venture	Bowen Basin
South Africa					
Mpumalanga Division**					
– Spitzkop	79 8%	**548kt**	593kt	Subsidiary	Ermelo
– Tselentis	79 8%	**473kt**	519kt	Subsidiary	Breyten
Impunzi Division	79 8%	**4,601kt**	4,451kt	Subsidiary	Witbank
Tweefontein					
– Open Cast	79 8%	**2,112kt**	3 347kt	Subsidiary	Witbank
– Underground	79 8%	**5,430kt**	5,527kt	Subsidiary	Witbank
Goedgevonden	74%	**5,293kt**	4,394kt	Joint venture	Witbank

* Current operations completed, decision on remaining reserves pending

** Sold December 2011

Operations data *continued*

Xstrata Nickel

Name of operation	Economic benefit	**100% production 2011**	100% production 2010	Accounting status	Location
Australia					
Cosmos	100%	**437kt ore**	383kt ore	Subsidiary	Mt Keith-Leinster
		11kt Ni in conc	14kt Ni in conc		
Sinclair	100%	**341kt ore**	149kt ore		
		6kt Ni in conc	3kt Ni in conc	Subsidiary	Mt Keith Leinster
Canada					
Sudbury – Nickel Rim South mine	100%	**1 3mt ore**	1 1mt ore	Subsidiary	Ontario
		18kt Ni in conc	15kt Ni in conc		
		39kt Cu in conc	29kt Cu in conc		
Sudbury – mill and smelter	100%	**1 9mt ore**	1 5mt ore	Subsidiary	Ontario
		122kt Ni-Cu matte	131kt Ni Cu matte		
Raglan	100%	**1 3mt ore**	1 3mt ore	Subsidiary	Quebec
		27kt Ni in conc	28kt Ni in conc		
Dominican Republic					
Falcondo	85 3%	**1 1mt ore**	Care and maintenance	Subsidiary	Bonao
		13 5kt Ni in FeNi			
Norway					
Nikkelverk	100%	**92kt Ni**	92kt Ni		
		36kt Cu	36kt Cu	Subsidiary	Kristiansand
		3kt Co	3kt Co		

Xstrata Zinc

Name of operation	Economic benefit	**100% production 2011**	100% production 2010	Accounting status	Location
Germany					
Nordenham	100%	**154kt Zn**	146kt Zn	Subsidiary	Nordenham
		148kt saleable Zn	140kt saleable Zn		
Peru					
Antamina	33 75%	**37 6mt ore**	36 5mt ore	Joint venture	Ancash
(joint with Xstrata Copper)		**235kt Zn in conc**	386kt Zn in conc		
Spain					
San Juan de Nieva	100%	**511kt Zn**	501kt Zn	Subsidiary	Asturias
		489kt saleable Zn	480kt saleable Zn		
Hinojedo	100%	**39kt calcine**	36kt calcine	Subsidiary	Cantabria
		22kt SO	23kt SO		
Arnao	100%	**16kt ZnO**	15kt ZnO	Subsidiary	Asturias
UK					
Northfleet	100%	**130kt primary Pb**	153kt primary Pb	Subsidiary	Northfleet
		167t Ag	232t Ag		

Xstrata Zinc

Name of operation	Economic benefit	**100% production 2011**	100% production 2010	Accounting status	Location
Australia					
McArthur River	100%	**2 3mt ore**	2 2mt ore	Subsidiary	Northern Territory
		194 kt Zn in conc	184kt Zn in conc		
Mount Isa	100%	**9 1mt ore**	8 6mt ore	Subsidiary	North West
		357kt Zn in conc	355kt Zn in conc		Queensland
		139kt Pb in bullion	140kt Pb in bullion		
		204t Ag in bullion	211t Ag in bullion		
Canada					
Brunswick mine	100%	**3 1mt ore**	3 1mt ore	Subsidiary	New Brunswick
		209kt Zn in conc	214kt Zn in conc		
		57kt Pb in conc	60kt Pb in conc		
		157t Ag in conc	168t Ag in conc		
		9kt Cu in conc	8kt Cu in conc		
Brunswick Smelting	100%	**77kt refined Pb**	85kt refined Pb	Subsidiary	New Brunswick
		418t Au doré	406t Au dore		
CEZ Refinery	25%	**290Kt Zn**	290Kt Zn	Associate	Quebec
Perseverance mine	100%	**1,087 Kt ore**	1,062 Kt ore		
		135kt Zn in conc	139kt Zn in conc	Subsidiary	Quebec
		10kt Cu in conc	10kt Cu in conc		
General Smelting	100%	**5kt Zn and Pb**	5kt Zn and Pb	Subsidiary	Quebec

Xstrata Alloys

Name of operation	Economic benefit	**100% production 2011**	100% production 2010	Accounting status	Location
South Africa					
Boshoek plant	79 5%	**141kt**	154kt	Joint venture	Boshoek
Lion plant	79 5%	**302kt**	248kt	Joint venture	Steelpoort
Lydenburg plant	69 6%	**291kt**	358kt	Joint venture	Lydenburg
Rustenburg plant	79 5%	**183kt**	334kt	Joint venture	Rustenburg
Wonderkop plant	79 5%	**368kt**	371kt	Joint venture	Mankana
Kroondal mine	79 5%	**792kt**	815kt	Joint venture	Rustenburg
Thorncliffe mine	79 5%	**801kt**	858kt	Joint venture	Steelpoort
Helena mine	79 5%	**489kt**	456kt	Joint venture	Steelpoort
Waterval mine	79 5%	**210kt**	-kt	Joint venture	Rustenburg
Rhovan V_2O_5 FeV	74%	**21,039klb**	21,874klb	Joint venture	Brits
	74%	**3,953klb**	4,311kkg	Joint venture	Brits
Char Technologies	100%	**27kt**	53kt	Subsidiary	Witbank
African Carbon Manufacturers	100%	**38kt**	73kt	Subsidiary	Witbank
African Carbon Producers	100%	**82kt**	109kt	Subsidiary	Witbank
African Fine Carbon	100%	**33kt**	54kt	Subsidiary	Middelburg
African Carbon Union	74%	**36kt**	65kt	Subsidiary	Witbank
Mototolo	37%	**198koz**	196koz	Joint venture	Steelpoort
Eland	73 99%	**57koz**	101koz	Joint venture	Brits

Abigail Nomfundo's story

Raw Materials Superintendent
Xstrata Alloys, South Africa

"To be given the freedom and to be trusted to do what I'm supposed to do, that to me is priceless. There's a certain breed of people who do well at Xstrata, who thrive on being given responsibility and accountability right away."

Board of directors

Sir John Bond

Title and age Chairman, aged 70

Appointment
Appointed in May 2011

Committee membership Chairman of the Nominations Committee and member of the Remuneration Committee

Skills and experience Sir John Bond resigned as chairman and non-executive director of Vodafone Group plc on 26 July 2011 He was appointed to the board of Vodafone in 2005 and became chairman in 2006 He is a director of A P Moller-Maersk A/S (Denmark) the international shipping and investment company, and Shui On Land Ltd, a Hong Kong quoted property development company specialising in China He retired as Group Chairman of HSBC Holdings plc in 2006, having also been its Group Chief Executive from 1993 to 1998 He holds advisory roles with Northern Trust Corp, US, and with KKR Asia He is also a member of various advisory bodies in China China Development Forum, China Banking Regulatory Commission International Advisory Board, and Tsinghua School of Economics and Management at Tsinghua University

External appointments None

Mick Davis

Title and age
Chief Executive aged 54

Appointment Appointed Chief Executive in October 2001 and then Chief Executive of Xstrata plc upon incorporation in February 2002

Committee membership Chairman of the Executive Committee, and a member of the Health, Safety Environment and Community Committee

Skills and experience Previously Mr Davis was Chief Financial Officer and an executive director of Billiton Plc appointed in July 1997, and served as Executive Chairman of Ingwe Coal Corporation Limited from 1995 He joined Gencor Limited in early 1994 from Eskom, the South African state-owned electricity utility where he was an executive director

External appointments None

Ivan Glasenberg

Title and age
Non-executive director, aged 55

Appointment
Appointed in February 2002

Committee membership None

Skills and experience Mr Glasenberg is the Chief Executive Officer of Glencore International plc, a leading integrated commodities producer and marketer He previously worked in the coal department of Glencore in South Africa for three years and in Australia for two years From 1989 to 1990 he managed Glencore International s Hong Kong and Beijing offices In 1991 he became Head of Glencore's Coal Department and in 2002 Chief Executive Officer of Glencore International

Other external appointments
Director of United Company RUSL plc

David Rough

Title and age Deputy Chairman and Senior Independent Director, aged 61

Appointment
Appointed in April 2002

Committee membership Chairman of the Remuneration Committee and a member of the Nominations, Audit and Health, Safety, Environment and Community Committees

Skills and experience Mr Rough was a director of Legal & General Group Plc before retiring from Legal & General in June 2002 As Group Director (Investments), Mr Rough headed all aspects of fund management within Legal & General Investments

External appointments Director of Land Securities Group plc Brown, Shipley & Co Ltd and LME Holdings Ltd

Peter Hooley

Title and age
Non-executive director, aged 65

Appointment
Appointed in May 2009

Committee membership Chairman of the Audit Committee

Skills and experience Mr Hooley was, until 2006, Group Finance Director of Smith & Nephew plc, a global medical devices business listed on the FTSE 100 He was previously Group Financial Controller of BICC plc

External appointments Director and Chairman of BSNmedical Luxembourg Holding Sarl, a medical textiles business group

Con Fauconnier

Title and age
Non-executive director, aged 64

Appointment
Appointed in May 2010

Committee membership Member of the Health Safety, Environment and Community and Remuneration Committees

Skills and experience Dr Fauconnier was Managing Director of Iscor Mining in 1999 before being appointed as Chief Executive of Kumba Resources Limited in 2001 From 2006 until his retirement in August 2007, he served as Chief Executive Officer of Exxaro Resources Limited, a newly formed company from the merger of Eyesizwe Mining and the non iron ore assets of Kumba Resources

External appointments None

Claude Lamoureux

Title and age
Non-executive director aged 69

Appointment
Appointed in May 2008

Committee membership Member of Audit and Health Safety, Environment and Community Committees

Skills and experience Mr Lamoureux was President and Chief Executive Officer of the Ontario Teachers' Pension Plan Board until 1 December 2007 Previously he spent 25 years as a financial executive with Metropolitan Life in Canada and the US

External appointments Director of Cordiant Capital, Maple Leaf Foods Inc , Atrium Innovations Inc , and Industrial Alliance Insurances and Financial Services Inc

Aristotelis Mistakidis

Title and age
Non executive director, aged 51

Appointment
Appointed in May 2011

Committee membership None

Skills and experience Aristotelis Mistakidis is Co-director of Glencore's Zinc/Copper/Lead commodity department, a position he has held since February 2000, having joined Glencore in 1993 He is jointly responsible for overseeing the marketing business and industrial assets of the department, including strategy and operations He is also a director of Katanga Mining Limited and Recylex S A and is chairman of Mopani Copper Mines Plc Before Glencore, he worked at Cargill for six years, where he worked in and gained experience in the nonferrous metals industry

External appointments Director of Katanga Mining Ltd, Recyclex S A, Mopani Copper Mines plc and Porto Vesme SRL

Tor Peterson

Title and age
Non-executive director aged 47

Appointment
Appointed in May 2011

Committee membership None

Skills and experience Tor Peterson is Director of Glencore's Coal/Coke commodity department, a position he has held since 2002, having joined Glencore in 1992 He is responsible for overseeing the global marketing business and industrial assets of the department, including strategy and operations Before Glencore, he worked for five years for Phibro-Salomon Inc as a marketer, being based in New York, London and the Ivory Coast

External appointments None

Sir Steve Robson CB

Title and age
Non-executive director aged 68

Appointment
Appointed in February 2002

Committee membership Member of the Remuneration and Nominations Committees

Skills and experience Sir Steve retired as Second Permanent Secretary at HM Treasury in January 2001 He had joined HM Treasury after leaving university His early career included a period as Private Secretary to the Chancellor of the Exchequer and a two-year secondment to Investors in Industry plc (3i) From 1997 until his retirement, his responsibilities included the legal framework for regulation of the UK financial services industry, public private partnerships, procurement policy including the private finance initiative and the Treasury s enterprises and growth unit

External appointments Member of the Financial Reporting Council and KPMG Chairman's Advisory Board Chairman of KPMG's Public Interest Committee

Trevor Reid

Title and age
Chief Financial Officer aged 51

Appointment
Appointed in February 2002

Committee membership Member of the Executive Committee

Skills and experience Mr Reid joined Xstrata in January 2002 Prior to joining Xstrata he was Global Head of Resource Banking at the Standard Bank Group He joined the Standard Bank Group in 1997 from Warrior International Limited, a corporate finance boutique specialising in the minerals sector

External appointments None

Ian Strachan

Title and age
Non-executive director, aged 68

Appointment
Appointed in May 2003

Committee membership Chairman of the Health, Safety Environment and Community Committee and a member of the Audit Committee

Skills and experience Mr Strachan was Chairman of Instinet Group from 2003 to 2005 and Chief Executive of BTR plc from 1996 to 1999 Mr Strachan joined Rio Tinto plc (formerly RTZ plc) as Chief Financial Officer in 1987, and was Deputy Chief Executive from 1991 to 1995

External appointments Director of Rolls-Royce plc, Transocean Inc and Caithness Petroleum Limited

Santiago Zaldumbide

Title and age Executive director and Chief Executive of Xstrata Zinc, aged 69

Appointment
Appointed in February 2002

Committee membership
Member of the Executive Committee

Skills and experience Mr Zaldumbide is currently Executive Chairman of Asturiana de Zinc He is a previous Chief Executive Officer and Director of Union Explosivos Rio Tinto and of Petroleos del Norte In 1990 Petroleos del Norte became part of the Repsol Oil Group where Mr Zaldumbide was responsible for establishing the international structure of the enlarged Repsol Oil Group In 1994 he was appointed Chief Executive Officer of the Corporacion Industrial de Banesto and in December 1997, Chairman and Chief Executive Officer of Asturiana de Zinc

External appointments None

Executive management

Executive Committee

Mick Davis
Chief Executive Officer

Trevor Reid
Chief Financial Officer

Santiago Zaldumbide
Executive Director

Peter Freyberg
Chief Executive Xstrata Coal

Benny Levene
Chief Legal Counsel Xstrata

Thras Moraitis
Executive General Manager Group Strategy & Corporate Affairs

Peet Nienaber
Chief Executive Xstrata Alloys

Ian Pearce
Chief Executive Xstrata Nickel

Charlie Sartain
Chief Executive Xstrata Copper

Corporate

Brian Azzopardi, Group Head of Tax

Claire Divver General Manager Group Corporate Affairs

Richard Elliston, Company Secretary

Martin Fewings General Manager Investor Relations

Glenn Field Global Head of Internal Audit and Risk

Andrew Latham General Manager and Head of Group Business Development

Mark Moffett Group Controller

Markus Noethiger, General Manager Sustainability

Dominic O Brien General Manager Human Resources and Legal

Andile Sangqu Executive Director South Africa

Mark Sawyer General Manager Group Business Development

Ian Wall Group Treasurer

Jason Wilkins, Head of IT

Xstrata Alloys

Bill Barrett, Executive Director Special Projects

Deon Dreyer Managing Director Chrome and Vanadium

Edwin Hlatshwayo, Executive Director Human Resources

Rakesh Hambhai Executive Director Strategy and Business Development

Jeff McLaughlan Marketing Director

Ben Moolman, Managing Director Platinum

Hanre Rossouw, Chief Financial Officer

Mike Rossouw Executive Director Operations

Susan Visser Executive Director Sustainable Development

Xstrata Coal

Garry Beck, Executive General Manager Marketing

Stephen Bridger, Executive General Manager Wandoan and Logistics Strategy

Mick Buffier Group Executive Corporate Affairs and Sustainable Development

Ian Cribb Chief Operating Officer New South Wales

Mark Eames Chief Operating Officer, Xstrata Iron Ore

Jeff Gerard Chief Development Officer

Murray Houston, Chief Operating Officer South Africa

Earl Melamed Chief Financial Officer

Reinhold Schmidt Chief Operating Officer Queensland

Shaun Palmer, Chief Human Resources Officer

Xstrata Copper

Bruce Anderson Executive General Manager Marketing

Roberto Darouiche Executive General Manager Joint Venture Division South America

Bob Drabik Executive General Manager Project Development South America

Peter Forrestal Executive General Manager Project Development Asia Pacific

Andrew Greville Executive General Manager Strategy and Business Development

Louis Irvine Chief Financial Officer

Steve de Kruijff, Chief Operating Officer North Queensland

Jose Marun, Executive General Manager South America Operations

Neal O'Connor, General Counsel

Alberto Olivero Executive General Manager Human Resources

Xstrata Nickel

Marc Boissonneault, Vice President Sudbury

Antonin Beurner, President Xstrata New Caledonia

Al Coutts, Executive General Manager Australasia

Bryce Crocker, Vice President, Strategy, Marketing and Research

Dominique Dionne, Vice President Corporate Affairs

Steve Flewelling, Senior Vice President Projects and Exploration and President Falcondo

Sylvain Goyette General Manager Human Resources

Peter Hancock President Koniambo

Doug McLarty, Vice President Legal

Øivind Stenstad Managing Director Nikkelverk

Shaun Usmar Chief Financial Officer

Michael Welch, Vice President Raglan

Scott Yarrow, General Manager Sustainability

Xstrata Zinc

Iñigo Abarca, Chief Legal Counsel

Manuel Alvarez Davila Chief Operating Officer Canadian Division, Executive General Manager Corporate

Jaime Arias Executive General Manager Spanish Operations

Jean Desrosiers, Vice President Mining Operations

Brian Hearne Chief Operating Officer Australian Division

Juan Leon Chief Financial Officer

Ettienne Moller Executive General Manager McArthur River Mine

Emilio Tamargo Executive General Manager Business Development & Research

Carl van Dyken, Executive General Manager German Operations

Neil Wardle Executive General Manager Britannia Refined Metals Corporate

Corporate Governance report

Chairman's letter

At Xstrata, we recognise the leadership role of the Board in taking responsibility for the good governance of the company, on behalf of its shareholders As a company, we are fully committed to the principles of the best practice of corporate governance and we comply with the UK Corporate Governance Code

The Xstrata Board

Our Board comprises 13 directors, with a majority of independent, non-executive directors The role of the Board is to approve the company's strategy, ensure the appropriate policies and controls are in place to manage the risks associated with achieving our strategy, set the standards of conduct that apply across the Group and consider critical business issues The Board is also responsible for considering, challenging and, if appropriate, approving business plans, budgets, major investments and other decisions that require Board level approval within our defined schedule of authority limits and required approvals

Skills and experience

Xstrata's Board includes directors with a broad range of relevant skills and experience We recognise that it is important to have the right mix of skills and experience as well as a diverse range of viewpoints in our boardroom Our aim is always to appoint the best candidates available to our Board and any director is appointed following an assessment of his or her capacity to make a significant contribution to Xstrata's Board and his or her ability to enhance the company's ability to create value for its shareholders Given the importance of ensuring our selection process is broad and considers the full range of suitable candidates we have instructed the executive search firms we are working with to include suitable female candidates on any shortlist for new non-executive directors

Board members receive ongoing support and resources to extend and refresh their skills, knowledge and keep them up-to-date on our business Directors visit Xstrata operations and projects on a regular basis to support our understanding of the business and meet operational management In 2011, Board members visited the following

- Xstrata Nickel operations in Sudbury, Ontario, Canada,
- The Koniambo nickel project in New Caledonia,
- George Fisher, an underground zinc mine in north west Queensland, Australia
- Mount Isa Mines copper and zinc-lead operations in north west Queensland Australia,
- Xstrata Coal's Blakefield South mine in New South Wales Australia, and
- Various community and social development initiatives local to our sites

Our performance – as a Board and on an individual basis - is evaluated each year, with an external evaluation undertaken at least every three years Following an external appraisal in 2010 I led an internal evaluation of the Board's performance in 2011 which included a questionnaire and individual interviews with each director All directors were satisfied with the performance of the Board in general, although we will be extending the time available for committees of the Board to avoid time constraints impacting our discussions

Merger with Glencore

The most significant issue before the Board in 2011 was a proposal received from Glencore, Xstratas largest shareholder, for an all-share merger of the two companies Following careful consideration, the independent directors of the Board have unanimously recommended the proposal to shareholders

We believe that the combined company represents an opportunity to create more value for our shareholders than Xstrata can achieve alone and the terms of the proposal are fair to Xstrata shareholders

Our shareholders will continue to benefit from Xstrata's growth projects operational expertise and dynamic management team The proposed Board and management structure protects the interests of Xstrata shareholders in the combined entity and reflects the earnings contribution of the combined group which will be substantially weighted towards earnings from the industrial assets

The rationale for the merger and further information relating to it is set out in the Chairman's Statement Chief Executive Officer's Strategic Review and in various documents available from our website

Sir John Bond
Chairman

The UK Corporate Governance Code

The Board is fully committed to the principle of best practice in corporate governance This report describes how Xstrata has applied the main principles of the UK Corporate Governance Code We have complied with the provisions of the Code since 4 May 2011 following the retirement of Willy Strothotte, who, as Chairman also chaired the Remuneration Committee The UK Corporate Governance Code is available at www frc org uk

As well as complying with the UK's corporate governance requirements, our secondary listing in Switzerland requires that we also comply with the regulations of the SIX Swiss Exchange and Swiss securities laws

Disclosure and transparency rules (DTR)
The information required by DTR 7 2 6 regarding share capital and the Company's Articles of Association as set out in paragraph 13 of Schedule 7 to the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 is included in the Directors' report on pages 110 to 113

Board governance

The directors
Our Board, chaired by Sir John Bond, has 13 directors comprising three executive directors and ten non-executive directors The three executive directors are Mick Davis, Chief Executive Trevor Reid, Chief Financial Officer, and Santiago Zaldumbide, Chief Executive Xstrata Zinc David Rough an independent, non-executive director, is the Deputy Chairman and Senior Independent Director At the Annual General Meeting (AGM) on 4 May 2011, Sir John Bond, Telis Mistakidis and Tor Peterson were elected directors of the Company and Willy Strothotte retired from the Board and as Chairman of the Company There were no other changes to the membership of our Board during the year Our non-executive directors possess a range of experience and are of sufficiently high calibre to bring independent judgement to bear on issues of strategy, performance and resources that are vital to our success

Our Board is satisfied that it met and continues to meet the requirements of the Code in maintaining an effective Board which is collectively responsible for the long-term success of the Company

Board balance and independence
Six of our non-executive directors (excluding the Chairman) are considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement The Chairman was independent upon appointment Ivan Glasenberg was nominated for re-election, and Telis Mistakidis and Tor Peterson were nominated for election by Glencore to the Board at the Annual General Meeting under the terms of the Relationship Agreement dated 20 March 2002 between Xstrata and Glencore Ivan Glasenberg is the Chief Executive Officer of Glencore International plc

The Board has considered these associations and considers that the industry expertise and experience of the Glencore nominated directors is beneficial to our business

Matters reserved for the Board
Our Board is responsible for

- the governance of the Group on behalf of shareholders within a framework of policies and controls that provide for effective risk assessment and management,
- leadership and articulation of our objectives and strategy to achieve those objectives and
- setting standards of conduct, as documented in an approved Statement of Business Principles and a detailed Code of Conduct which provide an ethical framework for all our businesses

While the Board focuses on strategic issues, financial performance, risk management and critical business issues the Board also has a formal schedule of matters specifically reserved to it for decision These reserved matters are documented in a comprehensive regime of authorisation levels and prior approval requirements for key corporate decisions and actions They include but are not limited to, approval of budgets and business plans, major capital expenditure, major acquisitions and disposals and other key commitments, and are updated as required Certain powers are delegated by the Board to the Executive Committee which is a committee of the Board of Xstrata (Schweiz) AG, the main operating subsidiary of Xstrata plc This committee and a description of its powers are described on page 95

Powers of the directors
Subject to the Memorandum and Articles of Association, UK legislation, and any directions given by special resolution, the business of the Company is managed by the Board which may exercise all the powers of the Company The Articles of Association contain specific provisions concerning the power to borrow money and also provide the power to make purchases of any of the Company's own shares Directors have no existing authority to purchase Xstrata s own shares but they are authorised to allot and issue ordinary shares These powers are exercised under authority of resolutions of the Company passed at the AGM held on 4 May 2011 The Notice of AGM sets out details of the authorities the Company will be seeking at the next AGM to issue and allot ordinary shares of US$0 50 each

Board meetings
Five scheduled Board meetings were held during the year Details of directors' attendance at meetings of the Board and of its standing committees are shown below In addition, separate meetings were held with the non-executive directors without the executive directors being present, and without the Chairman and by all the directors without the Glencore nominated directors There are four formally constituted committees of the Board The role and work of these committees is described in detail on pages 93 to 95 All Board and committee meetings are held in Switzerland

Attendance at Board meetings and committees of the Board

	Board	Audit	Remuneration	HSEC	Nominations
Meetings in the year	5	3	3	4	4
Sir John Bond*	4 out of 4		2 from 2		3 from 3
David Rough	5	3	3	4	4
Mike Davis	5			4	
Con Fauconnier	5		3	4	
Ivan Glasenberg	3				1 from 1
Peter Hooley	5	3			
Claude Lamoureux	5	3		4	
Aristotelis Mistakidis*	3 from 4				
Tor Peterson*	4 from 4				
Trevor Reid	5				
Sir Steve Robson	5	1 from 1	2 from 2		4
Ian Strachan	5	3		4	
Willy Strothotte#	1 from 1		1 from 1		
Santiago Zaldumbide	5				

* Elected on 4 May 2011

\# Retired on 4 May 2011

Chairman and Chief Executive

There is a clear separation between the responsibilities of our Chairman and the Chief Executive This is documented in a statement approved by the Board and complies with the UK Corporate Governance Code

The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role by promoting a culture of openness and debate, and by facilitating the contribution of non-executive directors He is also responsible for ensuring that good communication is maintained with shareholders, that all directors are made aware of their major shareholders' issues and concerns and that the views of shareholders are communicated to the Board as a whole His duties also include ensuring that the directors continually update their skills and their knowledge of and understanding of our business To this end, he is required to hold regular one-to-one discussions with each director regarding their training and development needs

The Chief Executive has executive responsibility for running the business His responsibilities include evaluating and recommending strategic policy and direction for Board consideration reviewing and recommending for Board consideration and approval the annual financial statements annual business plans and budgets, and interim accounts maintaining effective risk management and internal control systems including financial, operational and compliance controls, facilitating the production of detailed proposals and reviews for Board meetings and providing the Board with accurate, timely and clear information

David Rough is the Deputy Chairman and the Senior Independent Director His role and responsibilities as the Senior Independent Director are to provide a sounding board for the Chairman and to serve as an intermediary for the other directors when necessary He should also be available to shareholders if they have concerns that contact through the normal channels of Chairman and Chief Executive have failed to resolve or for which such contact is inappropriate

Performance evaluation

Board evaluation is undertaken annually, and every three years is conducted by an external facilitator In 2011 the Board undertook an evaluation of its own performance and that of its committees and of its individual directors in accordance with the Code The process was devised and conducted internally under the direction of the Nominations Committee, following the previous year's external process, and was based on responses to a questionnaire Subjects covered in the questionnaire included the number, timing and conduct of Board meetings, Board meeting processes, the composition and balance of the Board, Board and committee performance Board communication and shareholder relations In addition the Chairman assessed the individual performance of directors in interview with each director The results of the evaluation revealed that the directors are satisfied with the number conduct and processes of Board meetings and with the performance of the Board and its committees However, it was agreed that so far as possible committee meetings should be held the day before Board meetings to ensure that there is always sufficient time for all meetings
The directors believe that our Company's performance over its first 10 years is a strong reflection of Xstrata's entrepreneurial leadership As regards composition, the Board responded to the Davies Committee recommendations and expressed its intention to appoint a female director with the appropriate criteria and of the right calibre The Board does not, however believe it is appropriate to appoint a director solely on the basis of gender, race or religion or on any other basis than an assessment of his or her capacity to make a significant contribution to Xstrata's Board and to enhance the Companys ability to create value for its shareholders

Corporate Governance report *continued*

Appointment of directors
The rules for the replacement and appointment of directors are set out in the Articles of Association Directors may only be appointed by the shareholders of the Company by ordinary resolution and not by the Board of directors Under the terms of a Relationship Agreement to which the Company is a party with Glencore dated 20 March 2002, Glencore, as a significant shareholder of Xstrata can nominate up to three directors or (if lower or higher) such number of directors equal to one less than the number of directors who are independent directors provided that there is at all times a majority of independent directors on the Board At present, Glencore has three nominated directors on the Board Ivan Glasenberg, Telis Mistakidis and Tor Peterson

Re-election of directors
In accordance with the UK Corporate Governance Code, all directors will retire at the forthcoming AGM on 1 May 2012 and all directors will offer themselves for re-election Following the appraisal of the non-executive directors by the Chairman, the Board was satisfied that each director's performance continued to be effective and that each director continued to demonstrate commitment to the role, and recommends the re election of those directors standing for re-election The Board considered the independence of David Rough, Sir Steve Robson and Ian Strachan and was satisfied that, notwithstanding the fact that they have been directors of the Company for a period in excess of nine years, they each continue to be independent in character and judgement The Chairman and the other Board directors believe that our business should continue to benefit from the experience and knowledge of all three directors with more than nine years' service in particular in view of the approach from Glencore in late 2011 Discussions with major investors have also indicated no immediate demand for change

Further details about the directors standing for re election, their skills and experience and their roles within the Group are given in the directors' biographies on pages 84 and 85

New appointments to the Board
A search for a new independent non-executive director to join the Xstrata Board was conducted by the Nominations Committee during the year, assisted by an international executive search consultancy The consultancy was given a mandate to prepare a shortlist of candidates with major project and/or relevant country experience for appointment to the Board at the 2012 AGM The Nominations Committee instructed the consultancy to include one or more suitably qualified women in the shortlist As a result of the approach from Glencore to merge Xstrata with Glencore the Board decided to defer the appointment of new directors to the Board for the time being

Information and professional development
As part of the annual Board evaluation process, the directors expressed satisfaction that the information provided in the Board papers is of the right quality format and length to allow a full understanding of all the relevant issues with respect to the matters under consideration, and were satisfied that the Board is kept informed of all areas of major importance to the Company The Board is provided periodically with reports on changes in UK laws and regulation, and Glencore's nominated directors brief the Board on market conditions and developments The Board is also kept informed through circulated monthly reports which include macroeconomic financial, operational and sustainability performance indicators and commentary

Our directors may take independent professional advice at the Company's expense to assist them perform their duties They have access to the advice and services of our Company Secretary who is responsible for ensuring that the Board complies with all governance matters and assists with professional development as required

Directors receive a tailored and appropriate induction when they join the Board There is also ongoing support and resources to extend and refresh their skills, and knowledge, and keep them up-to-date on our business We provide directors with regular updates and information about changes and proposed changes to laws and regulations that affect the Group or its businesses, there are special arrangements, including site visits, to ensure they are familiar with our operations, and we offer opportunities for professional and skills training

Remuneration
Our remuneration policy and practices aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long term value We believe that performance-related pay should incentivise exceptional performance and that rewards should be closely linked to and commensurate with performance

Our remuneration policy and practices are covered in the Remuneration report on pages 96 to 109 and a description of the work of the Remuneration Committee is provided on page 94

Accountability and audit

Financial reporting
The Board is mindful of its responsibility to present a balanced and clear assessment of the Company's position and prospects, and the Board is satisfied that it has met this obligation This assessment is primarily provided in the Chairman's statement, the Chief Executive's Officer's strategic review this year and the Operating and Financial reviews contained in this report. The statement of directors responsibilities in respect of the Group and Parent Company financial statements is set out on page 116

Risk management and internal control
General
Our Board is responsible for determining the nature and extent of the significant risks the Group will manage in order to achieve our strategic business objectives Every year it reviews the effectiveness of our risk management and internal control systems which cover all material financial operational, compliance, reputational and sustainable development risks, in accordance with the Turnbull Guidance This review relies on assessments undertaken by our Audit Committee (supported by the commodity business unit audit committees)

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by our business The Audit Committee reviews this process and the effectiveness of the system of internal control by considering the regular reports from management on key risks mitigating actions and internal controls management representations and assertions, the reports on risk management and internal control from Internal Audit the external auditors and other assurance providers such as sustainable development management The review excludes associates of the Group where Xstrata management does not have the ability to dictate or modify the internal controls of these entities

The principal aim of our risk management and internal control systems is the management of business risks that are significant to the fulfilment of the Group's strategic objectives with a view to enhancing the value of the shareholders' investment and safeguarding of assets Our internal control systems have been designed to manage rather than eliminate the risk of failure to achieve business objectives and provide reasonable but not absolute assurance against material misstatement or loss

A Risk Management and Internal Control Framework covers topics including the organisational structure, policies philosophies and accountabilities, ethics, responsibilities and reporting It describes our risk management and internal control system in depth and allows this to be effectively communicated across our businesses This document is updated annually to keep up-to-date with the dynamic nature of our business and continuous changes in our structure

Internal Audit is an important element of the overall process by which our Executive Committee and Board seeks the assurance that risks are properly identified, evaluated and managed Risk-based Internal Audit plans, which are prepared on an annual basis, are approved by the Audit Committee

We use external service providers to supplement our Group-wide Internal Audit function when we do not have the appropriate skills for specific projects in-house This will become particularly relevant as we move into a phase of higher capital spend with an increased focus on project assurance which will require us to employ independent engineers to work with our Internal Audit team on major project management reviews

Control environment

Our key established elements and procedures to provide an effective risk management and internal control system are as follows

(i) Organisational structure

We have a well-defined organisational structure with clear operating procedures lines of responsibility and delegated authority We operate a decentralised management model The Board sets overall policy but delegates authority to implement this policy to relevant business units and supporting functions Our business units are responsible for implementing business plans within budgets approved by the Board and in accordance with authorisation levels

The way in which we conduct our business, what we expect of our managers and key accountabilities are embodied in our policies, our Statement of Business Principles, Code of Conduct, Sustainable Development Standards and the Board-level authority limits

(ii) Risk identification and evaluation

The Board considers effective risk management as essential to the achievement of our objectives and has implemented a structured and comprehensive system across the Group The Group Risk Management Policy is published on the Xstrata website at www xstrata com/investors/policies/riskmanagement/

Our approach to risk management is value driven Its stated objective is to ensure an environment where we can confidently grow shareholder value through developing and protecting our people, our assets, our environment and our reputation' Our risk management processes are thorough and robust and an essential element of our approach to business planning

Our corporate offices and business units carry out a comprehensive annual risk review and update their risk registers accordingly Objectives in the business plan are aligned with risks, and a summary of the key risks, related internal controls, accountabilities and planned mitigating actions are appended to the business plan which is reviewed and approved by our Executive Committee and by the Board

Progress against plans significant changes in the business risk profile and actions taken to address controls and mitigate risks are reported at each business unit audit committee and Xstrata plc Audit Committee meetings, as well as to our Executive Committee and the Board, as and when necessary

The output of the process has been reviewed by the Group and business unit audit committees and accords with the Turnbull Guidance

(iii) Information and financial reporting systems

The Group s comprehensive financial reporting procedures include detailed operational budgets for the year ahead and a plan for the following two years A detailed updated Group forecast is prepared on a monthly basis and forecast performance is compared to the budget A detailed variance analysis is prepared comparing both forecast performance to budget and analysing movements in the forecast from month to month These forecasts and reports enable management to monitor performance throughout the year and to take relevant and timely action

Comprehensive monthly management reports for each business unit and on a Group consolidated basis, including updated forecasts for the year, are prepared and presented to the Executive Committee by the Group Controller The Board receives monthly detailed consolidated management accounts, together with an executive summary from our Chief Executive

(iv) Investment appraisal

Business units submit expansionary capital expenditure plans as part of the annual Budget and Planning process Budgeted capital expenditure includes full development capital for approved projects as well as those that are highly likely to be submitted for approval before the end of the following year Study and other related costs in relation to early stage projects are also included but full development capital expenditure is not Our overall Group capital expenditure budget and plan is reviewed and approved by both the Executive Committee and the Board

Corporate Governance report *continued*

All items of capital expenditure including major organic projects and acquisitions are submitted for approval throughout the year in accordance with delegated authority limits Capital expenditure submissions include financial, technical and sustainable development evaluations Financial analysis includes an evaluation of the project's net present value calculated on a life-of-mine project model using our latest quarterly macroeconomics assumptions ('Group assumptions') and a risk-adjusted discount rate which reflects specific country and project risk, internal rate of return, payback period, and the commodity price at which the proposed project breaks even Sensitivity analysis on key value drivers is performed and for major projects this is often supplemented with additional risk analysis such as Monte Carlo simulation Major projects or acquisitions that require the approval of either our Chief Executive Executive Committee or the Board are assessed in the context of whether the proposal is consistent with our strategic aims, our operational capacity to execute the project within an acceptable risk tolerance, and any Group funding constraints Project progress against budgeted capital expenditure and project milestones is reported in the monthly Group Management Report and discussed at both Executive Committee and Board meetings

Procedures are also in place for peer review and the early involvement of independent technical experts to review and provide independent assurance on major capital projects Reviews are carried out after the project is complete, and for some projects during the construction period, to monitor progress against plan, and major overruns and non conformance to sustainable development goals are investigated

Acquisitions to complement our commodity business unit organic growth strategy, and which are aligned to our overall Group strategy, are generally initiated and executed by business development teams with close co-operation from the corporate centre

(v) Treasury Committee
A Treasury Committee operates as a sub committee of the Xstrata (Schweiz) AG Executive Committee It comprises the Chief Executive the Chief Financial Officer the Group Treasurer and Group Controller The Committee recommends Group policy, which is submitted to our Board for approval, relating to all aspects of funding, management of interest rate and foreign exchange exposures It also coordinates relationships with banks, rating agencies and other financial institutions The Committee monitors all significant treasury activities undertaken by our business units to ensure they comply with its recommended policy

(vi) Business Principles and Code of Conduct
We offer independent confidential whistleblower hotlines in the countries in which we operate so that our employees, contractors or other parties can report any breach of our Business Principles and Code of Conduct including bribery, fraud or corruption The contact details are published in the Statement of Business Principles which are found at www xstrata com/sustainability/policies/businessprinciples

(vii) Group policies and Business Principles
All our businesses are expected to operate within the Board level authority limits and the Group policies that govern inter alia Statement of Business Principles, Code of Conduct Sustainable Development Corporate Social Involvement Treasury, Group Risk Management, Bribery, Fraud and Corruption, Group Investor, Media and Public Communications, Data Protection and Privacy, Inside Information and Securities Dealing Information Security and Anti-Trust/Competition Law

(viii) Further initiatives
We are committed to the ongoing review and improvement of our policies systems and processes

We have a "control self assessment" process in place through which the Chief Executive of each business unit is required to sign a Letter of Representation covering a wide range of topics at both the half-year and year-end, which are presented to the business unit audit committees and any exceptions are interrogated

Relations with shareholders

Dialogue with shareholders
Our Board places considerable importance on effective communication with shareholders The Chief Executive and Chief Financial Officer, assisted by the Executive General Manager of Group Strategy and Corporate Affairs maintain a regular dialogue and series of briefings with analysts and institutional investors throughout the year We also operate a structured programme of investor and analyst site visits Presentations are given by the Chief Executive and Chief Financial Officer after preliminary announcements of both the half-year and year end results, and in the event of a major transaction or corporate event Care is taken to ensure that any price sensitive information is released to all shareholders institutional and private, at the same time, in accordance with the FSA's Disclosure and Transparency Rules and the SIX Swiss Exchange requirements

Our Senior Independent Director is available to shareholders to hear any concerns that contact with the Group Chairman Chief Executive or Chief Financial Officer failed to resolve or for which such contact was inappropriate

All shareholders can obtain access to the annual reports and other current information about Xstrata through its website at www xstrata com The Operating and Financial reviews on pages 46 to 77 include a detailed report on the business and future developments

Constructive use of the Annual General Meeting
All directors normally attend Xstrata's AGM Shareholders are invited to ask questions during the meeting and to meet directors after the formal proceedings have ended At the time of the listing in March 2002, shareholders in the former Xstrata AG were informed that the Company would offer shareholders the opportunity to attend general meetings in Switzerland where the head office resides, even though the Company was incorporated and has its registered office in England Given this history, our Board continues to consider it is appropriate for the AGM to be held in Zug, Switzerland A live and archived webcast of the AGM is also provided via Xstrata's website The Board uses the AGM to communicate with institutional and private investors and welcomes their participation At the AGM on 4 May 2011, the Chairman and the Chairmen of the Audit, Remuneration, Nominations and Health, Safety, Environment and Community Committees were present to answer questions Details of the resolutions to be proposed at the AGM on 1 May 2012 can be found in the Notice of AGM Our Board has determined that voting on all resolutions at the AGM will be through a poll Each member present in person or by proxy has one vote for each fully paid ordinary share of which she/he is a holder

Board committees

The terms of reference of the Audit Remuneration Nominations and HSEC Committees are available on the Company's website at http //www xstrata com/about/management/boardcommittee/

Audit Committee

Members
Peter Hooley (Committee Chairman) (independent)

Claude Lamoureux (independent)

David Rough (independent)

Ian Strachan (independent)

Responsibilities
During the year under review, the Committee

- reviewed the 2010 preliminary results and annual financial statements and in so doing reviewed managements and the external auditor's detailed reports thereon, the appropriateness of the Group's accounting policies, it's continuing as a 'going concern' asset impairment charges, litigation, taxation and other judgemental matters, and recommended their approval by the Board,
- reviewed Related Party transactions for 2010 and the Ore Reserves and Mineral Resources Report for 2011 which was reviewed by an independent expert to ensure consistency of reporting across the Group and with international standards
- reviewed the 2011 half-yearly report in a like manner as the annual financial statements,
- reviewed the external auditor's plan and scope for the audit of the 2011 financial statements, and approved their remuneration and terms of engagement both for audit and non-audit work It agreed to increase the financial limits for prior approval of pre approved non audit services at its meeting in December 2011 and also considered and approved the engagement of the auditors in respect of non audit assignments
- recommended to the Board the reappointment of the external auditors following confirmation of their objectivity and independence, and a satisfactory evaluation of their effectiveness,
- reviewed the effectiveness of the Group's risk management and internal control systems including the scope of and the results of testing of the systems by the internal auditors, at each meeting received reports on findings and progress on recommendations are received, including reports on the project management and delivery of major projects,
- reviewed the roll out and communication of the Group Policy on Bribery Fraud and Corruption and the broader ethical behaviour Code of Conduct, and the introduction of related training programmes, as well as the role and scope of internal audit in this area,
- reviewed Group's treasury, hedging tax and pension affairs and the structure and limits of the Group s insurance arrangements
- reviewed reports on ethics training and on whistleblowing and fraud-related matters and their resolution,
- reviewed the effectiveness of the internal audit function and approved the plans for 2012, and
- conducted an assessment of its own effectiveness and all matters required by law, regulation and good corporate governance including the duties and responsibilities delegated to it by the Board, were satisfactorily covered by the Committee

The Audit Committee is responsible for providing our Board with a critical and independent oversight of the Group's financial reporting and audit processes reviewing compliance with the Turnbull Guidance, specifically with reference to the effectiveness of our internal controls and risk management systems, reviewing and monitoring the independence of our external auditor and approving non-audit services, and reviewing our ethical standards of business behaviour, including bribery, fraud and whistleblowing procedures

All members of the Committee are financially literate and the Committee Chairman, Peter Hooley is considered by the Board to have recent and relevant financial experience

Our Chief Executive, Chief Financial Officer, Group Controller, representatives of our external auditors and the Head of Internal Audit normally attend the Audit Committee meetings, but are not allowed to vote Invitations to attend meetings may also be extended to other directors and managers To ensure best practice across the Group, the chairman of each business unit audit committee and it's chief executive are also invited to attend Audit Committee meetings on a rotational basis every other year The Audit Committee met three times during the year ended 31 December 2011 After each meeting, the Chairman reported on its proceedings to the Board

A member of the Audit Committee also attends the meetings of the business unit audit committees to help promote a co-ordinated and consistent approach among the Group's audit committees

Following each Committee meeting, separate meetings were held by the Committee with the external auditors in the absence of executive management, with executive management in the absence of the external auditors and with the internal auditor in the absence of executive management and the external auditors

The Group has a specific policy governing the conduct of non-audit work by the external auditors which ensures that we comply with the requirements of the Combined Code, the FRC Guidance on Audit Committees and the Ethical Standards for Auditors published by the Auditing Practices Board The policy is available on Xstrata's website at www xstrata com/policies The auditors are permitted to provide non-audit services that are not in conflict with auditor independence and objectivity At each meeting, reports are submitted to the Audit Committee detailing any non-audit fees paid to the external auditors A range of non-audit services have been pre-approved in principle by the Audit Committee, however, where the fee for those pre approved services is likely to be less than $250,000, prior approval of the Chief Financial Officer is required, where the fee is likely to be more than $250,000 but less than $500,000 for such services prior approval of the Chairman of the Audit Committee is required, and where the fee is likely to be in excess of $500,000, prior approval of the Committee is required

Fees paid to our auditor for audit services audit-related services and other non-audit services per service type are detailed in Note 10 to the financial statements on page 145 Our external auditors Ernst & Young LLP, were requested to provide certain non-audit services when it was concluded they were the most appropriate supplier due to their knowledge of the business, efficiency, cost effectiveness and status as a leading firm for the specific services being requested

The Audit Committee is supported and assisted in its work by separate audit committees for each business unit in line with the Group s decentralised commodity business unit model The business unit audit committees are independent of the executive management of the business unit and are chaired by suitably qualified individuals independent of Xstrata The terms of reference of these committees follow those of Xstrata's Audit Committee Meeting dates precede those of Xstrata's Audit Committee and minutes of their meetings are circulated to Xstrata s Audit Committee

Remuneration Committee

Members
David Rough (Committee Chairman from 4 May 2011)

Sir John Bond
(member from 4 May 2011)

Con Fauconnier (independent)
Sir Steve Robson (independent)
(member from 4 May 2011)

Willy Strothotte (Chairman and member until 4 May 2011)

Responsibilities
The Remuneration Committee is responsible for considering and determining all elements of the remuneration of our Chief Executive Chief Financial Officer and members of our Executive Committee and for determining targets for any performance related pay schemes At its meetings, the Remuneration Committee makes recommendations to the Board in regard to all elements of the remuneration for these individuals after receiving independent advice on benchmarking and best practice and after taking into account general pay practices for all Xstrata employees The remuneration of non-executive directors other than the Chairman, is approved by our Chairman and Chief Executive The Chairman's remuneration is determined by the Remuneration Committee while he is absent

The Committee met three times during the year The Chief Executive attends meetings by invitation but does not participate at a meeting of the Committee (or during the relevant part) at which any part of his remuneration is being discussed or participate in any recommendation or decision concerning his remuneration

During the year under review the Committee

- determined bonuses for 2010 performance for the executive directors and members of the Executive Committee
- approved the Remuneration report for the 2010 Annual Report,
- reviewed the fees for non-executive directors in 2011,
- approved the number of share options and contingent share awards to be awarded under the Long Term Incentive Plan (LTIP) and the individual awards to members of the Executive Committee,
- approved salary increases for members for the Executive Committee,
- determined the amount of the total award to be granted under the Xstrata LTIP in 2012
- consulted with and received feedback from major investors representing 52% of the share capital on the proposed design of a new Long Term Incentive Plan, in view of the expiry of the current LTIP in March 2012 Taking the views of major investors and current UK market best practice into consideration, the Remuneration Committee agreed the principles of a new LTIP Prior to implementation, the proposed plan would be subject to further consultation with shareholders and ultimately to shareholder approval at a general meeting, and
- approved revised updated Terms of Reference of the Committee

Details of Xstrata's remuneration for executive directors, benefits, share options, retirement benefit entitlements, service contracts and compensation payments are given in the Remuneration report on pages 96 to 109 A resolution to approve the Remuneration report will be proposed at the forthcoming AGM

Nominations Committee

Members
Sir John Bond (Committee Chairman and member from 4 May 2011)

David Rough (independent)

Sir Steve Robson (independent)

Ivan Glasenberg (Non-executive and member until 4 May 2011)

Responsibilities
The Nominations Committee is responsible for reviewing the structure, size and composition (including the skills knowledge, experience and diversity) of the Board and making recommendations with regard to any changes, identifying and nominating candidates for election, evaluating the balance of skills, knowledge and experience and, in the light of this evaluation, preparation of a description of the role and capabilities required for a particular appointment

The Nominations Committee considers candidates from a wide range of backgrounds Nominations are based on merit but objective criteria, such as the benefits of a diverse Board, are considered as well as is whether the candidates have enough time available to devote to the position It also gives full consideration to succession planning for directors and other senior executives, taking into account any challenges and opportunities our business may face and the skills and expertise needed on the Board in the future Directors' potential conflict of interest situations are also considered by the Nominations Committee and subsequent recommendations made to the Board

During the year under review, the Committee

- reviewed a short-list for the appointment of a new Chairman and subsequently making a recommendation to the Board for the appointment of Sir John Bond as a director and Chairman
- reviewed a succession plan and framework over the period 2012 to 2014 for the retirement and appointment of non-executive directors to ensure an orderly succession to the Board However, in the light of potential developments it was recommended that it would be imprudent to lose the benefit of the experience and knowledge of long serving directors who had knowledge of the Company since its flotation, even though they may no longer be deemed independent by replacing them on the Board in 2012,
- reviewed the recommendations of the Davies Report with respect to the appointment of women to boards and agreed that the Company should aim to appoint one woman to the board at the 2012 AGM and approved of a statement to be posted on Xstrata's website,
- mandated Egon Zehnder International to commence a search for and to prepare a shortlist of candidates for appointment to the Board It specified that candidates should have major project experience and/or relevant country experience and that the short-list should include one or more suitably qualified women who fit the criteria As a result of the approach from Glencore to merge Xstrata with Glencore, the Committee agreed to defer the consideration of potential candidates for appointment to the Board,
- agreed the format and process for the annual Board evaluation to be conducted internally following the external evaluation undertaken the previous year, subsequently reviewed the summary of replies to the Board evaluation and directors individual comments, and received feedback from the Chairman on individual director appraisals, and
- approved revised and updated Terms of Reference of the Committee

Health, Safety, Environment & Community Committee

Members
Ian Strachan (Committee Chairman) (independent)

Mick Davis (Chief Executive Officer)

Con Fauconnier (independent)

Claude Lamoureux (independent)

David Rough (independent)

Responsibilities
The Health Safety, Environment & Community Committee (HSEC) is responsible for reviewing and making recommendations to the Board on the direction, appropriateness and effectiveness of our sustainable development strategy, management approach and governance, and performance It also reviews the outcomes of all investigations into fatalities and critical incidents and keeps the Board informed of new developments trends and/or forthcoming significant legislation on sustainable development matters which may be relevant to our operations, its assets or employees Xstrata's Sustainability Report for 2011, to be published in April 2012 provides a comprehensive report on our sustainable development, material issues and targets, and its related activities and performance

During the year under review, the Committee

- monitored and evaluated reports on the effectiveness of Xstrata's Sustainable Development Policy Sustainable Development Standards sustainable development strategy and sustainable development assurance,
- reviewed Xstrata Coal's sustainability strategy and performance, which included a focus on the Safe Coal Program and Rehabilitation of Land The Committee noted that the business unit faces unprecedented challenges in many areas of its business vital to maintaining the social licence to operate in particular on environmental issues related to climate change and land use,
- reviewed Xstrata Nickel's sustainable development programme, which included a focus on safety initiatives and areas of corrective action and improvement, and on leadership and people management The Committee further noted that Xstrata Nickel had conducted a stakeholder perception survey with positive outcomes and confirmed that Xstrata Nickel holds a leadership position in the industry The Committee also discussed major sustainable development issues, in particular biodiversity, health impacts from nickel exposure, and catastrophic risks,
- reviewed Xstrata Alloys' sustainability strategy and performance, with a particular focus on safety The Committee noted the outstanding improvement of Xstrata Alloys' safety performance over the last year, as well as innovative approaches to instruct and train people by means of new virtual reality training tools The Committee recognised that despite the challenges Xstrata Alloys safety performance is well above industry average, and Xstrata Alloys is considered an industry leader in South Africa The Committee discussed key environmental and sustainability challenges facing Xstrata Alloys' which include access to water, permitting for water usage and new mining areas, security of electricity supply and issues relating to community engagement and social licence to operate,
- reviewed the Sustainable Development Half-Year Summary Report noted that most of the high potential risk incidents involved surface mobile equipment and isolation and access,
- monitored and evaluated reports on high potential risk incidents and the results of investigations into fatalities and other critical HSEC incidents There were 11 critical incidents during the year, including six fatalities This represents an increase from six critical incidents, including three fatalities in 2010,
- approved the contents of the 2010 Xstrata plc Sustainability Report and noted that it fulfilled the requirements of the socially responsible investment community,
- reviewed the three core elements of the Xstrata Group Assurance Program (i e Assurance of the annual Sustainability Report, sustainable development Standards Audit, and sustainable development Risk Audits, undertaken by Group Internal Audit), particularly reviewing the status of operationally focused sustainable development Risk Audits conducted by Internal Audit The Committee noted that the reports generally provided assurance to management and the Board that high risk areas of the business are being managed appropriately and that an adequate control framework is in place,
- reviewed the integration and treatment of sustainable development in Xstrata's Risk Management Framework and processes,
- members of the Committee undertook field visits to the Koniambo nickel project in New Caledonia and to Mount Isa's copper and zinc-lead operations in North Queensland to review key HSEC issues, performance and initiatives at those operations, and
- noted the Company's leadership position in sustainable development in the mining sector Xstrata was named Resource Sector Leader for Basic Resources in the Dow Jones Sustainability Index's World and STOXX Indexes, the fourth consecutive year that Xstrata has been named as the resources sector leader and fifth year that Xstrata has been included in the Dow Jones Sustainability Indexes of sustainability leaders

Executive Committee

Members
Mick Davis (Committee Chairman (Chief Executive Officer)

Trevor Reid (Chief Financial Officer)

Santiago Zaldumbide (Xstrata Zinc)

Charlie Sartain (Xstrata Copper)

Peter Freyberg (Xstrata Coal)

Ian Pearce (Xstrata Nickel)

Peet Nienaber (Xstrata Alloys)

Benny Levene (Chief Legal Counsel)

Thras Moraitis (Executive General Manager, Group Strategy and Corporate Affairs)

Responsibilities
The Executive Committee is a committee of the Board of Xstrata (Schweiz) AG the main operating subsidiary of Xstrata plc The Executive Committee obtains its responsibility and authority from the Xstrata (Schweiz) AG Board and is directly accountable to the Xstrata plc Board Other members of senior management are invited to attend Executive Committee meetings as required The Executive Committee is responsible for implementing strategy, approval of matters consistent with its delegated levels of authority and overseeing the various businesses that comprise the Group It meets regularly during the year No meetings are held in the UK

Remuneration report

A letter from the Remuneration Committee Chairman

Dear fellow shareholder

On behalf of the Board and the Remuneration Committee, I am pleased to present the Xstrata plc 2011 Remuneration report

We have revised the format and content of this year's report to improve transparency and ensure information can be easily analysed and understood In this report, we provide a clear explanation of our rationale for determining remuneration policy, annual awards and longer-term incentives

Our remuneration policy and practices aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long term value We believe that performance-related pay should incentivise exceptional performance and that rewards should be closely linked to and commensurate with performance

As a result, performance-related pay represents a significant portion of total pay for all managers across Xstrata For executive directors, at risk performance-related pay typically represents more than 80% of total available remuneration We measure performance against a broad range of health and safety sustainability, financial and operational criteria We benchmark our remuneration against the global mining industry and our primary peer group, as well as global FTSE 100 companies

Focus in 2011

Last year we, the Remuneration Committee, spent time consulting with shareholders and shareholder representative bodies about designing a new long-term incentive plan, to replace the plan that expired in March 2012 We also discussed the feedback from the 2011 AGM with major shareholders We considered and approved executive salary increases against a background of heightened focus on executive pay and current market conditions for global mining companies Finally, in early 2012, we determined executive bonus awards, based on Xstrata and individual 2011 performances

We reviewed independent pay data including comparisons with global peer companies and considered the scope of executive roles to determine executive salary increases In 2011, and particularly late 2011, most UK oriented companies faced economic uncertainty as a result of the Eurozone crisis and, in many cases this was reflected in lower-than-inflation salary increases However, as a global mining business with more than 95% of our revenues generated from operations outside of Europe, our challenges are different The demand for commodities remains strong and there is fierce – and growing — global competition for mining employees, including executives The situation is exacerbated by a number of companies including Xstrata, having ambitious new mining projects around the world In the mining sector, average salaries for staff, management and executives in most regions in which we operate rose between 4% and 10% year on year At Xstrata, the overall weighted average salary increase for all personnel was 7% Salary increases for executive directors ranged from 3 5% to 8 7% and the weighted average was 5 5%

In early 2012, we determined annual bonus payments to executive directors The overall bonus pool is determined by return on capital employed and net profit while individual performance criteria considers health and safety, financial, operational, environmental and people-related measures

In a challenging business environment, Xstrata achieved excellent and, in many cases record performance across such criteria Executive annual bonus awards reflect those achievements including

- record operating EBITDA* rose to $11 6 billion up by 12% compared to 2010,
- record attributable profit* of $5 8 billion, which enabled the board to increase the full year dividend by 60% to 40 US cents per share,
- ten new projects and expansions were successfully commissioned on time and budget to increase production volumes
- real cost savings of $391 million were achieved to continue an unbroken record of year-on-year sustainable cost savings since 2002, and
- total recordable injuries were reduced by 26% compared to 2010 to 5 2 per million hours worked our lowest ever level In the territories in which we work, our figures are industry leading

"Our remuneration policy and practices aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long-term value."

David Rough

* Excludes exceptional items

Xstrata's value creation

Our approach towards remuneration plays an important role in retaining and incentivising the current management team who have built Xstrata into a major diversified mining company over the past decade Since our initial public offering in March 2002, we have transformed from a debt-constrained $500 million company in 2001 into a $56 billion global mining major This growth has been accompanied by superior value creation for shareholders Since 2002, we have delivered total shareholder returns of some 340% compared to an average for the FTSE100 index of 58%

We have maintained exceptional levels of retention across all senior management – a core objective of our remuneration policy – throughout the past decade No Executive Committee members have left to join competitors and we have over 90% retention at senior management level This low staff turnover is in shareholders' interests, given the direct and indirect costs associated with replacing experienced managers in the highly competitive global mining market and in the context of Xstrata s ambitious organic growth strategy

We believe our remuneration policy and approach incentivises outperformance by executive directors and senior management and aligns management s interests with your interests and mine as Xstrata shareholders, where possible As ever, we welcome your feedback on our approach to remuneration including the format and scope of this report

David Rough
Remuneration Committee Chairman

Remuneration Committee

Members

David Rough (Committee Chairman from 4 May 2011 Independent non-executive director and Senior Independent Director)

Sir John Bond (Member from 4 May 2011 Independent non-executive Chairman of the Board)

Con Fauconnier (Member from 5 May 2010 Independent, non executive Director)

Sir Steve Robson (Member from 4 May 2011 Independent, non-executive Director)

Willy Strothotte (Retired 4 May 2011 Immediate past Chairman)

Details of the Remuneration Committee's role, meetings and activities may be found in the Corporate Governance report on page 94

The Remuneration Committee receives advice on pay and conditions across Xstrata from the General Manager Human Resources and Legal who also acts as Secretary to the Remuneration Committee

During the year Hay Group provided independent advice to the Remuneration Committee on executive remuneration Hay Group also provides market information on remuneration for positions below Executive Committee level Freshfields Bruckhaus Deringer provided legal advice on incentive plan rules and KPMG provided external validation of Total Shareholder Return and real cost savings performance

Remuneration policy

Our remuneration policy and practices aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long term value We believe that performance-related pay should incentivise exceptional performance and that rewards should be closely linked to and commensurate with performance

1 Over 80% of the executive pay package is performance-related and therefore 'at risk' (i e the contractual obligation to pay is dependent on satisfaction of performance criteria)

2 For exceptional performance potential pay levels are positioned in the upper quartile of the global mining industry and other global FTSE100 companies

3 Performance is assessed on a holistic basis, taking into account a wide variety of factors that are aligned to the delivery of superior long term returns to Xstrata's shareholders and continuous and sustainable improvements in the underlying operating and financial performance of Xstrata

   - Individual performance criteria for annual bonus awards reflect health and safety environment and sustainability performance, financial performance in both absolute and relative terms and the effective delivery of strategic priorities including the project pipeline, and various lead performance indicators The use of multiple factors ensures that bonuses cannot be earned on the basis of inappropriate or risky behaviour and avoids rewarding achievements against one or narrow objectives that come at the expense of performance in other areas
   - The value of long-term incentives is dependent upon both absolute and relative share price performance and vesting is subject to the satisfaction of stretching performance conditions as outlined below under Long Term Incentive Plan' In the event that performance is below threshold participants will receive no benefit from long term incentives

4 Pay arrangements are intended to remain in place, so far as is practicable, throughout the business cycle We have therefore avoided making frequent changes to incentive arrangements or performance metrics

In determining policy and practice the key factors we take into account include

- the UK Listing Rules,
- the provisions of the UK Corporate Governance Code and associated guidance attached to it
- the competitive environment for experienced personnel in the global extractive industries sector,
- the guidance provided by a number of institutional investor representative bodies and
- feedback received from shareholders

We also take into account pay and employment conditions across Xstrata when setting the remuneration of executive directors We do not believe a ratio comparison between executive directors and non-Board employees is appropriate A ratio comparison does not provide a useful measure of fairness or balance due to the vastly different costs of living in the countries where we have operations and fluctuations in exchange rates However, on a regular basis we assess the fairness and balance of our remuneration policies and practice internally and benchmark against our competitors in the various regions in which we operate In 2011 we assessed the remuneration of all Group and headquarters roles, including Executive Committee members, with support from external consultants, to benchmark remuneration against a global peer group and ensure that our approach to pay is consistent from executive level to support personnel

Elements of remuneration

The table below sets out a summary of the component elements of our remuneration policy for executive directors

Total remuneration

Fixed pay	**Performance related pay**	
	Short-term variable pay	Long term variable pay
Base pay	Executive Committee bonus plan	Long-term incentive plan
Retirement benefits		Added value plan
Other benefits		

Base salary

Purpose	• Attract and retain talented and experienced executives from an industry in which competition for talent is extremely high • Reflect the individual's capabilities and experience • Reward leadership and direction of Xstrata on behalf of shareholders
Policy	• Reviewed annually with any changes effective 1 January • Set at a competitive level benchmarked against other global mining and major UK companies using independent external data and inflation statistics for key mining markets • Consider the individual's skills experience and influence over, and responsibility for, the success of the business • The impact of any salary increase awarded on the value of the total package is considered carefully prior to any change being made • Ensure that our approach to pay is consistent from executive level to support personnel
Link to strategy	• Protect and generate shareholder value through the retention and attraction of high calibre individuals
Risk management	• Enhance retention of key personnel to ensure business continuity • Structured and policy-driven approach to conducting salary reviews

Salary review for 2012

Salary inflation for staff in the mining industry is currently extremely high with intense competition for qualified and experienced people driven by increased investment in the sector Across Xstrata, salary increases for employees were between 4% and 10% in most parts of the business, with increases in excess of 10% for a number of experienced mining engineering project manager and senior management roles Salary increases for executive directors are within the range of increases awarded across Xstrata

	Base salary effective 1 January 2012	Base salary effective 1 January 2011
Mick Davis (£)	1,501,500	1 430 000
Trevor Reid (£)	815,000	750,000
Santiago Zaldumbide (€)	1,076,400	1,040,000

Executive Committee Bonus Plan

Purpose	• Align executives' interests with the short-term goals of Xstrata and the drivers of long-term success • Reward the delivery of shareholder value through the effective execution of strategy, the profits delivered to shareholders and lead indicators of future success including safety and environmental sustainability • Bonus deferral in shares aids the retention of Xstrata's high calibre executives
Policy	• Maximum bonus awarded for truly exceptional performance is 300% of salary • Any award in excess of 100% of salary is deferred into shares and paid out in tranches over a one to two year period • The overall bonus pool is determined according to Return on Capital Employed (ROCE) targets and net profits • Individual payments are determined with respect to a range of key financial and non-financial metrics These metrics include health and safety, environment and sustainability, profit and cash generation, volume and project execution employee development • Encourage executives to build a shareholding in Xstrata
Link to strategy	• Provides alignment among the executives interests, the short-term financial success of Xstrata and the creation of shareholder value • The Remuneration Committee takes a comprehensive view of an appropriate level of award for each individual to ensure that bonus awards truly reflect Xstrata's performance and managements impact on this (rather than purely resultant from external market and cyclical factors)
Risk management	• Bonus pool hurdle rates for ROCE and net profit ensure affordability • Focus on a wide range of financial and non-financial metrics ensures that bonus awards reward sustainable, holistic performance • Bonus deferral in shares ensures a focus on long-term sustainable performance and aligns management interests with shareholders • Determination process takes account of the extent to which performance has been driven by management activity and planning as opposed to external market and cyclical factors and response to events that were not anticipated at the start of the year

Plan design

Participants	Executive directors and the other members of the Executive Committee
Bonus pool calculation	To ensure affordability, the bonus pool is determined with respect to ROCE and net profit performance hurdles set at the beginning of each financial year For the financial years ending 31 December 2011 and 2012, Xstrata's ROCE must be at least equal to Xstrata's average cost of borrowing in order for any bonus pool to be available The Remuneration Committee has the discretion to vary the basis of calculation and performance targets in future years At the end of the financial year, the Remuneration Committee also actively considers whether the proposed bonus pool is appropriate in light of other key financial and non-financial performance measures, which include, but are not limited to health and safety environmental sustainability and community performance
Performance assessment and award determination	Individual awards are dependent on a holistic assessment of individual performance criteria, which incorporate a wide range of financial and non financial measures including health and safety employee development, environment and sustainability, profit and cash generation volume, project execution and other criteria agreed in advance and evaluated by the Remuneration Committee The Remuneration Committee takes into account the outlook for the business and the broader market environment as well as achievements during the year It also makes a judgement on how performance is achieved as well as the outcomes, for example by assessing the robustness of processes and management actions
Terms of payment and deferral and other conditions for release of awards	The maximum bonus award is 300% of salary Awards of up to 100% of salary are delivered in cash following determination Awards between 100% and 200% of salary are delivered in restricted shares or nil cost options deferred for one year Awards between 200% and 300% of salary are delivered in restricted shares or nil-cost options deferred for two years Deferred awards vest or become exercisable in the event of a change in control, cessation of employment by reason of death injury, ill health or disability (in each of which case they vest or are exercisable immediately) or retirement (in which case they vest or become exercisable on the normal deferred vesting date) No deferred awards will vest or become exercisable in the event of cessation by dismissal for cause In the case of termination by reason of death, injury, ill health or disability before the date a bonus is awarded for a financial year, a proportion of the annual bonus pool may still be awarded subject to the normal discretion of the Remuneration Committee Nil cost options expire on the tenth anniversary of bonus award No part of a bonus award is pensionable

Bonus awards for 2011 performance

The Remuneration Committee believes it was appropriate to pay maximum levels of bonus in respect of performance to 31 December 2011 in light of the exceptional performance achieved

- record operating EBITDA* rose to $11 6 billion up by 12% compared to 2010,
- record attributable profit* of $5 8 billion, which enabled the Board to increase the full year dividend by 60% to 40 US cents per share,
- ten new projects and expansions were successfully commissioned on time and budget to increase production volumes,
- real cost savings of $391 million were achieved to continue an unbroken record of year-on-year sustainable cost savings since 2002, and
- total recordable injuries were reduced by 26% compared to 2010 to 5 2 per million hours worked our lowest ever level

The table below sets out the bonus awards (including deferred elements structured as nil-cost options) granted to the executive directors for 2011 performance and compared with 2010

	2011		2010	
	Cash bonus	Nil-cost options awarded[1]	Cash bonus	Nil-cost options awarded[2]
Mick Davis	£1,430,000	239,590	£1,350,000	183,888
Trevor Reid	£750 000	125 658	£680 000	92,624
Santiago Zaldumbide	€1,040,000	145,084	€1,000,000	101 760

1 The market value of a share on the date of the deferred bonus share award on 17 February 2012 was £11 94

2 The market value of a share on the date of the deferred bonus share award on 18 February 2011 was £14 68

Further details regarding the grant of nil-cost options in respect of 2011 performance is outlined in the table on page 107

Long-term incentive arrangements

Long-Term Incentive Plan (LTIP)

Purpose	• Align the financial interests of executives with those of shareholders • Incentivise the creation of absolute and relative shareholder value • Incentivise strong cost control • Provide a focus on long-term sustainable performance
Policy	• Annual awards granted through conditional shares and market value share options • An aggregate value of 200% of salary awarded (increased to 400% of salary in exceptional circumstances) • Vesting is dependent upon pre-determined TSR and cost control targets over a three year period • Awards that do not vest, lapse
Link to strategy	• Aligned to strategic measures (cost control) and to outcomes in terms of share price development and relative TSR
Risk management	• Share based awards ensure a focus on long term sustainable performance and align management interests with shareholders • Market value option awards only provide a benefit to participants from future absolute share price growth further aligning management interests with shareholders
Term and Expiry	• The LTIP was implemented in March 2002 and expired in March 2012 • Its rules will continue to apply for all outstanding awards granted under it • We consulted with a number of Xstrata shareholders and shareholder bodies throughout the fourth quarter of 2011 and received a broad range of views and comments on our proposals for a replacement LTIP On 7 February 2012 Xstrata and Glencore announced a proposed merger of the two companies If completed, a merger will obviate the need for a replacement LTIP to be implemented Consequently while a revision to our proposed LTIP design was underway following the initial shareholder consultations, we have now postponed plans to consult with shareholders and representative bodies on our revised LTIP design • If for whatever reason, a new LTIP is proposed for Xstrata in the future we will further consult with shareholders in advance

* Excludes exceptional items

Plan design

Participants	Executive directors and the other members of the Executive Committee and those employees with the ability to influence shareholder value
Style of award	An award under the LTIP comprises a conditional award of shares (performance shares) and a grant of market value share options, the values of which are measured at face value for performance shares and at Black-Scholes value for share options Awards are structured to ensure an equal weighting between the value of performance shares and share options For the 2011 award, the value of one option was independently assessed as 36 4% of the market value of one share For the 2012 award, the value of one option has been independently assessed as 36 3% of the market value of one share
Performance period	Awards vest on the third anniversary of grant, subject to satisfaction of the performance conditions and other award terms
Performance conditions	For executive directors, 50% of awards are subject to relative TSR performance measured against a bespoke peer group of companies as shown below • Teck Resources B • Korea Zinc • GMexico 'B • MMC Norilsk Nickel • Freeport Mcmor CPR & GD • Rio Tinto • Vale • Vedanta Resources • Anglo American • BHP Billiton • Impala Platinum • Aurubis • Peabody Energy • Alcoa • Arch Coal • Eramet For the portion of the award subject to TSR performance there is zero vesting for below median performance, 50% vests for median performance and full vesting occurs for a performance ranking above the 80th percentile, with vesting between median performance and the 80th percentile assessed on a sliding scale basis The remaining 50% of the award vests subject to real cost-saving targets Annualised cost savings over the 3 year performance period equal to at least 1% of the operational cost base allow 10% vesting, 2% cost savings delivers 70% vesting and awards vest in full upon achieving 3% or more cost savings There is straight line vesting between each of these points Real cost savings are measured in relation to operating costs after adjusting for the effects of inflation, exceptional events/items such as natural disasters, excluding depreciation, commodity price-linked costs, effects of currencies on translation of local currency costs and planned life-of-mine adjustments
Other conditions for release of award	Awards vest or become exercisable in the event of a change in control, cessation of employment by reason of death, injury, ill health or disability (in each of which case they vest or are exercisable immediately and in full) or retirement (in which case they vest or become exercisable on the normal vesting date subject to satisfaction of the performance conditions) No unvested awards will vest or become exercisable in the event of cessation by dismissal for cause

LTIP awards vesting during 2011

The table below sets out the level of vesting for executive directors for the 2008 award series under the LTIP which vested on 5 April 2011

	Xstrata's TSR rank	% of TSR element vesting	Annualised % real cost savings	% of real cost savings element vesting	Total % vesting
2008 award	13th out of 15	0 00%	>3%	50%	50%

Further details of vesting awards are set out on pages 108 and 109 of this report

Outstanding LTIP awards performance

The table below sets out the level of vesting for executive directors for the 2009 award series under the LTIP which vested on 13 March 2012

	Xstrata's TSR rank	% of TSR element vesting	Annualised % real cost savings	% of real cost savings element vesting	Total % vesting
2009 award	6th out of 17	38 89%	>3%	50%	88 89%

The table below sets out TSR performance ranking information for the 2010 and 2011 award series under the LTIP at 31 December 2011

	Xstrata's TSR rank	% of TSR element vesting
2010 award	10th out of 17	0 00%
2011 award	10th out of 17	0 00%

The extent to which the 2010 and 2011 awards may vest overall will depend upon Xstrata s TSR ranking and the extent to which the real costs savings targets are met at the end of the respective performance periods

Added Value Plan (AVP)

Purpose	• Incentivise Chief Executive by providing a share of the long-term value of Xstrata created for shareholders • Reward positive growth of Xstrata • Create alignment with shareholders by requiring the Chief Executive Officer to maintain a share holding of 350,000 ordinary shares in order to participate in the AVP
Policy	• Awards made to Chief Executive only • Last award made under this plan was in 2009 (now closed to new awards) • Performance measured by means of Xstrata's TSR three-year (for Phase 1 awards) and five year (for Phase 2 awards) growth relative to an index of global mining companies
Link to strategy	• Rewards growth in Xstrata's value over and above that created by Xstrata's peer companies
Risk management	• Reward deferral in shares ensures a focus on long term sustainable performance and aligns management interests with shareholders • Extended performance period smoothes TSR performance

Plan design

Participant	The Chief Executive was the only participant of the AVP which is now closed to any further awards Only the 2009 plan cycle remains open under the AVP
Style of award	Reward under the AVP is based upon the growth in Xstrata's TSR over the relevant performance period relative to an index of global mining companies that form the TSR Index
Performance period	Performance is assessed over periods of both three years (Phase 1) and five years (Phase 2) from the date of award
Performance condition	At the end of a Phase 1 performance period, Xstrata's TSR is calculated and compared to the TSR Index which determines the added value created for shareholders over the performance period If this figure is positive, it is multiplied by a participation percentage (which is 0 3% for the 2009 plan cycle) to calculate the Phase 1 base reward No payments will be made if Xstrata underperforms against the TSR Index There is a cap which applies to the calculation at the end of the Phase 1 performance period If the cap has been applied then the Chief Executive will become eligible for Phase 2 of the plan cycle At the end of the Phase 2 performance period, the calculation will be carried out in the same way as at the end of Phase 1, but only to the extent that performance exceeds the applicable cap The absolute value received by shareholders is higher when outperforming a rising market than outperforming a market which is static or falling Consequently, two modifiers are applied Firstly, awards are adjusted in line with the Xstrata share price index Secondly, awards are adjusted in line with Xstrata's absolute performance For the 2009 plan cycle for absolute TSR of 25% or above, a multiplier of 1 will be applied, and for absolute TSR of -25% or below, a multiplier of 0 5 will be applied Between 25% and +25% straight line interpolation will apply Provided Xstrata's TSR is at least equal to the TSR Index, the Phase 1 final reward under each plan cycle will be at least $1 million The TSR and share price indices are weighted by market capitalisation The comparator group for the 2009 open plan cycle comprises relevant global mining firms This group is identical to that used for the LTIP described above
Terms of payment and deferral and other conditions for release of awards	50% of the final reward for a phase of a plan cycle is payable in cash or in shares as determined by the Remuneration Committee, as soon as practicable following determination of the final reward for that phase by the Remuneration Committee Of the remaining 50% of a Phase 1 final reward 25% shall be deferred for a period of one year and 25% shall be deferred for a period of two years Phase 2 is calculated over a five-year period, with 50% of any additional award paid at the end of that period and the remaining 50% deferred for a further year Deferred awards are indexed to the Xstrata share price over the period of deferral In the event of a change of control, all open plan cycles will vest immediately subject to and to the extent of satisfaction of the vesting criteria at that time, save that the Remuneration Committee has discretion to remove the cap that would otherwise apply in the calculation of the Phase 1 return In the event of the Chief Executive ceasing to be an Xstrata employee as a result of death ill health or disability, all open plan cycles will vest immediately subject to and to the extent of satisfaction of the vesting criteria at that time The final reward under each open plan cycle will be calculated as if the performance period terminated on the date of cessation of employment In the event of the Chief Executive ceasing to be an Xstrata employee other than in the circumstances described above, all plan cycles will lapse and no payments will be made unless the Remuneration Committee in its absolute discretion determines otherwise In the event of a variation in the capital of Xstrata, the participation percentages may be adjusted in such a way as the Remuneration Committee determines

The 2008-2011 AVP cycle
The 2008 plan cycle performance period (Phase 1) ended on 26 March 2011 At that date Xstrata's TSR was below that of the TSR index Therefore the 2008 plan cycle did not vest and did not proceed to Phase 2

The 2009-2012 AVP cycle
Under the 2009 plan cycle, as at 31 December 2011, the increase of Xstrata s TSR was 111 53%, the increase of the TSR index was 84 40%, and the growth of the Xstrata Share Price Index was 74 64% The determination of any award under the 2009 plan cycle will be made at the end of the Phase 1 performance period on 17 April 2012 and if appropriate, at the end of the Phase 2 performance period on 17 April 2014

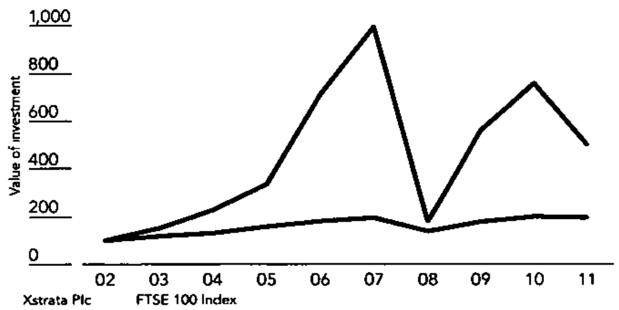
Long-term incentive arrangements and dilution
Our share incentive awards may be satisfied through market-purchased or newly-issued shares

We adhere to the ABI guidelines regarding dilution and regularly monitor positioning against these guidelines which limit the number of newly-issued shares which can be granted under all employee share schemes in a 10 year period to 10% of the issued share capital and 5% for the senior executives under discretionary share plans

As at the date of this report, our usage of newly issued share capital over the last 10 years in respect of all discretionary schemes was 3 8% of the issued share capital

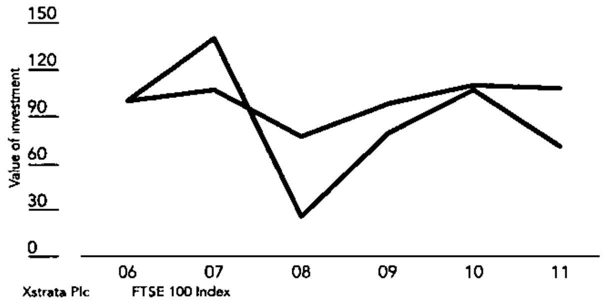
Performance graphs (£)

Total shareholder return
value of investment (£)



The performance graph set out above shows the value at 31 December 2011 of £100 invested in Xstrata shares on 31 December 2002 compared with the value of £100 invested in a hypothetical holding of shares of the same kind and number as those by reference to which the FTSE 100 index is calculated

Total shareholder return
value of investment (£)



The performance graph set out above shows the value at 31 December 2011 of £100 invested in Xstrata shares on 31 December 2006 compared with the value of £100 invested in a hypothetical holding of shares of the same kind and number as those by reference to which the FTSE 100 index is calculated

In each case, the other points plotted are the values at intervening financial year ends The value shown is based on TSR which has been calculated assuming that dividends are invested in additional shares Benefits receivable in the form of shares are also added to the relevant holding

This index has been selected as Xstrata has been a constituent of the FTSE 100 throughout the period shown and the Board considers that the FTSE 100 currently represents the most appropriate of the published indices for these purposes

Retirement benefits

Mick Davis and Trevor Reid have participated in targeted money purchase retirement plans from their respective dates of joining Xstrata At the time that Mick Davis and Trevor Reid were appointed to the Board in 2002, it was common practice for major companies to provide final salary-related retirement benefits A non-contributory targeted money purchase arrangement that provides cash sums equivalent to final salary provision was established The retirement benefit costs for these individuals reflect the costs and financial dynamics of a defined benefit plan but are fully settled and paid as a defined contribution on an annual basis which limits balance sheet liability to only those amounts accrued to meet the contribution requirements for the relevant period Following cessation of employment, Xstrata has no ongoing retirement benefits liability to the individuals The plan is designed to provide 3% of final pensionable salary per year of service with Xstrata (up to a maximum of 20 years), targeting retirement at age 60 Contributions are determined annually by an independent actuary Changes in contribution requirements year to year are driven by a number of factors including changes in inflation, annuity rates, salary, tax rates and life expectancy data, and are particularly impacted by poor equity markets performance and low bond yields Prior to 6 April 2006 these contributions were paid to a combination of an approved money purchase retirement plan and a funded unapproved retirement benefits scheme (FURBS) From 6 April 2006 contributions have been made through a combination of payments to a registered retirement benefit plan and cash sums to each executive, having regard to the tax limits on contributions and benefits from registered UK retirement benefits plans

Santiago Zaldumbide receives no retirement benefits under the terms of his professional services agreement

Other benefits

Mick Davis and Trevor Reid receive private medical insurance, life assurance and housing allowance benefits

Many of the Xstrata s operations are located in areas not well served by commercial flight routes and therefore a company leased aircraft is provided for the purposes of business travel by Xstrata executives The Remuneration Committee approved in 2008 the private use of Xstrata-leased aircraft for the Chief Executive for an agreed maximum number of hours per annum, subject to the aircraft not being required for work purposes by other Xstrata executives at the relevant time(s)

Xstrata policy permits the provision of short-term interest-free loans to any eligible employee, including executive directors, to cover periods when employees suffer double taxation on any employment income because they are required to work in multiple jurisdictions and are unable to claim repayments or credits for such double taxation until a later point in time

Under the terms of his service agreement Santiago Zaldumbide receives no other benefits

Executive directors' service contracts

Mick Davis and Trevor Reid have employment agreements with Xstrata effective from 1 February 2002 for a fixed term of two years, which have been subsequently renewed as required for further two-year fixed periods

The employment of Mick Davis and Trevor Reid may be terminated on 12 months notice being given by Xstrata or the director concerned On termination of their employment by Xstrata without notice or if Mick Davis or Trevor Reid resigns in circumstances where they cannot in good faith be expected to continue in employment including following a change of control, for example if there is a diminution in role or duties, each director is entitled to be paid a sum equal to 100% of his annual salary plus retirement benefits, other benefits and his previous year's bonus (plus any accrued basic salary and expenses) and to have all entitlements under his retirement benefit plans paid in accordance with the plan rules As both Mick Davis and Trevor Reid participate in money purchase arrangements, it is not expected that any significant additional liability would arise in respect of retirement plan entitlements beyond that already accrued in Xstrata's accounts For the purposes of calculating termination payments, annual bonus is capped at 300% of annual salary (which is in any event the maximum allowable under the Bonus Plan)

Santiago Zaldumbide provides his services to Xstrata under a professional services agreement entered into between him and Asturiana on 23 July 2007, pursuant to which Santiago Zaldumbide agreed to act as Chairman and Chief Executive of Xstrata Zinc This agreement continues indefinitely unless terminated by one of the parties on at least six months written notice The annual gross fee payable to Santiago Zaldumbide for the year ended 31 December 2011 was €1,040,000 This annual fee is subject to review in line with the other executive directors Santiago Zaldumbide receives no retirement benefits under the terms of his professional services agreement but is eligible to participate in the Bonus Plan and the LTIP

On termination of his professional services agreement, other than on his voluntary termination or termination for gross negligence, Santiago Zaldumbide is entitled to be paid a sum equal to 150% of his annual salary and his previous year's bonus (and any accrued basic salary and expenses) Pursuant to a letter of appointment dated 18 March 2002 and subject to the continuing existence of his agreement with Asturiana, Santiago Zaldumbide is engaged as a director of Xstrata Santiago Zaldumbide receives no additional remuneration for his position as director of Xstrata and is not entitled to any compensation in respect of the termination of his office as a director of Xstrata

Income tax

Both Mick Davis and Trevor Reid are UK taxpayers and as such pay UK income tax and, where applicable, National Insurance on their salaries, bonuses, pension allowances, benefits-in kind and long-term incentives Santiago Zaldumbide is tax resident in Spain and as such pays income tax and other applicable taxes on his salary, bonuses and long term incentives

External appointments

No executive directors held external directorships or offices as at 31 December 2011

Non-executive directors

Fees for non-executive directors are set at the level considered necessary to obtain and retain the services of high-calibre individuals with the relevant skills and experience to bring added depth and breadth to the composition of the Board Non-executive directors' fees are reviewed annually by the Chairman and the Chief Executive in the light of fees payable to non-executive directors of comparable companies The review of non-executive directors' fees for 2012 resulted in fees being held at the same level as applied for 2011

Non-executive directors are eligible to forego all or part of their directors' fees to acquire shares in Xstrata, after deduction of applicable income tax and social security contributions In line with best practice, the non-executive directors do not participate in any performance related incentive or pension allowance Non-executive directors do not receive expense allowances and any expenses are subject to the provision of receipts

There is no arrangement under which a director has agreed to waive future emoluments nor have there been any such waivers during the financial year There are no outstanding loans or guarantees granted or provided by any Xstrata company to or for the benefit of any of the non executive directors

Letters of appointment set out the duties and responsibilities of non executive directors The key terms of the letters of appointment are set out in the table below

Period of appointment	• In accordance with the UK Corporate Governance Code, all non-executive directors will offer themselves for re election at each AGM
Notice period	**From Xstrata** • At Xstrata's discretion without notice **From Director** • 6 months' notice
Compensation for loss of office	• No compensation for loss of office will be awarded

Executive directors' shareholding information

The following table shows the total number of shares beneficially held by the executive directors as at the date of this Report. It includes interests in shares held pursuant to vested but unexercised options (see page 109 for further details about vested but unexercised options) but does not include any interests in shares held as restricted shares, nil-cost options or LTIP options which are still yet to vest.

Executive director	Total shares
Mick Davis	4,631,654
Trevor Reid	2,438,124
Santiago Zaldumbide	1,122,562

The information in the tables set out on pages 106 to 109 has been subject to audit.

Emoluments and compensation (US$)

The emoluments and compensation in respect of qualifying services of each person who served as director during the year were as follows:

Director	Salary and fees[1]	Cash bonus[6a]	Housing allowances	Health, life and private medical insurance	Other benefits	Total	Year Ended 31.12.10 Total[11]
Executives							
Mick Davis	2,293,872[2]	2,257,355[6b]	183,000[7a]	181,290[8]	481 142[10]	**5,396,659**	**4,791,160**
Trevor Reid	1,203,080[2]	1,183,928[6b]	141,660[7b]	23 675[9]		**2,552,343**	**2,296,980**
Santiago Zaldumbide	1,448,266[3]	1 364 043[6c]				**2,812,309**	**2,690,170**
Non-executives							
Willy Strothotte[5]	143,051[4]					**143,051**	**386,500**
Sir John Bond[5]	760,565[4]					**760,565**	**–**
David Rough	297,081[4]					**297,081**	**272,251**
Ivan Glasenberg	137,984[4]					**137,984**	**140,531**
Sir Steve Robson CB	176,131[4]					**176,131**	**194,951**
Ian Strachan	191,450[4]					**191,450**	**175,626**
Claude Lamoureux	176,131[4]					**176,131**	**161,557**
Peter Hooley	189 605[4]					**189,605**	**162,337**
Con Fauconnier	176,131[4]					**176,131**	**151,044**
Telis Mistakidis[5]	86,360[4]					**86,360**	**–**
Tor Peterson[5]	86 360[4]					**86,360**	**–**
Totals	**7,366,067**	**4,805,326**	**324,660**	**204,965**	**481,142**	**13,182,160**	**11,423,107**

1 Salary and fees includes non executive fees which may be paid in shares. No consideration has been paid to or is receivable by third parties for making available the qualifying services of any directors during the year or in connection with the management affairs of Xstrata.

2 In 2011 Mick Davis' and Trevor Reid's salaries were set and paid in UK pounds sterling as shown on page 98. The salary figures above have been converted to US dollars based on the average £/$ exchange rate for the year of 1.604 (2010: 1.546) and therefore reflect the impact of the exchange rate fluctuations during the year.

3 In 2011, Santiago Zaldumbide's salary was set and paid in Euros as shown on page 98. The figures above have been converted to US dollars based on the average €/$ exchange rate for the year of 1.393 (2010: 1.326) and therefore reflect the impact of the exchange rate fluctuations during the year.

4 All non-executive director fees except those for Ian Strachan and Claude Lamoureux were set and paid in UK pounds sterling. Ian Strachan's fees were set in UK pounds sterling and paid in US dollars. Claude Lamoureux's fees were set in UK pounds sterling and paid in Canadian dollars. The figures above have been converted to US dollars based on the average £/$ exchange rate for the year of 1.604 (2010: 1.546) and therefore reflect the impact of the exchange rate fluctuations during the year.

5 Willy Strothotte resigned and Sir John Bond, Telis Mistakidis and Tor Peterson were appointed at the AGM on 4 May 2011.

6a The details of deferred bonus awards granted as nil cost options in respect of 2011 performance are shown separately in the table on page 107.

6b Cash bonuses awarded in February 2012 in relation to the 2011 performance year. The bonuses were awarded in UK pounds sterling in amounts of £1,430,000 and £750,000 for Mick Davis and Trevor Reid respectively and converted at a rate of 1.57857, the exchange rate prevailing on the date of the award.

6c Cash bonus awarded in February 2012 in relation to the 2011 performance year. The bonus was awarded in Euros in the amount of EUR1,040,000 and converted at a rate of 1.31158, the exchange rate prevailing on the date of the award.

7a In 2011, Mick Davis' housing allowance was awarded and paid in US dollars.

7b In 2011, Trevor Reid's housing allowance was awarded in US dollars and paid in UK pounds sterling.

8 In 2011, Mick Davis' benefits were set and paid in UK pounds sterling. The benefits have been converted to US dollars based on the average £/$ exchange rate for the year of 1.604 (2010: 1.546) and therefore reflect the impact of the exchange rate fluctuations during the year. This includes an amount for life insurance of £90,234.

9 In 2011, Trevor Reid's benefits were set and paid in UK pounds sterling. The benefits have been converted to US dollars based on the average £/$ exchange rate for the year of 1.604 (2010: 1.546) and therefore reflect the impact of the exchange rate fluctuations during the year. This includes an amount for life insurance of £10,796.

10 In order to facilitate travel to Xstrata operations, many of which are located in remote locations not served by commercial flight routes, Xstrata leases private aircraft to be used from time to time for business travel by Xstrata executives. The Remuneration Committee has approved the private use of the Xstrata leased aircraft for Mick Davis, subject to any private usage not conflicting with Xstrata business, for a limited number of hours per annum and the discharge of the tax liability arising from that private use. The benefit shown above has been calculated based on marginal flight costs for the hours used and converted to US dollars at the average £/$ exchange rate for the year of 1.604 (2010: 1.546) and therefore reflects the impact of the exchange rate fluctuations during the year.

11 The totals for executive directors for 2010 exclude the value of deferred bonus awards in respect of 2010 performance and therefore differ from the totals presented in the 2010 Remuneration report. This is because, as outlined in note 6a above, the details of deferred bonus awards granted as nil cost options in respect of 2011 performance are now shown separately in the following table on page 107.

Deferred bonus shares awarded in respect of 2011 performance

Details of the deferred bonus shares granted to those directors who served during the year in respect of 2011 performance

Director	Awarded[1]	End of the period for interim qualifying conditions to be fulfilled
Mick Davis		
Deferred Bonus in respect of 2011 performance – 1 year deferred	119 795	2-Feb-13
Deferred Bonus in respect of 2011 performance – 2 years deferred	119,795	2 Feb-14
Trevor Reid		
Deferred Bonus in respect of 2011 performance – 1 year deferred	62 829	2-Feb-13
Deferred Bonus in respect of 2011 performance – 2 years deferred	62,829	2-Feb-14
Santiago Zaldumbide		
Deferred Bonus in respect of 2011 performance – 1 year deferred	72,542	2-Feb-13
Deferred Bonus in respect of 2011 performance – 2 years deferred	72,542	2-Feb-14
Total	**510,332**	

1 Deferred bonus awards made in February 2012 for 2011 performance structured as nil-cost options over shares Details of performance conditions are described above The market value of a share on the date of the deferred bonus share award on 17February 2012 was £11 94

Remuneration report *continued*

Shares

Details of Xstrata shares over which those directors who served during the year have restricted or conditional rights under the Long-Term Incentive Plan, the Bonus Plan and the Added Value Plan

Director	Scheme interest at 1 Jan 2011	Awarded	End of the period for interim qualifying conditions to be fulfilled	Lapsed/ expired	Vested	At 31 Dec 2011
Share Awards which vested or lapsed during 2011						
Mick Davis						
Added value plan – 2008 cycle			26-Mar-11	*		
Deferred bonus in respect of 2009 performance – 1 year deferred	72 751		1 Feb-11		72,751[3 5]	0
Trevor Reid						
LTIP – 2008 award	56,205		4-Apr 11	28 103	28 102[4]	0
Deferred bonus in respect of 2009 performance – 1 year deferred	36,653		1-Feb-11		36,653[3,5]	0
Santiago Zaldumbide						
LTIP – 2008 award	53 456		4-Apr-11	26,728	26,728[4]	0
Deferred bonus in respect of 2009 performance – 1 year deferred	82,220		1 Feb-11		82,220[3]	0
Share awards granted during 2011 LTIP – 2011 award of performance shares						
Mick Davis		204,856[2]	18-Feb-14			**204,856**
Trevor Reid		103,187[2]	18-Feb-14			**103,187**
Santiago Zaldumbide		84 947[2]	18-Feb-14			**84,947**
Share awards remaining subject to restrictions or performance conditions during 2011						
Mick Davis						
Added value plan – 2009 Cycle	*		17-Apr-12			
LTIP – 2010 award	209,043		18 Feb-13			**209,043**
Deferred bonus in respect of 2009 performance – 2 years deferred	36 321		1-Feb-12			**36,321**
Trevor Reid						
LTIP – 2009 award	253,378		12-Mar 12			**253,378**
LTIP – 2010 award	105 319		18-Feb-13			**105,319**
Deferred bonus in respect of 2009 performance – 2 years deferred	18,299		1-Feb-12			**18,299**
Santiago Zaldumbide						
LTIP – 2009 award	251 070		12-Mar-12			**251,070**
LTIP – 2010 award	103,286		18-Feb-13			**103,286**
Deferred bonus in respect of 2009 performance – 2 years deferred	8,222		1-Feb-12			**8,222**
Totals	**1,286,223**	**392,990**		**54,831**	**246,454**	**1,377,928**

1 Details of performance conditions are described above

2 The market value of a share on the date of award under the LTIP on 18 February 2011 was £14 68

3 These shares were awarded on 18 February 2010 under the deferred bonus plan with a market value of £10 30 per share The closing market price on the date of vesting was £14 79 Upon vesting of these shares, $10,688 60 was paid to Santiago Zaldumbide in respect of dividend equivalents accrued on the deferred shares during the deferral period The deferred bonus shares awarded to Mick Davis and Trevor Reid in respect of 2009 performance were structured as net deferred awards and therefore dividends, rather than dividend equivalents were paid which were released at vesting

4 These shares were awarded on 4 April 2008 under the LTIP with a market value of £20 01 per share The closing market price on the date of vesting was £14 90

5 The deferred bonus awards made to Mick Davis and Trevor Reid in respect of 2009 performance were structured as a net of tax award of shares subject to restrictions

* 2008 2011 Added Value Plan

No payment was made under Phase 1 of the AVP 2008 Cycle and it did not proceed to Phase 2

Subsequent periods

For the AVP 2009 cycle, the participation percentage was 0 3% and the market capitalisation on the date of award was GBP14 697 000

Share options

Details of share options of those directors who served during the year are as follows

Director	At 1 Jan 2011	Awarded	Lapsed/ expired unexercised	Exercised	At 31 Dec 2011	Exercise price	Earliest date of exercise	Expiry date
Share options granted during 2011								
Mick Davis								
LTIP Market Value Options[1,2]		562,791			562,791	£14 68	18 Feb-14	18-Feb-21
Deferred Bonus in respect of 2010 performance – 1 year deferred[3]		91,944			91,944	Nil	1-Feb-12	1-Feb-21
Deferred Bonus in respect of 2010 performance – 2 year deferred[3]		91,944			91,944	Nil	1-Feb-13	1-Feb-21
Trevor Reid								
LTIP Market Value Options[1,2]		283 480			283,480	£14 68	18-Feb-14	18-Feb-21
Deferred Bonus in respect of 2010 performance – 1 year deferred[3]		46,312			46,312	Nil	1-Feb-12	1-Feb-21
Deferred Bonus in respect of 2010 performance – 2 year deferred[3]		46,312			46 312	Nil	1-Feb-13	1-Feb-21
Santiago Zaldumbide								
LTIP Market Value Options[1,2]		233,371			233,371	£14 68	18 Feb-14	18-Feb-21
Deferred Bonus in respect of 2010 performance – 1 year deferred[3]		58,149			58 149	Nil	1-Feb-12	1-Feb-21
Deferred Bonus in respect of 2010 performance – 2 year deferred[3]		43 611			43,611	Nil	1-Feb-13	1 Feb-21
Share options which vested or lapsed during 2011 LTIP options – 2008 award[4]								
Trevor Reid	187,353		93 677		93,676	£20 02	4 Apr-11	4 Apr 18
Santiago Zaldumbide	178,190		89,095		89,095	£20 02	4-Apr-11	4-Apr-18
Share options yet to vest and which remain subject to performance conditions[1]								
Mick Davis								
LTIP market value options – 2010 award	696 809				696,809	£10 31	18-Feb-13	18-Feb-20
Trevor Reid								
LTIP market value options – 2009 award	844,595				844,595	£3 35	12 Mar-12	12 Mar-19
LTIP market value options – 2010 award	351 064				351,064	£10 31	18-Feb-13	18 Feb-20
Santiago Zaldumbide								
LTIP market value options – 2009 award	836,900				836,900	£3 35	12 Mar-12	12 Mar-19
LTIP market value options – 2010 award	344 286				344,286	£10 31	18-Feb-13	18-Feb-20
Share options which vested prior to 2011 and which remain exercisable or were execised during 2011								
Mick Davis								
LTIP market value options – 2003 award	661,590				661,590	£1 82	10-Feb-06	10-Feb-13
LTIP market value options – 2004 award	1,361,071				1,361,071	£3 72	4 Mar-07	4-Mar-14
Trevor Reid								
LTIP market value options – 2004 award	310,822				310,822	£3 72	4 Mar-07	4-Mar-14
LTIP market value options – 2005 award	379,178				379,178	£5 37	11-Mar-08	11-Mar-15
LTIP market value options – 2006 award	117 788				117,788	£8 70	10 Mar-09	10-Mar-16
LTIP market value options – 2007 award	92,223				92,223	£13 59	15-Mar 10	15-Mar-17
Santiago Zaldumbide								
LTIP market value options – 2006 award	117,132			117,132	0	£8 70	10-Mar-09	10-Mar-16
LTIP market value options – 2007 award	90,467			90 467	0	£13 59	15-Mar-10	15-Mar-17
Totals	**6,569,468**	**1,457,914**	**182,772**	**207,599**	**7,637,011**			

1 The vesting of LTIP market value options are subject to performance conditions as described on pages 100 to 102, being achieved

2 The independently determined value of an LTIP market value option on the date of award was £5 34 (an amount equal to 36 4% of £14 68 being the market value of a share on 18 February 2011)

3 Deferred bonus awards structured as nil cost options over shares The market value of a share on the date of award on 18 February 2011 was £14 68

4 The extent to which the relevant performance criteria were satisfied is detailed on page 102

Mick Davis and Trevor Reid s LTIP options may be settled in cash at the discretion of the Remuneration Committee

The highest and lowest price of a share during the year was £15 50 and £7 64 respectively (2010 £15 35 and £8 46) The price at the year end was £9 78 (2010 £15 06) The aggregate of profits made by executive directors from the exercise of share options during 2011 was £841,876

Retirement benefits

Mick Davis and Trevor Reid have participated in targeted money purchase retirement benefit plans During the year, retirement benefit related payments were made as follows

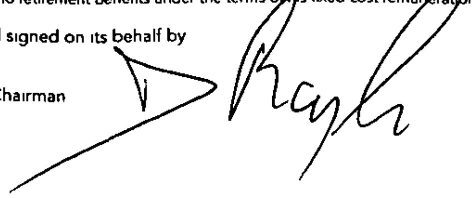
	2011 Mick Davis USD	2010 Mick Davis USD	**2011 Trevor Reid USD**	2010 Trevor Reid USD	**2011 Total USD**	2010 Total USD
Retirement benefit related payments[1]	**4,341,526**	4,022,301	**2,961,909**	2,227,267	**7,303,434**	6,249 568

1 Based on the average £/$ exchange rate for the year of 1 604 (2010 1 546) Payments for Mick Davis and Trevor Reid in both years were made in UK pounds sterling

Further details of the retirement benefit arrangements are explained on page 104

Santiago Zuldumbide received no retirement benefits under the terms of his fixed cost remuneration arrangement which is detailed on page 105

Approved by the Board and signed on its behalf by



David Rough
Remuneration Committee Chairman
15 March 2012

Directors' report

Results and dividend
Our financial results are set out in both the financial information and Financial Review sections of this report

Our Board recommends a final dividend of US27 0 cents per share amounting to $792 million The total 2011 dividend is US40 0 cents per share or $1,173 million Our shareholders will be asked to approve the dividend at the Annual General Meeting on 1 May 2012, for payment on 23 May 2012 to ordinary shareholders whose names were on the Register of Members on 4 May 2012

Principal activities
Xstrata is a major global diversified mining group headquartered in Zug, Switzerland We have a Premium Listing on the London Stock Exchange and a Secondary Listing on the SIX Swiss Exchange Additional information on our operations is provided in the Business Overview and Strategy, Financial Review and Operational Review sections

Review of the business, future developments and post balance sheet events
A review of our business and future developments is presented in the Chairman s Statement Chief Executive's Officer's Strategic review and the Financial and Operating reviews from page 40 to page 76 and forms part of this Report by reference

A full description of acquisitions, disposals, and changes to Group companies undertaken during the year, including post balance sheet events, is included in the Financial Review on pages 40 to 45

Corporate governance
A report on corporate governance and compliance with the principles and provisions of the UK Corporate Governance Code is set out on pages 87 to 95 and forms part of this report by reference

Financial instruments
Our financial risk management objectives and policies, details of financial instruments, hedging activities and exposures to price risk, credit risk, liquidity risk and cash flow risk are discussed on pages 40 to 45 of the Financial Review and in Note 36 of the Financial Statements

Creditor payment policy and practice
The international nature of our business means that there is no specific Group-wide policy in respect of payments to suppliers Our individual operating companies are responsible for agreeing terms and conditions for their business transactions and ensuring that suppliers are aware of the terms of payment It is our policy that payments are made in accordance with these, provided that all trading terms and conditions have been met by the supplier

Xstrata plc is a holding company with no business activity other than the holding of investments in the Group and therefore had no trade creditors at 31 December 2011 and was not invoiced by any suppliers in 2011

Health, safety, environment & community (HSEC)
An overview of health, safety and environmental performance and community participation is provided throughout from pages 4 to 35

Exploration and research and development
Our business units carry out exploration and research and development activities that are necessary to support and expand their operations and their commitment to the environment

Political and charitable donations
In accordance with our corporate social involvement (CSI) policy, no political donations were made in 2011 Our CSI expenditure supports initiatives that benefit communities located close to our operations in the areas of health education, sport and the arts, community development job creation and enterprise In 2011, Xstrata paid $102million for CSI initiatives Donations during the year to UK registered charities totalled £161,000

Employee policies and involvement
Our policy and performance regarding employee involvement, disabled employees, labour relations and employee share schemes are provided on pages 10 to 35

Board of directors
The directors during the year under review were Sir John Bond, (Chairman, appointed to the Board on 4 May 2011), Mick Davis (Chief Executive Officer) Dr Con Fauconnier (independent non-executive), Ivan Glasenberg (non-executive), Peter Hooley (independent non-executive), Claude Lamoureux (independent non executive), Aristotelis Mistakidis (non-executive appointed on 4 May 2011), Tor Peterson (non-executive appointed on 4 May 2011), Sir Steve Robson (independent non-executive), David Rough (Deputy Chairman, senior independent non-executive) Trevor Reid (Chief Financial Officer), Ian Strachan (independent non-executive), Willy Strothotte (Chairman and non-executive who retired on 4 May 2011) and Santiago Zaldumbide (executive director)

Further details about the directors, their skills and experience and their roles are given in the directors' biographies on pages 84 and 85

Directors' conflicts of interest
Under section 175 of the Companies Act 2006, a director of a company must avoid a situation in which he has, or can have a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company The duty is not infringed if the matter has been authorised by the directors of the relevant company Under the Act the board of directors of the relevant company has the power to authorise potential or actual conflict situations Our Board has effective procedures in place that enable directors to notify the Nominations Committee of any actual or potential conflict situations The Nominations Committee reviews these notifications in detail and makes recommendations to the Board regarding authorisation The Board will, if appropriate, authorise these conflict situations subject to conditions and for a period of one year All directors' conflict situations are reviewed annually A Conflicts Register of authorisations is maintained

Directors' liabilities
The Company has granted qualifying third party indemnities to each of its directors against any liability that attaches to them in defending proceedings brought against them to the extent permitted by the Companies Acts In addition, directors and officers of the Company and its subsidiaries are covered by Directors & Officers liability insurance

Directors and their interests
Details of interests in the share capital of the Company of those directors in office as at 31 December 2011 and their families are given below None of the shares were held non-beneficially No director held interests in the shares of any subsidiary company

Name of Director	Ordinary shares held beneficially as at 1 January 2011	Ordinary shares held beneficially as at 31 December 2011
Executive		
Mick Davis	2,517,549	2,517,549
Trevor Reid	511,389	539,491
Santiago Zaldumbide	27 139	–
Non-executive		
Sir John Bond	–	1,000
Con Fauconnier	–	–
Ivan Glasenberg	–	–
Peter Hooley	–	–
Claude Lamoureux	27 000	27 000
Aristotelis Mistakidis	–	–
Tor Peterson	–	–
Sir Steve Robson	–	–
David Rough	24 999	25,249
Ian Strachan	43,098	43,098

During the period from the end of the financial year to 15 March 2012, the following changes in directors' interests occurred

Santiago Zaldumbide acquired legal and beneficial interest in 8,222 ordinary shares upon the vesting of deferred bonus shares awarded under the Executive Committee Bonus Plan in 2010 Santiago Zaldumbide acquired a legal and beneficial interest in 223,176 shares and Trevor Reid acquired a beneficial interest in 107,874 shares following the vesting of contingent shares awarded under the 2009 Long Term Incentive Plan

In addition to the above interests in shares, the executive directors also have interests in the share capital of the Company in the form of conditional rights to free shares and options to subscribe to shares under the Long Term Incentive Plan and Executive Bonus Plan Details of these interests are disclosed in the Directors' Remuneration report on pages 96 to 109

Share capital

At the date of this report, the ordinary share capital of the Company was $1,501,346,038 represented by 3,002,692,076 ordinary shares of $0 50 each

The Company has in place an equity capital management programme (ECMP), under which up to 10% of the issued share capital of the Company can be purchased in the market by Batiss Investments Limited (Batiss) Batiss currently holds 28,428,786 ordinary shares, 0 95% of the Company's current issued ordinary share capital Batiss waives its rights to receive dividends on the ordinary shares that it holds from time to time

At 31 December 2011, the independent trustee of the Xstrata plc Employee Share Ownership Trusts held 5 028 048 shares under the terms of the trusts for the benefit of employees and former employees of the Company These trusts are discretionary and the shares are held to meet employees' entitlements under the Company's Long Term Incentive Plan and Executive Committee Bonus Plan Employees have no voting rights in relation to the shares while they are held in trust The trustee has full discretion to exercise voting rights or to abstain from voting Shares acquired by employees through the Company's Long Term Incentive Plan rank pari passu with shares in issue and have no special rights On occasion, the trustee of the Employee Share Ownership Trusts waives its right to receive dividends on ordinary shares that it holds

Major interests in shares

The table below shows the interests representing 3% or more in the issued ordinary share capital of the Company which had been disclosed to the Company as at the end of the period under review and interests at 8 March 2012

Name of shareholders	Number of ordinary shares of US$0 50 each at 31 12 2011	% of ordinary issued share capital	Number of ordinary shares of US$0 50 each at 08 03 2012	% of ordinary issued share capital
Glencore International plc*	1,010,403,999	34 08	1,010,403 999	33 64
BlackRock, Inc	184,002,078	6 21	170,097,051	5 66
Qatar Holding LLC		Less than 3%	107,634,086	3 58

* The voting rights comprised in this interest are directly controlled by Finges

Significant contractual arrangements

Glencore International AG is Xstrata's major shareholder and, at the date of this document, holds 33 64% of Xstrata's issued share capital A Relationship Agreement regulates the relationship between Xstrata and Glencore to ensure all commercial arrangements are transacted on an arm's-length basis Glencore is the sole distributor of Xstrata's nickel cobalt and ferronickel production has sales agreements with Xstrata Copper for some of its copper concentrate and copper cathode and is the marketing agent for much of Xstrata Alloys' ferrochrome and vanadium Glencore has a market advisory role with Xstrata Coal Full details of related party contractual arrangements are provided in Note 35 of the financial statements

The Companies Act 2006 requires disclosure of the following significant agreements that contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company

Relationship Agreement

The Company is party to the Relationship Agreement with Glencore International AG (Glencore) dated 20 March 2002 The Agreement regulates the continuing relationship between the parties In particular it ensures that (a) the Company is capable of carrying on its business independently of Glencore as a controlling shareholder (as such term is defined in the Agreement) (b) transactions and relationships between Glencore (or any of its subsidiaries or affiliates) and the Company are at an arm's length and on normal commercial terms, (c) Glencore shall be entitled to nominate up to three directors or (if lower or higher) such number of directors equal to one less than the number of directors who are independent directors, and, (d) directors of the Company nominated by Glencore shall not be permitted to vote on any Board resolution, unless otherwise agreed by the independent directors, to approve any aspect of the Company's involvement in or enforcement of any arrangements agreements or transactions with Glencore or any of its subsidiaries or affiliates The Agreement provides that, save to the extent required by law, the parties agree that they shall exercise their powers so that the Company is managed in accordance with the principles of good governance set out in the Combined Code and that the provisions of the Code of Best Practice set out in the Combined Code are complied with by the Company It is expressed that the Agreement terminates in the event that Glencore ceases to be a controlling shareholder of the Company following a sale or disposal of shares in the Company or if the Company ceases to be listed on the Official List and traded on the London Stock Exchange

US$500 million notes due 2037
On 30 November 2007, Xstrata Finance (Canada) Limited issued $500 million 6 90% notes due 2037, guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited The terms of these notes require Xstrata Finance (Canada) Limited to make an offer to each noteholder to repurchase all or any part of such holder's notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the notes so repurchased plus any accrued and unpaid interest on the principal amount of the notes repurchased to the date of repurchase, if both of the following occur

(i) a change of control (as defined in the terms and conditions of the notes) of Xstrata, and

(ii) the notes are rated below investment grade by each of Moody's and Standard & Poor s on any date from 30 days prior to the date of the public notice of an arrangement that could result in a change of control (as defined in the terms and conditions of the notes) until the end of the 60-day period following public notice of the occurrence of a change of control

€600 million notes due 2015
On 23 May 2008, Xstrata Canada Financial Corporation issued €600,000,000 6 25% guaranteed notes due 2015 and £500,000,000 7 375% guaranteed notes due 2020 (the 2008 MTN Notes) The 2008 MTN Notes are guaranteed by each of Xstrata plc, Xstrata (Schweiz) AG Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited and were issued pursuant to the $6,000 000 000 Euro Medium Term Note Programme

Pursuant to the terms and conditions of the 2008 MTN Notes, if

(i) a change of control occurs (as defined in the terms and conditions of the 2008 MTN Notes), and

(ii) the 2008 MTN Notes carry, on the relevant announcement date of the change of control

(a) an investment grade credit rating is either downgraded to a non-investment grade credit rating or is withdrawn, or

(b) a non-investment grade credit rating is downgraded by one or more notches or is withdrawn, or

(c) no credit rating and a negative rating event (as defined in the terms and conditions of the 2008 MTN Notes) occurs, each holder has the option to require Xstrata Canada Financial Corp to redeem such 2008 MTN Notes in cash at the principal amount plus interest accrued to (but excluding) the date of redemption

US$6 0 billion syndicated facility
On 24 October 2011, Xstrata (Schweiz) AG and the Company entered into a $6 0 billion multicurrency revolving syndicated loan facility agreement with the banks and financial institutions named therein as lenders (the Syndicated Facilities Agreement) and Barclays Capital acting as facility agent

Upon a change of control, no borrower may make a further utilisation unless otherwise agreed The majority lenders, as defined in the agreement, can also require that the Syndicated Facilities Agreement is immediately terminated and declared that all outstanding loans become immediately payable Alternatively, if the majority lenders do not require cancellation, but a specific lender does on the basis of internal policy that particular lender can require that its commitments are cancelled and all amounts outstanding in respect of that lender's commitments shall become immediately payable

US$3 0 billion multi-tranche notes
On 3 November 2011, Xstrata Finance (Canada) Limited issued $800 million 2 85% notes due 2014, $700 million 3 6% notes due 2017, $1 0 billion 4 95% notes due 2021 and $500 million 6 0% notes due 2041 The notes are guaranteed by the Company The terms of the notes contain change of control provisions, in substance, identical to those set out in the referenced US$500 million notes due 2037 above

Xstrata plc Long Term Incentive Plan
The rules of our employee share plans set out the consequences of any change of control of the Company on employees' rights under the plans Generally such rights will vest on a change of control and participants will become entitled to acquire shares or in some cases, to the payment of a cash sum of equivalent value

Articles of Association

Our Articles of Association (adopted by special resolution on 19 March 2002 and amended by special resolutions passed on 9 May 2005, 6 May 2008, and 5 May 2010) may only be amended by special resolution at a general meeting of the shareholders

Share rights

The rights and obligations attached to Xstrata's ordinary shares are set out in the Articles of Association copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary Subject to the Companies Acts (as defined in the Articles of Association), and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination as the Board may determine

Ordinary shares
Holders of ordinary shares are entitled to attend, speak and vote at general meetings of the Company, and to appoint proxies to exercise their rights Holders of ordinary shares may receive a dividend and on a winding up may share in the assets of the Company

Deferred shares
The holders of deferred shares have neither the right to receive notice of any Company AGM or to attend speak or vote at any such 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 2006) at a price not exceeding £1 00 for each share 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 our Articles of Association by creating a special voting share that carries weighted voting rights sufficient to defeat any resolution that 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

Voting rights

Subject to the rights and restrictions attached to any class of shares

(i) on a show of hands every member present in person or by proxy has one vote (save that neither the holder of the special voting share nor any holder of deferred shares shall be entitled to vote) and a proxy appointed by a member on behalf of such member's shareholding shall also have one vote,

(ii) on a poll

(a) every member present in person or by proxy (except the holder of the special voting share and any holder of the deferred shares) shall have

(i) one vote for each fully paid share, and

(ii) for each partly-paid share, such proportion of the votes attached to a fully paid share as would mean that such proportion is the same as the proportion of the amount paid up on the total issue price of that share,

(b) the holder of the special voting share shall, on an Entrenched Rights Action, have enough votes to defeat the resolution but on all other decisions, shall have no votes, and

(c) the holders of the deferred shares shall not be entitled to vote

Restrictions on transfer of shares

There are no restrictions on the transfer of ordinary shares in the company other than

(i) the right of the Board to refuse to register the transfer of a certificated share that is not a fully paid share provided that the refusal does not prevent dealings in shares of that class in the Company from taking place on an open and proper basis The Board may also refuse to register the transfer of a certificated share, unless the instrument of transfer (a) is lodged duly stamped (if applicable) with the Company and (except where the shares are registered in the name of a recognised person and no certificate shall have been issued therefore is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may require), (b) is in respect of one class of share only, and (c) is in favour of not more than four persons,

(ii) pursuant to our share dealing code whereby directors require, and employees may require, approval to deal in Xstrata's shares,

(iii) certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws), and

(iv) where a person whose shares represent at least a 0 25% interest in Xstrata's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares, except as otherwise provided in the Articles

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of ordinary shares and for voting rights

The Board must decline to register any transfer of the special voting share unless approved in accordance with a voting deed between the Company and the holder of the special voting share

Annual General Meeting

The Annual General Meeting (AGM) of the Company will be held at Theater-Casino Zug, Artherstrasse 2-4 Zug Switzerland on 1 May 2012 at 11 a m (Central European Summer Time) A live webcast will be provided through www xstrata com A telephone dial in facility will also be provided on a listen only basis Further details of the dial-in facility and webcast will be available at www xstrata com at least one week prior to the meeting

Full details about the AGM, including explanatory notes, are contained in the Notice of AGM, which will be sent to shareholders at least 20 working days beforehand The Notice sets out the resolutions to be proposed and an explanation of each All documents relating to the AGM are available at www xstrata com

Electronic copies of the annual review and financial statements 2011 and other publications

A copy of the 2011 Annual Report (which includes the Annual Review and financial statements, Directors' report incorporating a Corporate Governance report and directors' Remuneration Report), the Notice of the AGM, the 2011 Sustainability report (available in early April) and other corporate publications, reports, press releases and announcements are available at www xstrata com

Responsibility statement

Pursuant to Disclosure and Transparency Rule 4 1 12, each of the directors whose names are listed on pages 84 to 85 have confirmed to the best of their knowledge

(i) the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole and

(ii) the directors' report including those sections incorporated therein by reference includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

Disclosure of information to auditors

Having made enquiries of fellow directors and of Xstrata s auditors, each director confirms that so far as they are aware there is no relevant audit information of which Xstrata's auditor is unaware Each director has taken all necessary steps to make themselves aware of any relevant audit information and to establish that Xstrata s auditor is aware of that information

Going concern

The directors believe, after making inquiries that they consider to be appropriate that the Company has adequate resources to continue in operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing the financial statements

The directors have made this assessment after consideration of the Company's budgeted cash flows and related assumptions, undrawn debt facilities debt maturity review, analysis of debt covenants, and in accordance with Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009 published by the Financial Reporting Council in October 2009

By order of the Board

Rw Elliston

Richard Elliston
Company Secretary
15 March 2012

Christian Bruneau's story

Director HSE and Security
Xstrata Nickel, New Calendonia

"I have the impression that we could move mountains with the people who work here..."

Statement of directors' responsibilities in relation to the Group and the Parent Company financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and regulations Under company law, the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and have elected to prepare Company financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP) The directors must not approve the financial statements unless they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period

In the case of the Group's IFRS financial statements, the directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period In preparing the Group financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies Changes in Accounting Estimates and Errors and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions other events and conditions on the entity's financial position and financial performance and
- state that the Group has complied with IFRSs

In the case of the Company's UK GAAP financial statements, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Group financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and that the Group financial statements comply with Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Under applicable UK law and regulations the directors are responsible for the preparation of a Directors' report, Directors' Remuneration report and corporate Governance report that comply with the Companies Act 2006 and regulations In addition, the directors are responsible for the maintenance and integrity of the corporate and financial information included on Xstrata s website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent Auditor's report to the members of Xstrata plc

We have audited the Group financial statements of Xstrata plc for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 37 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union

This report is made solely to the Company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As explained more fully in the statement of directors responsibilities set out on page 116, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those Standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the Group financial statements

- give a true and fair view of the state of the Group s affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- the information given in the Directors report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements, and
- the information given in the Corporate Governance report as set out on page 87 to 95 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Group financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- certain disclosures of Directors' remuneration specified by law are not made,
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance report has not been prepared by the Company

Under the Listing Rules we are required to review

- the Directors' report, set out on page 113, in relation to going concern
- the part of the Corporate Governance report relating to the Company s compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration

Other matters
We have reported separately on the Parent Company financial statements of Xstrata plc for the year ended 31 December 2011 and on the information in the Directors remuneration report that is described as having been audited

Ernst & Young LLP

Mirco Bardella (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom

15 March 2012

The maintenance and integrity of the Xstrata plc website is the responsibility of the directors the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

Consolidated income statement

For the year ended 31 December 2011

US$m	Notes	Before exceptional items	Exceptional items†	Total 2011	Before exceptional items	Exceptional items†	Total 2010
Revenue		33,877	–	33,877	30 499	–	30,499
Operating costs*		(22,229)	16	(22,213)	(20 113)	7	(20,106)
Operating profit before interest, taxation, depreciation and amortisation		11,648	16	11,664	10 386	7	10,393
Depreciation and amortisation		(3,217)	–	(3,217)	(2,732)	–	(2,732)
Impairment of assets		–	(469)	(469)	–	(559)	(559)
Reversal of assets previously impaired		–	463	463		–	–
Operating profit		8,431	10	8,441	7,654	(552)	7 102
Share of results from associates	20	29	12	41	15	(6)	9
Profit before interest and taxation		8,460	22	8,482	7,669	(558)	7 111
Finance income		137	–	137	152	–	152
Finance costs		(452)	(19)	(471)	(620)	(35)	(655)
Profit before taxation		8,145	3	8,148	7,201	(593)	6,608
Income tax (charge)/credit	11	(2,140)	(75)	(2,215)	(1,782)	129	(1,653)
Profit/(loss) for the year		6,005	(72)	5,933	5,419	(464)	4 955
Attributable to							
Equity holders of the parent		5,785	(72)	5,713	5,152	(464)	4 688
Non-controlling interests		220	–	220	267	–	267
		6,005	(72)	5,933	5,419	(464)	4,955
Earnings per share (US$)							
– basic	12	1 97	(0 02)	1 95	1 77	(0 16)	1 61
– diluted	12	1 95	(0 02)	1 93	1 74	(0 16)	1 58

† Exceptional items are significant items of income and expense presented separately due to their nature or the expected infrequency of the events giving rise to them These items are disclosed in further detail in note 10

* Before depreciation amortisation and impairment charges

Statement of comprehensive income

For the year ended 31 December 2011

US$m	2011	2010
Profit for the year	**5,933**	4,955
Income and expenses recognised directly in equity		
Actuarial losses on defined benefit pension plans	**(195)**	(301)
Income tax benefit	**50**	76
(Losses)/gains on available-for sale financial assets	**(37)**	118
Income tax expense	**(5)**	(13)
Gains on cash flow hedges	**29**	88
Income tax expense	**(9)**	(41)
Foreign currency translation (losses)/gains	**(1,309)**	2,459
Income tax benefit/(expense)	**2**	(48)
	(1,474)	2 338
Transfers to the income statement		
Gains on cash flow hedges	**(59)**	(115)
Income tax expense	**28**	45
Gains on available-for-sale financial assets	**(8)**	(73)
Income tax expense	**6**	–
Other comprehensive (loss)/income	**(1,507)**	2,195
Total comprehensive income for the year	**4,426**	7,150
Attributable to		
Equity holders of the parent	**4,210**	6,896
Non-controlling interests	**216**	254
	4,426	7 150

Consolidated statement of financial position

As at 31 December 2011

US$m	Notes	2011	2010
Assets			
Non-current assets			
Intangible assets	14, 15	**8,228**	8,400
Property, plant and equipment	16	**51,454**	45,884
Biological assets	17	**23**	23
Inventories	18	**7**	45
Trade and other receivables	19	**210**	168
Investments in associates	20	**1,769**	1,786
Available-for-sale financial assets	22	**258**	347
Derivative financial assets	23	**680**	570
Other financial assets	24	**743**	514
Pension assets	34	**–**	1
Prepayments		**41**	32
Deferred tax assets	11	**44**	299
		63,457	58,069
Current assets			
Inventories	18	**5,242**	4,763
Trade and other receivables	19	**3,742**	4,463
Derivative financial assets	23	**96**	236
Prepayments		**347**	270
Cash and cash equivalents	25	**1,948**	1,722
Assets classified as held-for-sale	8	**–**	183
		11,375	11,637
Total assets		**74,832**	69,706

US$m	Notes	2011	2010
Equity and liabilities			
Capital and reserves – attributable to equity holders of Xstrata plc			
Issued capital	26	**1,482**	1,482
Share premium	26	**15,458**	15,458
Own shares	26	**(1,140)**	(1,181)
Other reserves	26	**6,681**	8,039
Retained earnings		**21,183**	16,478
		43,664	40,276
Non-controlling interests		**2,037**	1,762
Total equity		**45,701**	42,038
Non-current liabilities			
Trade and other payables	27	**82**	88
Interest-bearing loans and borrowings	28	**8,804**	7,154
Derivative financial liabilities	29	**417**	366
Other financial liabilities	30	**708**	656
Provisions	31	**3,708**	3 368
Pension deficit	34	**692**	625
Deferred tax liabilities	11	**6,250**	6 348
Other liabilities	32	**8**	9
		20,669	18 614
Current liabilities			
Trade and other payables	27	**5,102**	4,802
Interest-bearing loans and borrowings	28	**1,566**	2,318
Derivative financial liabilities	29	**65**	383
Provisions	31	**778**	711
Income taxes payable		**896**	654
Other liabilities	32	**55**	30
Liabilities classified as held-for-sale	8	**–**	156
		8,462	9,054
Total liabilities		**29,131**	27 668
Total equity and liabilities		**74,832**	69,706

The financial statements on pages 118 to 187 were approved by the Board of Directors on 15 March 2012 and signed on its behalf by

Trevor Reid
Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 December 2011

US$m	Notes	2011	2010
Profit before taxation		**8,148**	6,608
Adjustments for			
Finance income	10	**(137)**	(152)
Finance cost	10	**471**	655
Share of results from associates	20	**(41)**	(9)
Net profit on disposal of property, plant and equipment		**(54)**	(1)
Liability fair value adjustments	10	**–**	(19)
Profit on sale of operations	8	**(56)**	–
Available-for-sale financial assets write-down	10	**43**	–
Depreciation	10	**3,118**	2,639
Amortisation	10	**99**	93
Impairment of assets	10, 15	**469**	559
Reversal of assets previously impaired	10 15	**(463)**	–
Share-based compensation plans	10	**(4)**	178
Decrease/(increase) in trade and other receivables		**637**	(1,178)
Increase in other assets		**(487)**	(414)
Increase in inventories		**(604)**	(38)
Increase in trade and other payables		**450**	691
(Decrease)/increase in provisions		**(274)**	332
Other non-cash movements		**20**	5
Cash generated from operations		**11,335**	9 949
Income tax paid		**(1,664)**	(1 442)
Interest paid		**(379)**	(332)
Interest received		**64**	34
Dividends received		**2**	4
Net cash flow from operating activities		**9,358**	8,213
Purchase of property, plant and equipment		**(8,108)**	(5 819)
Proceeds from sale of property plant and equipment		**33**	22
Purchase of intangible assets	14	**(31)**	(11)
Proceeds from the sale of available-for-sale assets	22	**51**	135
Purchase of available-for-sale financial assets		**(29)**	–
Proceeds from disposal of other financial assets		**–**	2,250
Acquisition of interest in associates	20	**–**	(58)
Acquisition of subsidiaries net of cash acquired	7	**(209)**	(365)
Acquisition of assets		**(327)**	–
Proceeds from disposal of joint ventures, net of disposal costs and cash disposed		**–**	463
Proceeds from disposal of subsidiaries, net of disposal costs and cash disposed	8	**–**	3
Distributions from other financial assets		**–**	184
Net cash flow used in investing activities		**(8,620)**	(3,196)
Purchase of own shares	26	**(18)**	(11)
Disposal of own shares		**15**	14
Proceeds from interest-bearing loans and borrowings		**6,929**	79
Repayment of interest-bearing loans and borrowings		**(6,194)**	(3,930)
Payment of finance lease liabilities		**(46)**	(51)
Dividends paid to equity holders of the parent	13	**(967)**	(379)
Dividends paid to non-controlling interests		**(209)**	(243)
Net cash flow from financing activities		**(490)**	(4 521)
Net increase in cash and cash equivalents		**248**	496
Net foreign exchange difference		**(15)**	49
Cash and cash equivalents at 1 January		**1,710**	1,165
Cash and cash equivalents at 31 December	25	**1,943**	1,710

Statement of changes in equity

For the year ended 31 December 2011

	Attributable to equity holders of the parent								
US$m	Issued capital	Share premium	Own shares	Convertible borrowings – equity component	Other reserves (refer to note 26)	Retained earnings	Total	Non-controlling interests	Total equity
At 1 January 2010	1,469	15,096	(1 306)	56	5,606	12,361	33,282	1,637	34,919
Comprehensive income	–	–	–	–	2,433	4,463	6,896	254	7,150
Issue of share capital	13	362	–	(56)	–	20	339	–	339
Own share purchases	–	–	(11)	–	–	–	(11)	–	(11)
Own share disposals	–	–	136	–	–	(122)	14	–	14
Cost of IFRS 2 equity settled share-based compensation plans	–	–	–	–	–	135	135	–	135
Acquisition of subsidiaries	–	–	–	–	–	–	–	114	114
Dividends paid (refer to note 13)	–	–	–	–	–	(379)	(379)	(243)	(622)
At 31 December 2010	1,482	15,458	(1,181)	–	8,039	16,478	40,276	1,762	42,038
Comprehensive income	–	–	–	–	(1,358)	5,568	4,210	216	4,426
Own share purchases	–	–	(18)	–	–	–	(18)	–	(18)
Own share disposals	–	–	59	–	–	(44)	15	–	15
Cost of IFRS 2 equity settled share-based compensation plans	–	–	–	–	–	148	148	–	148
Acquisition of subsidiaries	–	–	–	–	–	–	–	258	258
Capital contributions	–	–	–	–	–	–	–	10	10
Dividends paid (refer to note 13)	–	–	–	–	–	(967)	(967)	(209)	(1,176)
At 31 December 2011	**1,482**	**15,458**	**(1,140)**	**–**	**6,681**	**21,183**	**43,664**	**2,037**	**45,701**

Notes to the financial statements

1 Corporate information

The consolidated financial statements were authorised for issue in accordance with a Directors' resolution on 15 March 2012 The ultimate parent entity of the Group Xstrata plc, is a publicly traded limited company incorporated in England and Wales and domiciled in Switzerland Its ordinary shares are traded on the London and Swiss stock exchanges

The principal activities of the Group are described in note 9

2 Statement of compliance

The consolidated financial statements of Xstrata plc and its subsidiaries (the Group) are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union, effective for the Group's reporting for the year ended 31 December 2011

3 Basis of preparation

The consolidated financial statements are presented in US dollars, which is the parent's functional and presentation currency, and all values are rounded to the nearest million except where otherwise indicated

The accounting policies in note 6 have been applied in preparing the consolidated financial statements

4 Significant accounting estimates

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements Actual outcomes could differ from these estimates

The below are the most critical judgements estimates and assumptions

Estimated recoverable reserves and resources

Estimated recoverable reserves and resources are used to determine the depreciation of mine production assets in accounting for deferred stripping costs and in performing impairment testing Estimates are prepared by appropriately qualified persons, but will be impacted by forecast commodity prices exchange rates production costs and recoveries amongst other factors Changes in assumptions will impact the carrying value of assets and depreciation and impairment charges recorded in the income statement

Environmental rehabilitation costs

The provisions for rehabilitation costs are based on estimated future costs using information available at the balance sheet date To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be impacted (refer to note 31)

Impairment testing

Note 15 outlines the significant judgements and assumptions made in performing impairment testing of non-current assets Changes in these assumptions may alter the results of impairment testing, impairment charges recorded in the income statement and the resulting carrying values of assets

Share-based payments, defined benefit pension plans and post-retirement medical plans

Note 34 outlines the significant assumptions made when accounting for share-based payments, defined benefit pension plans and post-retirement medical plans Changes to these assumptions may alter the resulting accounting and ultimately the amount charged to the income statement

5 Changes in accounting policies, new standards and interpretations not applied

Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group s annual financial statements for the year ended 31 December 2010, except for the adoption of the following new standards and interpretations

- **IAS 24 Related Party Transactions (Amendment)** The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity The adoption of the amendment did not have any impact on the financial position or performance of the Group
- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)** The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset The Group does not make early payments of contributions to cover its minimum funding requirements therefore the amendment of the interpretation has no effect on the financial position or performance of the Group
- **Improvements to IFRSs** In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording There are separate transitional provisions for each standard The adoption of the amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with effective dates that are subsequent to 1 January 2012 Consequently, these pronouncements will impact the Group's financial statements in future periods

	Effective date
IFRS 7 Financial Instruments Disclosures — Enhanced Derecognition Disclosure Requirements	1 January 2012
IFRS 9 Financial Instruments Classification and Measurement	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Involvement with Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

With the exception of amendments to IFRS 7, the Directors anticipate that the adoption of these standards and interpretations on their effective dates will have a material impact on the Group's presentation of financial statements in the period of initial application The Group will quantify the effect of IFRS 9 to 13 and IFRIC 20 as part of initial application of the new standards once the full extent of the impact can be determined

6 Principal accounting policies

Basis of consolidation

The financial statements consolidate the financial statements of Xstrata plc (the Company) and its subsidiaries (the Group) All inter entity balances and transactions, including unrealised profits and losses arising from intra-Group transactions, have been eliminated in full The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes Control is achieved where the Group has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities This occurs when the Group has more than 50% voting power through ownership or agreements, except where non controlling rights are such that a non controlling shareholder is able to prevent the Group from exercising control In addition, control may exist without having more than 50% voting power through ownership or agreements, or in the circumstances of enhanced non controlling rights, as a consequence of de facto control De facto control is control without the legal right to exercise unilateral control, and involves decision making ability that is not shared with others and the ability to give directions with respect to the operating and financial policies of the entity concerned Where there is a loss of control of a subsidiary, the financial statements include the results for the part of the reporting period during which Xstrata plc has control Subsidiaries use the same reporting period and same accounting policies as Xstrata plc

Interests in joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control The financial statements of the joint ventures are generally prepared for the same reporting period as the Company, using consistent accounting policies Adjustments are made to bring into line any dissimilar accounting policies that may exist in the underlying records of the joint venture

Jointly controlled operations

A jointly controlled operation involves the use of assets and other resources of the Group and other venturers rather than the establishment of a corporation, partnership or other entity

The Group accounts for the assets it controls and the liabilities it incurs, the expenses it incurs and the share of income that it earns from the sale of goods or services by the joint venture

Jointly controlled assets

A jointly controlled asset involves joint control and ownership by the Group and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity

The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture

Jointly controlled entities

A jointly controlled entity involves the establishment of a corporation partnership or other legal entity in which the Group has an interest along with other venturers

The Group recognises its interest in jointly controlled entities using the proportionate method of consolidation, whereby the Group's share of each of the assets, liabilities income and expenses of the joint venture are combined with the similar items, line by line, in its consolidated financial statements

When the Group contributes or sells assets to a joint venture, any gain or loss from the transaction is recognised based on the substance of the transaction When the Group has transferred the risk and rewards of ownership to the joint venture, the Group only recognises the portion of the gain or loss attributable to the other venturers, unless the loss is reflective of an impairment, in which case the loss is recognised in full When the Group purchases assets from the joint venture, it does not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party Losses are accounted for in a similar manner unless they represent an impairment loss, in which case they are recognised immediately

Joint ventures are accounted for in the manner outlined above, until the date on which the Group ceases to have joint control over the joint venture

Investments in associates

Entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures, are associates, and are accounted for using the equity method of accounting

Under the equity method of accounting, the investment in the associate is recognised on the balance sheet on the date of acquisition at the fair value of the purchase consideration where this is higher than the fair value of the identifiable net assets acquired, or, if the purchase consideration is less than the fair value of the identifiable net assets acquired, at the fair value of the identifiable net assets acquired In this way goodwill is included within the associate balance when the fair value of the investment is less than the consideration paid The carrying amount is adjusted by the Group's share of the post acquisition profit or loss, depreciation amortisation or impairment arising from fair value adjustments made at date of acquisition and certain inter-entity transactions together with a reduction for any dividends received or receivable from the associate Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes in equity

The financial statements of the associates are generally prepared for the same reporting period as the Group, using consistent accounting policies Adjustments are made to bring into line any dissimilar accounting policies that may exist in the underlying records of the associate Where an associate prepares its financial statements using a different reporting period, an estimate of the Group s share of the associate s profit or loss is made based on the most reliable information available Adjustments are made in the consolidated financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its associates

The Group discontinues its use of the equity method from the date on which it ceases to have significant influence, and from that date accounts for the investment in accordance with IAS 39 (with its initial cost being the carrying amount of the associate at that date), provided the investment does not then qualify as a subsidiary or joint venture

The Group s income statement reflects the share of associates results after tax and the Group's statement of recognised income and expense includes any amounts recognised by associates outside of the income statement

Business combinations

On the acquisition of a subsidiary the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition Those mining rights, 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 Acquisition costs are expensed

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 which is not amortised but is reviewed for impairment annually or where there is an indication of impairment If the fair value attributable to the Group's share of the identifiable net assets exceeds the cost of acquisition the difference is immediately recognised in the income statement

Non controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented in equity in the consolidated balance sheet separately from the parent's shareholders' equity

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss

6 Principal accounting policies continued

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income If the contingent consideration is classified as equity, it will not be re-measured

Subsequent settlement is accounted for within equity In instances where the contingent consideration does not fall within the scope of IAS 39 it is measured in accordance with the appropriate IFRS

Similar procedures are applied in accounting for the purchases of interests in associates Any goodwill arising on such purchases is included within the carrying amount of the investment in the associates, but not thereafter amortised Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included in income in the period of the purchase

Foreign currencies

Financial statements of subsidiaries, joint ventures and associates are maintained in their functional currencies and converted to US dollars for consolidation of the Group results The functional currency of each entity is determined after consideration of the primary economic environment of the entity

Transactions in foreign currencies are translated at the exchange rates ruling at the date of transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at year-end exchange rates All differences that arise are recorded in the income statement except for differences arising on rehabilitation provisions which are capitalised for operating mines Non-monetary assets measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions Where non monetary assets are measured at fair value in a foreign currency, they are translated at the exchange rates when the fair value was determined Where the exchange difference relates to an item which has been recorded in equity, the related exchange difference is also recorded in equity

On consolidation of foreign operations into US dollars, income statement items are translated at weighted average rates of exchange where this is a reasonable approximation of the exchange rate at the dates of the transactions Balance sheet items are translated at closing exchange rates Exchange differences on the re-translation of the investments in foreign subsidiaries, joint ventures and associates at closing rates, together with differences between income statements translated at average and at closing rates, are recorded in a separate component of equity Exchange differences relating to quasi-equity inter-company loan balances with the foreign operations that form part of the net investment in the foreign operation are also recognised in this component of equity On disposal or partial disposal of a foreign entity the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement

The following exchange rates to the US dollar (US$) have been applied

	31 December 2011	Average 12 months 2011	31 December 2010	Average 12 months 2010
Argentine pesos (US$ ARS)	4 3063	4 1282	3 9759	3 9119
Australian dollars (AUD US$)	1 0205	1 0331	1 0233	0 9208
Canadian dollars (US$ CAD)	1 0212	0 9892	0 9983	1 0302
Chilean pesos (US$ CLP)	519 50	483 83	468 00	510 19
Colombian pesos (US$ COP)	1,938	1,848	1,920	1,898
Euros (EUR US$)	1 2960	1 3926	1 3387	1 3266
Great Britain pounds (GBP US$)	1 5550	1 6041	1 5613	1 5456
Peruvian nuevo sol (US$ PEN)	2 6904	2 7532	2 8063	2 8245
South African rand (US$ ZAR)	8 0796	7 2642	6 6276	7 3159
Swiss francs (US$ CHF)	0 9376	0 8866	0 9346	1 0424

Revenue

Revenue associated with the sale of commodities is recognised when all significant risks and rewards of ownership of the asset sold are transferred to the customer, usually when insurance risk has passed to the customer and the commodity has been delivered to the shipping agent At this point the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the commodities and the costs incurred, or to be incurred in respect of the sale can be reliably measured Revenue is recognised, at fair value of the consideration receivable, to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured Sales revenue is recognised at the fair value of consideration received, which in most cases is invoiced amounts, with most sales being priced free on board (FOB), free on rail (FOR) or cost, insurance and freight (CIF) Revenues from the sale of by-products are also included in sales revenue Revenue excludes treatment and refining charges unless payment of these amounts can be enforced by the Group at the time of the sale

For some commodities the sales price is determined provisionally at the date of sale, with the final price determined at a mutually agreed date generally at a quoted market price at that time This contractual feature has the character of a commodity derivative As a result the invoice price on these sales are marked-to-market at balance sheet date based on the forward metal prices for the relevant quotational period This ensures that revenue is recorded at the fair value of consideration to be received All mark-to market adjustments are recorded in sales revenue

Interest income

Interest income is recognised as earned on an accruals basis using the effective interest method in the income statement

Exceptional items

Exceptional items represent significant items of income and expense that, due to their nature or the expected infrequency of the events giving rise to them are presented separately on the face of the income statement to give a better understanding to shareholders of the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance Exceptional items include, but are not limited to impairment charges and reversals, liability fair value adjustments, profits and losses on the sale of investments, profits and losses from the sale of operations, restructuring and closure costs, inventory write-downs foreign currency gains and losses on borrowings, loan issue costs written-off on facility refinancing and the related tax impacts of these items

Property, plant and equipment

On initial acquisition, land and buildings and plant and equipment are valued at cost being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management

In subsequent periods, buildings plant and equipment are stated at cost less accumulated depreciation and any impairment in value whilst land is stated at cost less any impairment in value and is not depreciated

Depreciation is provided so as to write off the costs, less estimated residual values of buildings and plant and equipment (based on prices prevailing at the balance sheet date), on the following bases

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 Buildings and plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives

Where parts of an asset have different useful lives, depreciation is calculated on each separate part Each asset or part'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 at which the item is located, and to possible future variations in those assessments Estimates of remaining useful lives and residual values are reviewed annually Changes in estimates are accounted for prospectively

The expected useful lives are as follows

Buildings	15 – 40 years
Plant and equipment	4 – 30 years

The net carrying amounts of land, buildings and plant and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amounts may not be recoverable To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined

Expenditure on major maintenance or repairs includes the cost of the replacement of parts of assets and overhaul costs Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Group, the expenditure is capitalised and the carrying amount of the item replaced derecognised Similarly, overhaul costs associated with major maintenance are capitalised and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognised All other costs are expensed as incurred

Where an item of property, plant and equipment is disposed of it is derecognised and the difference between its carrying value and net sales proceeds is disclosed as a profit or loss on disposal in the income statement

Any items of property, plant or equipment that cease to have future economic benefits are derecognised with any gain or loss included in the income statement in the financial year in which the item is derecognised

Exploration and evaluation expenditure
Exploration and evaluation expenditure relates to costs incurred on the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies 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 in full 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 that 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, or planned for the future

Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination

An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts To the extent that this occurs, the excess is fully provided against, in the financial year in which this is determined Exploration and evaluation 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

Expenditure is transferred to mine development assets or capital work in progress once the work completed to date supports the future development of the property and such development receives appropriate approvals

Mineral properties and mine development expenditure
The cost of acquiring mineral reserves and mineral resources is capitalised on the balance sheet as incurred Capitalised costs (development expenditure) include 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 reserves and capitalised mine development expenditure are, upon commencement of production depreciated 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 The net carrying amounts of mineral reserves and resources and capitalised mine development expenditure at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined

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 property, plant and equipment

The cost of property, plant and equipment 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 The net carrying amounts of capital work in progress at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined

Leasing and hire purchase commitments
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset A reassessment after inception is only made in specific circumstances

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 at the lower of the fair value of the leased property or the present value of the minimum lease payments during the lease term calculated using the interest rate implicit in the lease agreement These amounts are determined at the inception of the lease and are depreciated over the shorter of their estimated useful lives or lease term 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 lease or hire purchase obligations are charged to the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding

Leases where substantially all the risks and rewards of ownership have not passed to the Group are classified as operating leases Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term

Deferred stripping costs
In open pit mining operations, it is necessary to remove overburden and other waste in order to access the ore body During the pre-production phase, these costs are capitalised as part of the cost of the mine property and depreciated based on the mine's strip ratio

The costs of removal of the waste material during a mine's production phase are deferred where they give rise to future benefits The deferral of these costs and subsequent charges to the income statement, are determined with reference to the mine's strip ratio

6 Principal accounting policies *continued*

The mine's strip ratio represents the ratio of the estimated total volume of waste, to the estimated total quantity of economically recoverable ore, over the life of the mine These costs are deferred where the actual stripping ratios are higher than the average life of mine strip ratio The costs charged to the income statement are based on application of the mine's strip ratio to the quantity of ore mined in the period Where the ore is expected to be evenly distributed, waste removal is expensed as incurred

Biological assets

Biological assets, being cattle, are carried at their fair value less estimated selling costs Any changes in fair value less estimated selling costs are included in the income statement in the period in which they arise

Intangible assets

Purchased intangible assets are recorded at the cost of acquisition including expenses incidental to the acquisition, less accumulated amortisation and any impairment in value

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition

Internally generated goodwill is not recognised

Intangible assets are amortised over their estimated useful lives, except goodwill and those intangible assets that the Directors regard as having indefinite useful lives, that are not amortised but are reviewed for impairment at least annually, and whenever events or circumstances indicate that the carrying amount may not be recoverable Intangible assets are regarded as having an indefinite life when, based on an analysis of all the relevant factors there is no foreseeable limit to the period over which the asset is expected to generate net cash flows Such analyses are performed annually Estimated useful lives are determined as the period over which the Group expects to use the asset or the number of production (or similar) units expected to be obtained from the asset by the Group and for which the Group retains control of access to those benefits

For intangible assets with a finite useful life, the amortisation method and period are reviewed annually and impairment testing is undertaken when circumstances indicate the carrying amount may not be recoverable

Where an intangible asset is disposed of, it is derecognised and the difference between its carrying value and the net sales proceeds is reported as a profit or loss on disposal in the income statement in the financial year the disposal occurs

Coal export rights

Coal export rights are carried at cost and amortised using a unit-of-production method based on the reserves that exist in the location that has access to such rights

Software and technology patents

Software and technology patents are carried at cost and amortised over a period of three years and 20 years respectively

Hydroelectricity rights

Hydroelectricity rights acquired will be amortised over the expected life of the operation following the completion of construction

Long-term feed contract

A long-term feed contract is amortised over the remaining contract term

Impairment of assets

The carrying amounts of non-current assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts An asset's recoverable amount is determined as the higher of its fair value less costs to sell and its value-in-use Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets in which case the review is undertaken at the cash-generating unit level

Where a cash generating unit, or group of cash-generating units, has goodwill allocated to it, or includes intangible assets that are either not available for use or that have an indefinite useful life (and which can only be tested as part of a cash-generating unit) an impairment test is performed at least annually or whenever there is an indication that the carrying amounts of such assets may be impaired

If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recorded in the income statement to reflect the asset at the lower amount In assessing the value-in use, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal are discounted to their present value using a market-determined pre-tax discount rate that reflects current market assessments of the time value of money and asset-specific risks for which the cash flow estimates have not been adjusted Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties For mining assets this would generally be determined based on the present value of the estimated future cash flows arising from the continued use and eventual disposal of the asset In assessing these cash flows and discounting them to present value, assumptions used are those that an independent market participant would consider appropriate

An impairment loss is reversed in the income statement if there is a change in the estimates used to determine the recoverable amount since the prior impairment loss was recognised The carrying amount is increased to the recoverable amount but not beyond the carrying amount net of depreciation or amortisation that would have arisen if the prior impairment loss had not been recognised After such a reversal the depreciation charge is adjusted in future periods to allocate the asset s revised carrying amount less any residual value, on a systematic basis over its remaining useful life Goodwill impairments are not reversed

Non-current assets held-for-sale and discontinued operations

Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable and the assets or disposal groups are available for immediate sale in their present condition The Group must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification

Non-current assets (or disposal groups) held-for-sale are carried at the lower of the carrying amount prior to being classified as held-for-sale and the fair value less costs to sell A non-current asset is not depreciated while classified as held-for-sale

A non-current asset held-for-sale is presented separately in the balance sheet The assets and liabilities of a disposal group classified as held-for-sale are presented separately as one line in the assets and liabilities sections on the face of the balance sheet

Discontinued operations

A discontinued operation is a component of an entity, whose operations and cash flows are clearly distinguished both operationally and for financial reporting purposes from the rest of the entity, that has been disposed of or classified as held-for-sale To be classified as a discontinued operation one of the following criteria must be met

- the operation must represent a separate major line of business or geographical area of operations or
- the operation must be part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- the operation must be a subsidiary acquired exclusively with a view to resale

Where the operation is discontinued at the balance sheet date the results are presented in one line on the face of the income statement, and prior period results are represented as discontinued

Financial assets
Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments or available-for sale financial assets, as appropriate The Group determines the classification of its financial assets at initial recognition Where, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, the investment is reclassified into the available-for sale category When financial assets are recognised initially they are measured at fair value on the trade date, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs All financial liabilities are initially recognised at their fair value Subsequently, all financial liabilities with the exception of derivatives are carried at amortised cost

The Group considers whether a contract contains an embedded derivative when the Group becomes a party to the contract Embedded derivatives are separated from the host contract if it is not measured at fair value through profit and loss and when the economic characteristics and risks are not closely related to the host contract

Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category financial assets at fair value through profit or loss Financial assets are classified as held-for trading if they are acquired for the purpose of selling in the near term Derivatives are also classified as held for-trading unless they are designated as and are effective hedging instruments Gains or losses on these items are recognised in income

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale Such assets are carried at amortised cost using the effective interest method

Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process Trade and other receivables are recognised and carried at their original invoiced value, adjusted, where appropriate, for provisional pricing or their recoverable amount if this differs from the invoiced amount Where the time value of money is material, receivables are discounted and are carried at their present value A provision is made where the estimated recoverable amount is lower than the carrying amount

Available-for sale financial assets
Available-for sale financial assets are those non-derivative financial assets that are designated as available for-sale or are not classified in any of the other three stated categories After initial recognition available for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement

Listed share investments are carried at fair value based on stock exchange quoted prices at the balance sheet date Unlisted shares are carried at fair value where it can be reliably obtained otherwise they are stated at cost less any impairment

Fair values
The fair value of quoted financial assets is determined by reference to bid prices at the close of business on the balance sheet date Where there is no active market, fair value is determined using valuation techniques These include recent arm's-length market transactions, reference to current market value of another instrument which is substantially the same discounted cash flow analysis, and pricing models

Derivative financial instruments are valued using applicable valuation techniques such as those outlined above

De-recognition of financial assets and liabilities
Financial assets
A financial asset is de recognised when

- the rights to receive cash flows from the asset have expired,
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or
- the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset it continues to recognise the financial asset to the extent of its continuing involvement in the asset

Financial liabilities
A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires

Gains and losses on de-recognition are recognised within finance income and finance costs respectively

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement

Impairment of financial assets
The Group assesses at each balance sheet date whether a financial asset is impaired

Financial assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables and held to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset s original effective interest rate (i e the effective interest rate computed at initial recognition) The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement Objective evidence of impairment of loans and receivables exists if the counter-party is experiencing significant financial difficulty, there is a breach of contract concessions are granted to the counter-party that would not normally be granted, or it is probable that the counter-party will enter into bankruptcy or a financial reorganisation

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised the previously recognised impairment loss is reversed Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset

Available for-sale financial assets
If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can objectively be related to an event occurring after the impairment loss was recognised in profit or loss

6 Principal accounting policies *continued*

Rehabilitation trust fund

Investments in the rehabilitation trust fund are measured at fair value based on the market price of investments held by the trust In accordance with IFRIC 5, movements in the fair value are recognised in the income statement Such amounts relate to trusts in South Africa which receive cash contributions to accumulate funds for the Group's rehabilitation liabilities relating to the eventual closure of the Group's coal operations

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps, forward currency and commodity contracts to hedge its risks associated with interest rate, foreign currency and commodity price fluctuations Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss for the year

The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates and prices for contracts with similar maturity profiles The fair value of interest rate swap contracts is determined by reference to market values for similar instruments

For the purpose of hedge accounting, hedges are classified as

- fair value hedges,
- cash flow hedges, or
- hedges of a net investment in a foreign operation

At the inception of a hedge relationship the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk Hedges that are expected to be highly effective in achieving offsetting changes in fair value or cash flows are assessed on an ongoing basis to determine if they actually have been highly effective throughout the financial reporting periods for which they were designated

Hedges which meet the strict criteria for hedge accounting are accounted for as follows

Fair value hedges

Fair value hedges are hedges of the Group s exposure to changes in the fair value of a recognised asset or liability that could affect profit or loss The carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value, and gains and losses from both are taken to profit or loss

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss

Amortisation begins when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes the designation

Cash flow hedges

Cash flow hedges are hedges of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability

If the forecast transaction is no longer expected to occur amounts previously recognised in equity are transferred to profit or loss If the hedging instrument expires or is sold, terminated or exercised without replacement or roll-over or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs If the related transaction is not expected to occur, the amount is taken to profit or loss

Hedges of a net investment

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss

Own shares

The cost of purchases of own shares held by the Employee Share Ownership Plan (ESOP) trust are deducted from equity Where they are issued to employees or sold no gain or loss is recognised in the income statement Any proceeds received on disposal of the shares or transfer to employees are recognised in equity

Own shares purchased under the Equity Capital Management Program (ECMP) are deducted from equity No gain or loss is recognised in the income statement on the purchase sale issue or cancellation of such shares Such gains and losses are recognised directly in equity

Interest-bearing loans and borrowings

Loans are recognised at inception at the fair value of proceeds received, net of directly attributable transaction costs Subsequently they are measured at amortised cost using the effective interest method Finance costs are recognised in the income statement using the effective interest method

Inventories

Inventories are stated at the lower of cost and net realisable value Cost is determined on a weighted average basis or by using a first-in first-out basis and includes all costs incurred in the normal course of business including direct material and direct labour costs and an allocation of production overheads, depreciation and amortisation and other costs, based on normal production capacity, incurred in bringing each product to its present location and condition Cost of inventories includes the transfers from equity of gains and losses on qualifying cash flow hedges in respect of the purchase of materials Inventories 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, and
- Finished goods products and materials that have passed all stages of the production process

Net realisable value represents estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less For the cash flow statement cash and cash equivalents include certain bank overdrafts where the facility forms part of the working capital cash management activities

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all the attaching conditions will be complied with Government grants in respect of capital expenditure are credited to the carrying amount of the related asset and are released to the income statement over the expected useful lives of the relevant assets Grants that are not associated with an asset are credited to income so as to match them with the expense to which they relate

Environmental protection, rehabilitation and closure costs
Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the balance sheet date The provision is discounted using a current market-based pre tax discount rate and the unwinding of the discount is included in interest expense 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 operations to which it relates

The provision is reviewed on an annual basis for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively

Rehabilitation trust funds holding monies committed for use in satisfying environmental obligations are included within Other financial assets on the balance sheet

Employee entitlements
Provisions are recognised for short-term employee entitlements, on an undiscounted basis, for services rendered by employees that remain unpaid at the balance sheet date

Provisions for long term employee entitlements are measured using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the liabilities

In some of the Group's Australian operations, long service leave (an employee entitlement for which a provision is recorded) is administered by an independent fund The fund collects levies from employers throughout the industry based on the expected cost of future liabilities When the Group makes long service leave payments to employees covered by the fund, it is reimbursed for the majority of the payment To reflect the expected reimbursement for future long service leave payments from the fund, a receivable is recorded based on the present value of the future amounts expected to be reimbursed

Other provisions
Provisions are recognised when the Group has a present obligation (legal or constructive), as a 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 Where the effect is material, the provision is discounted to net present value using an appropriate current market-based pre-tax discount rate and the unwinding of the discount is included in finance costs

Taxation
Current tax
Current tax for each taxable entity in the Group is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods

Deferred tax
Deferred tax is recognised using the balance sheet method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes except as indicated below

Deferred income tax liabilities are recognised for all taxable temporary differences, except

- where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised except

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised To the extent that an asset not previously recognised fulfils the criteria for recognition, a deferred income tax asset is recorded

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date

Current and deferred tax relating to items recognised directly in equity are recognised in equity and not in the income statement

Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax

Pensions and other post-retirement obligations
The Group's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate

6 Principal accounting policies *continued*

The Group contributes to separately administered defined benefit pension plans

For defined benefit funds, plan assets are measured at fair value, while plan liabilities are measured on an actuarial basis using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year In measuring its defined benefit liability, past service costs are recognised as an expense on a straight-line basis over the period until the benefits become vested To the extent that the benefits vest immediately following the introduction of, or changes to, a defined benefit plan, the past service costs are recognised immediately When a settlement (eliminating all obligations for part or all of the benefits that have already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss is recognised in the income statement during the period in which the settlement or curtailment occurs

The service cost of providing pension benefits to employees for the year is determined using the projected unit method and is recognised in the income statement The difference between the expected return on plan assets and the unwinding of the discount on plan liabilities is recognised in the income statement

Actuarial gains or losses are recognised directly in equity through the statement of recognised income and expenses The full pension surplus or deficit is recorded in the balance sheet, with the exception of the impact of any recognition of past service costs Surpluses recorded are restricted to the sum of any unrecognised past service costs and present value of any amounts the Group expects to recover by way of refunds from the plan or reductions in future contributions

The Group also provides post-retirement healthcare benefits to certain employees in Canada, the Dominican Republic, South Africa and the United States These are accounted for in a similar manner to the defined benefit pension plans These benefits are unfunded

Ordinary share capital

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account including the costs that were incurred with the share issue

Share-based compensation plans

The Group makes share-based awards, including free shares and options, to certain employees

Equity settled awards

For equity-settled awards, the fair value is charged to the income statement and credited to retained earnings, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest (taking into account the achievement of non market-based performance conditions) The fair value of the equity settled awards is determined at the date of the grant In calculating fair value no account is taken of any vesting conditions other than conditions linked to the price of the shares of the Company (market conditions) The fair value is determined by external experts using option pricing models At each balance sheet date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed (after adjusting for non-market performance conditions) The movement in cumulative expense is recognised in the income statement with a corresponding entry within equity

No expense is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance conditions are satisfied

Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified over the original vesting period In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification, over the remainder of the new vesting period

Where an equity-settled award is cancelled it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the new award is treated as if it is a modification of the original award, as described in the previous paragraph

Cash-settled awards

For cash settled awards the fair value is recalculated at each balance date until the awards are settled based on the estimated number of awards that are expected to vest, adjusting for market and non-market based performance conditions During the vesting period, a liability is recognised representing the portion of the vesting period that has expired at the balance sheet date multiplied by the fair value of the awards at that date After vesting the full fair value of the unsettled awards at each balance date is recognised as a liability Movements in the liability are recognised in the income statement The fair value is recalculated using an option pricing model (refer to note 35)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised and amortised over the useful life of the asset Borrowing costs related to the establishment of a loan facility are capitalised and amortised over the life of the facility Other borrowing costs are recognised as an expense in the financial period incurred

Comparatives

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

7 Acquisitions

Business combinations

Zanaga

In February 2011 the Group exercised its call option over Jumelles Limited (Jumelles), the owner of the Zanaga iron ore project in the Republic of Congo, whereby the Group acquired a 50% plus one share interest in Jumelles in return for a commitment to fund a feasibility study, estimated to cost US$250 million in addition to US$105 million spent prior to acquisition and US$22 million for outstanding shareholder loans

The final fair values of the identifiable assets and liabilities acquired were as follows

US$m	IFRS carrying value	Fair value adjustments	Final fair value at acquisition
Property, plant and equipment	105	392	497
Prepayments	1	–	1
Trade and other receivables	1	250	251
	107	642	749
Trade and other payables	(6)	–	(6)
Provisions	(2)	–	(2)
Deferred tax liabilities	–	(118)	(118)
Net assets	99	524	623
Non controlling interests	–	(317)	(317)
Net attributable assets	99	207	306
Goodwill arising on acquisition	–	59	59
	99	266	365

Consideration	
Net cash acquired with the subsidiary	(12)
Cash paid	22
Pre-feasibility costs incurred to date	105
Contingent consideration	250
	365

The fair value adjustments principally relate to the recognition of the reserves and resources as well as the estimated cost of the remaining feasibility study costs which the Group will fund The goodwill balance is the result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases

First Coal

On 28 July 2011 the Group made a CAD1 75 per share cash offer to acquire all of the shares in First Coal Corporation (First Coal), a privately-owned Canadian company The Group acquired all of the issued share capital of First Coal following successful completion of the plan of arrangement on 4 August 2011 The total cost of the acquisition was US$140 million First Coal owns coking coal exploration leases in British Columbia Canada

The provisional fair values of the identifiable assets and liabilities acquired were as follows

US$m	IFRS carrying value	Fair value adjustments	Provisional fair value at acquisition
Property, plant and equipment	61	87	148
Trade and other payables	(6)	–	(6)
Provisions	(2)	–	(2)
Deferred tax liabilities	–	(22)	(22)
Net assets	53	65	118
Goodwill arising on acquisition	–	22	22
	53	87	140

Consideration	
Net cash acquired with the subsidiary	(4)
Cash paid	144
	140

The fair value adjustments principally relate to the recognition of the reserves and resources The goodwill balance is the result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases

7 Acquisitions *continued*

Prior year business combinations

Sphere Minerals Limited

On 3 November 2010, the Group made a AUD3.00 cash offer to acquire all of the shares in Sphere Minerals Limited (Sphere). The Group declared the offer free from all conditions, and obtained control of Sphere, following the receipt of acceptances in respect of more than 50% of Sphere's share capital. By 17 December 2010 the Group held 75% of Sphere. Under IFRS 3 the acquisition has been accounted for as one transaction occurring on 16 November 2010. The total cost of the acquisition was US$391 million. Sphere is a West Africa focused iron ore company, with interests in three iron ore projects in Mauritania.

The fair values of the identifiable assets and liabilities acquired were as follows:

US$m	Provisional fair value as reported at 31.12.10	Fair value adjustments	Fair value at acquisition
Property, plant and equipment	494	–	494
Trade and other receivables	2	–	2
	496	–	496
Trade and other payables	(4)	–	(4)
Deferred tax liabilities	(122)	20	(102)
Net assets	370	20	390
Non-controlling interests	(97)	(17)	(114)
Net attributable assets	273	3	276
Goodwill arising on acquisition	92	(3)	89
	365	–	365
Consideration			
Net cash acquired with the subsidiary	(26)	–	(26)
Cash paid	391	–	391
	365	–	365

The goodwill balance is the result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases.

The cash offer of AUD3.00 for each Sphere share remained open until 13 May 2011 and a further 12% was acquired for a total consideration of US$59 million. At 31 December 2011 the Group held 87% of Sphere at a total consideration of US$450 million excluding net cash acquired with the subsidiary.

The below information provides aggregate amounts of acquired assets and liabilities for all business combinations in 2011 and 2010:

US$m	2011	2010
Property, plant and equipment	540	494
Prepayments	1	–
Trade and other receivables	251	2
	792	496
Trade and other payables	(12)	(4)
Provisions	(4)	–
Deferred tax liabilities	(140)	(102)
Net assets	636	390
Non-controlling interests	(258)	(114)
Net attributable assets	378	276
Goodwill arising on acquisition	81	89
	459	365
Consideration		
Net cash acquired with the subsidiary	(16)	(26)
Cash paid	225	391
Contingent consideration	250	–
	459	365

8 Disposals

2011

Bakwena Ba Magopa Community Trust

In February 2011 the Group finalised a black empowerment agreement in respect of the Group's Rhovan vanadium operations (Rhovan) in South Africa. The Bakwena Ba Magopa Community Trust (Bakwena) acquired 26% interest in the Rhovan business for US$56 million. The Group facilitated the transaction by providing vendor financing and the loan will be repayable from a portion of Bakwena's share of future free cash flows. A profit of US$48 million has been recognised on the finalisation of the transaction (refer to note 10) reflecting the change from control to joint control.

Mpumalanga

In December 2011, the Group received final government and regulatory approval for the sale of the Mpumalanga coal assets in South Africa. The total consideration was $43 million, made up of cash and value attributed to a favourable off-take agreement. A gain on disposal of US$8 million has been recognised in other revenue.

2010

Maloma mine

In June 2010, the Maloma mine in Swaziland was sold for a cash consideration of US$3 million, resulting in the Group realising a gain of US$3 million.

The net balance of other held-for-sale assets and liabilities at 31 December 2011 was US$nil (31 December 2010: US$27 million) relating to a coal mine in South Africa.

Consolidated information

The information below is provided in aggregate for the 2011 and 2010 disposals:

US$m	2011	2010
Property, plant and equipment	8	7
Inventories	–	1
Trade and other receivables	–	1
Assets classified as held-for-sale	130	–
	138	9
Trade and other payables	–	(9)
Liabilities classified as held for-sale	(95)	–
Net assets	43	–
Consideration		
Cash received	–	3
Deferred consideration	60	–
Off take agreement	39	–
Total consideration	99	3
Gain on disposal of discontinued operations	56	3

9 Segmental analysis

Operating segments

Xstrata's business is organised into five global commodity businesses, each of which operates with a high degree of autonomy In addition to the five global segments the Xstrata Technology Services and Xstrata Iron Ore businesses, which are not significant parts of the business, are also included below for disclosure purposes

Management monitors the operating results of each business unit as a standalone entity Segment performance is evaluated based on a number of measures including return on capital employed and operating profit Finance income and costs, and income tax, are managed on a Group basis

Transfer prices between business segments are set on an arm's-length basis in a manner similar to transactions with third parties

The following tables present revenue and profit information and certain asset and liability information regarding the Group's operating segments for the years ended 31 December 2011 and 2010

US$m	Before exceptional items	Exceptional items	2011	Before exceptional items	Exceptional items	2010
Revenue						
External parties						
Coal – Thermal	8,057	–	8,057	6,167	–	6,167
Coal – Coking	1,924	–	1,924	1,621	–	1,621
Coal	9,981	–	9,981	7,788	–	7,788
Alloys	1,689	–	1,689	1 894	–	1 894
Copper	15,037	–	15,037	14,004	–	14 004
Nickel	3,192	–	3,192	2 738	–	2 738
Zinc Lead	3,756	–	3,756	3,922	–	3 922
Technology	222	–	222	153	–	153
Revenue	33,877	–	33,877	30,499	–	30,499
Inter-segmental						
Coal	10	–	10	–	–	–
Copper	149	–	149	139	–	139
Nickel	380	–	380	256	–	256
Zinc Lead	749	–	749	544	–	544
Technology	11	–	11	6	–	6
Eliminations	(1,299)	–	(1,299)	(945)	–	(945)
Total	33,877	–	33,877	30,499	–	30,499

US$m	Before exceptional items	Exceptional items	2011	Before exceptional items	Exceptional items	2010
Profit before interest, taxation, depreciation and amortisation (EBITDA)						
Coal – Thermal	2,834	–	2,834	2,150	16	2,166
Coal – Coking	1,019	(3)	1,016	911	–	911
Coal	3,853	(3)	3,850	3,061	16	3,077
Alloys	294	48	342	477	–	477
Copper	4,915	(28)	4,887	4,693	–	4,693
Iron Ore	(11)	(1)	(12)	(1)	(4)	(5)
Nickel	1,234	–	1,234	973	–	973
Zinc Lead	1,223	–	1,223	1,327	(5)	1,322
Technology	34	–	34	32	–	32
Segment EBITDA	11,542	16	11,558	10 562	7	10 569
Unallocated	106	–	106	(176)	–	(176)
Operating EBITDA	11,648	16	11,664	10,386	7	10 393
Share of results from associates (net of tax)						
Coal	4	–	4	4	–	4
Alloys	25	12	37	5	(6)	(1)
Zinc Lead	–	–	–	6	–	6
Total	11,677	28	11,705	10,401	1	10,402
Depreciation and amortisation						
Coal	(1,043)	–	(1,043)	(845)	–	(845)
Alloys	(141)	–	(141)	(124)	–	(124)
Copper	(991)	–	(991)	(873)	–	(873)
Nickel	(623)	–	(623)	(470)	–	(470)
Zinc Lead	(409)	–	(409)	(410)	–	(410)
Technology	(7)	–	(7)	(6)	–	(6)
Depreciation and amortisation	(3,214)	–	(3,214)	(2 728)	–	(2,728)
Unallocated	(3)	–	(3)	(4)	–	(4)
Total	(3,217)	–	(3,217)	(2,732)	–	(2,732)
Impairment of assets						
Nickel	–	(469)	(469)	–	(559)	(559)
Reversal of assets previously impaired						
Nickel	–	463	463	–	–	–
Total	–	(6)	(6)	–	(559)	(559)

9 Segmental analysis *continued*

US$m	Before exceptional items	Exceptional items	2011	Before exceptional items	Exceptional items	2010
Profit before interest and taxation (EBIT)						
Coal – Thermal	1,921	–	1,921	1,415	16	1 431
Coal – Coking	889	(3)	886	801	–	801
Coal	2,810	(3)	2,807	2 216	16	2,232
Alloys	153	48	201	353	–	353
Copper	3,924	(28)	3,896	3,820	–	3 820
Iron Ore	(11)	(1)	(12)	(1)	(4)	(5)
Nickel	611	(6)	605	503	(559)	(56)
Zinc Lead	814	–	814	917	(5)	912
Technology	27	–	27	26	–	26
Segment EBIT	8,328	10	8,338	7,834	(552)	7,282
Unallocated	103	–	103	(180)	–	(180)
Operating profit	8,431	10	8,441	7,654	(552)	7,102
Share of results from associates (net of tax)						
Coal	4	–	4	4	–	4
Alloys	25	12	37	5	(6)	(1)
Zinc Lead	–	–	–	6	–	6
EBIT	8,460	22	8,482	7,669	(558)	7,111
Finance income	137	–	137	152	–	152
Finance expense	(452)	(19)	(471)	(620)	(35)	(655)
Profit before taxation	8,145	3	8,148	7,201	(593)	6 608
Income tax (charge)/credit	(2,140)	(75)	(2,215)	(1 782)	129	(1 653)
Profit/(loss) for the year	6,005	(72)	5,933	5,419	(464)	4,955

US$m	At 31 12 11	At 31 12 10
Total assets		
Coal	**19,608**	18,302
Alloys	**5,487**	6 066
Copper	**24,086**	22 264
Iron Ore	**1,402**	718
Nickel	**14,187**	12 962
Zinc Lead	**8,185**	7 567
Technology	**192**	154
Total assets	**73,147**	68,033
Unallocated*	**1,685**	1,673
Total assets	**74,832**	69,706
Total liabilities		
Coal	**5,058**	4 616
Alloys	**796**	971
Copper	**5,761**	5 887
Iron Ore	**242**	111
Nickel	**3,562**	3,360
Zinc Lead	**1,950**	1,869
Technology	**112**	72
Total liabilities	**17,481**	16 886
Unallocated**	**11,650**	10,782
Total	**29,131**	27,668
Net assets		
Coal	**14,550**	13,686
Alloys	**4,691**	5,095
Copper	**18,325**	16,377
Iron Ore	**1,160**	607
Nickel	**10,625**	9,602
Zinc Lead	**6,235**	5,698
Technology	**80**	82
Net assets	**55,666**	51 147
Unallocated*,**	**(9,965)**	(9,109)
Total	**45,701**	42,038

* Includes corporate assets not directly attributable to operating segments Such unallocated assets include corporate cash and cash equivalents of US$651 million (2010 US$595 million) deferred tax assets of US$40 million (2010 US$299 million) derivative financial assets that have mainly been used to provide an economic hedge of capital market notes of US$720 million (2010 US$680 million) Infrastructure loans other financial assets of US$183 million (2010 US$nil) and other assets of US$91 million (2010 US$99 million)

** Includes corporate liabilities not directly attributable to operating segments Such unallocated liabilities include interest bearing loans and borrowings of US$9 776 million (2010 US$8 742 million) share based compensation plan provisions of US$97 million (2010 US$252 million) pension deficit and other provisions of US$217 million (2010 US$127 million) deferred and current tax liabilities of US$974 million (2010 US$863 million) derivative financial liabilities that have mainly been used to provide an economic hedge of capital market notes of US$462 million (2010 US$699 million) and other liabilities of US$124 million (2010 US$99 million)

9 Segmental analysis *continued*

US$m	2011	2010
Capital expenditure		
Sustaining		
Coal	801	568
Alloys	137	126
Copper	654	572
Iron Ore	1	–
Nickel	287	237
Zinc Lead	504	316
Technology	3	2
Total sustaining	2,387	1 821
Unallocated	5	2
Total	2,392	1,823
Expansionary		
Coal	1,193	1,430
Alloys	250	141
Copper	2,424	1,162
Iron Ore	171	67
Nickel	1,351	1,319
Zinc Lead	381	177
Technology	3	–
Total expansionary	5,773	4,296
Total capital expenditure		
Coal	1,994	1,998
Alloys	387	267
Copper	3,078	1,734
Iron Ore	172	67
Nickel	1,638	1,556
Zinc Lead	885	493
Technology	6	2
Total	8,160	6,117
Unallocated	5	2
Total	8,165	6,119

The average number of employees, which includes executive directors and excludes contractors, during the year are as follows

	2011	2010
Coal	11,613	10,473
Alloys	6,887	8,337
Copper	12,366	11,483
Iron Ore	619	4
Nickel	3,840	3,340
Zinc Lead	4,758	4,645
Technology	179	167
Total	40,262	38 449
Unallocated	129	112
Total	40,391	38,561

The average number of contractors during the year is as follows

	2011	2010
Coal	7,915	9,330
Alloys	7,477	7,561
Copper	12,167	9,079
Iron Ore	527	1
Nickel	7,120	5 110
Zinc Lead	1,469	1 038
Technology	69	63
Total	36,744	32,182
Unallocated	5	4
Total	36,749	32 186

Geographical areas

The following tables present revenue and profit information and certain asset and liability information regarding the Group's geographical areas for the years ended 31 December 2011 and 2010

US$m	Before exceptional items	Exceptional items	2011	Before exceptional items	Exceptional items	2010
Revenue by origin						
External parties						
Africa	3,018	–	3,018	2 909	–	2,909
Americas North	6,657	–	6,657	6 504	–	6 504
Americas South	9,748	–	9,748	8 744	–	8 744
Australasia	11,002	–	11,002	8 938	–	8 938
Europe	3,452	–	3,452	3 404	–	3 404
Total	33,877	–	33,877	30,499	–	30,499
Revenue by destination						
External parties						
Africa	679	–	679	793	–	793
Americas North	6,047	–	6,047	5 790	–	5,790
Americas South	2,426	–	2,426	2,013	–	2,013
Asia	15,372	–	15,372	13,414	–	13,414
Australasia	1,090	–	1,090	795	–	795
Europe	8,113	–	8,113	7,597	–	7,597
Middle East	150	–	150	97	–	97
Total	33,877	–	33,877	30,499	–	30,499

The revenue information above is based on the location of the customer

Revenue from one customer was greater than 10% of total revenues and arising from sales within a number of different operating and geographical segments (refer to note 35)

9 Segmental analysis continued

US$m	Before exceptional items	Exceptional items	2011	Before exceptional items	Exceptional items	2010
EBITDA						
Africa	664	47	711	752	16	768
Americas North	1,959	12	1,971	1 445	(5)	1,440
Americas South	3,851	–	3,851	3 798	–	3 798
Australasia	4,570	(43)	4,527	4 034	(4)	4,030
Europe	498	–	498	533	–	533
Segment EBITDA	11,542	16	11,558	10,562	7	10,569
Unallocated	106	–	106	(176)	–	(176)
Operating EBITDA	11,648	16	11,664	10,386	7	10,393
Share of results from associates (net of tax)						
Africa	25	12	37	5	(6)	(1)
Americas North	–	–	–	6	–	6
Australasia	4	–	4	4	–	4
Total	11,677	28	11,705	10 401	1	10,402
Depreciation and amortisation						
Africa	361	–	361	299	–	299
Americas North	456	–	456	442	–	442
Americas South	701	–	701	664	–	664
Australasia	1,579	–	1,579	1,214	–	1,214
Europe	117	–	117	109	–	109
Depreciation and amortisation	3,214	–	3,214	2,728	–	2 728
Unallocated	3	–	3	4	–	4
Total	3,217	–	3,217	2,732	–	2,732
Impairment of assets						
Americas North	–	(392)	(392)	–	–	–
Americas South	–	–	–	–	559	559
Australasia	–	469	469	–	–	–
Europe	–	(71)	(71)	–	–	–
Total	–	6	6	–	559	559
EBIT						
Segment result						
Africa	303	47	350	453	16	469
Americas North	1,503	404	1,907	1,003	(5)	998
Americas South	3,150	–	3,150	3 134	(559)	2,575
Australasia	2,991	(512)	2,479	2 820	(4)	2 816
Europe	381	71	452	424	–	424
Segment EBIT before exceptional items	8,328	10	8,338	7,834	(552)	7,282
Unallocated	103	–	103	(180)	–	(180)
Operating profit	8,431	10	8,441	7,654	(552)	7 102
Share of results from associates (net of tax)						
Africa	25	12	37	5	(6)	(1)
Americas North	–	–	–	6	–	6
Australasia	4	–	4	4	–	4
EBIT	8,460	22	8,482	7,669	(558)	7 111
Finance income	137	–	137	152	–	152
Finance expense	(452)	(19)	(471)	(620)	(35)	(655)
Profit before taxation	8,145	3	8,148	7,201	(593)	6 608
Income tax (expense)/ benefit	(2,140)	(75)	(2,215)	(1 782)	129	(1,653)
Profit/(loss) for the year	6,005	(72)	5,933	5,419	(464)	4,955

US$m	At 31 12 11	At 31 12 10
Total assets		
Africa	**10,992**	11,453
Americas North	**7,675**	6,257
Americas South	**20,907**	19,702
Australasia	**27,962**	24,818
Europe	**2,880**	3,072
Total segmental assets	**70,416**	65,302
Unallocated*	**4,416**	4,404
Total	**74,832**	69,706
Total liabilities		
Africa	**2,126**	2,455
Americas North	**3,854**	3,361
Americas South	**4,736**	5,026
Australasia	**6,168**	5,308
Europe	**597**	736
Total	**17,481**	16,886
Unallocated**	**11,650**	10 782
Total	**29,131**	27,668
Net assets		
Africa	**8,866**	8,998
Americas North	**3,821**	2,896
Americas South	**16,171**	14,676
Australasia	**21,794**	19,510
Europe	**2,283**	2,336
Total	**52,935**	48,416
Unallocated* **	**(7,234)**	(6,378)
Total	**45,701**	42 038

* Includes corporate assets not directly attributable to geographical areas Such unallocated assets include goodwill of US$2 731 million (2010 US$2 731 million) corporate cash and cash equivalents of US$651 million (2010 US$595 million) deferred tax assets of US$40 million (2010 US$299 million) derivative financial assets that have mainly been used to provide an economic hedge of capital market notes of US$720 million (2010 US$680 million) Infrastructure loans other financial assets of US$183 million (2010 US$nil) and other assets of US$91 million (2010 US$99 million)

** Includes corporate liabilities not directly attributable to geographical areas Such unallocated liabilities include interest bearing loans and borrowings of US$9 776 million (2010 US$8 742 million) share based compensation plan provisions of US$97 million (2010 US$252 million) pension deficit and other provisions of US$217 million (2010 US$127 million) deferred and current tax liabilities of US$974 million (2010 US$863 million) derivative financial liabilities that have mainly been used to provide an economic hedge of capital market notes of US$462 million (2010 US$699 million) and other liabilities of US$124 million (2010 US$99 million)

9 Segmental analysis *continued*

US$m	2011	2010
Capital expenditure		
Sustaining		
Africa	**213**	187
Americas North	**349**	314
Americas South	**420**	390
Australasia	**1,343**	863
Europe	**62**	67
Total sustaining	**2,387**	1,821
Unallocated	**5**	2
Total	**2,392**	1 823
Expansionary		
Africa	**607**	530
Americas North	**154**	117
Americas South	**2,089**	786
Australasia	**2,887**	2,813
Europe	**36**	50
Total	**5,773**	4 296
Total capital expenditure		
Africa	**820**	717
Americas North	**503**	431
Americas South	**2,509**	1,176
Australasia	**4,230**	3,676
Europe	**98**	117
Total	**8,160**	6,117
Unallocated	**5**	2
Total	**8,165**	6,119

The average number of employees which includes Executive Directors and excludes contractors, during the year is as follows

Africa	**11,818**	13,028
Americas North	**5,955**	5,700
Americas South	**8,896**	8,277
Australasia	**11,560**	9,414
Europe	**2,014**	2,013
Middle East	**19**	17
Total	**40,262**	38 449
Unallocated	**129**	112
Total	**40,391**	38 561

The average number of contractors during the year is as follows

Africa	**11,360**	12,709
Americas North	**1,808**	1,572
Americas South	**11,557**	8,024
Australasia	**11,652**	9 572
Europe	**367**	303
Middle East	**–**	2
Total	**36,744**	32 182
Unallocated	**5**	4
Total	**36,749**	32,186

10 Revenue and expenses

Revenue and expenses

US$m	2011	2010
Revenue – sales of goods	**33,877**	30,499
Less cost of sales*	**(22,439)**	(20,405)
Gross profit	**11,438**	10,094
Operating costs		
Cost of sales**	**(19,243)**	(17,135)
Distribution costs	**(2,450)**	(2,265)
Administrative expenses**	**(517)**	(661)
Other income and expenses	**(19)**	(52)
Operating costs**	**(22,229)**	(20,113)

* After depreciation and amortisation and impairment of assets
** Before depreciation and amortisation and impairment of assets

Depreciation and amortisation

Depreciation of owned assets	**(3,103)**	(2,619)
Depreciation of assets held under finance leases and hire purchase contracts	**(15)**	(20)
Total depreciation	**(3,118)**	(2,639)
Amortisation of intangible assets	**(99)**	(93)
Total depreciation and amortisation	**(3,217)**	(2,732)
Total foreign exchange gains/(losses) recognised	**142**	(111)
Inventory recognised as an expense	**(22,433)**	(19,846)
Operating lease rental expense – minimum lease payments	**(79)**	(62)
Royalties paid	**(1,056)**	(816)
Research and development	**(2)**	(3)

Employee costs including Directors' emoluments (refer to the Directors' Remuneration report on pages 96 to 109 for details)

Wages and salaries	**3,301**	2 759
Pension and other post-retirement benefit costs (refer to note 34)	**261**	215
Social security and other benefits	**116**	113
Share-based compensation plans (refer to note 34)	**(4)**	178
Total employee costs	**3,674**	3,265

Auditors' remuneration

US$m	2011	2010
Auditors' remuneration[a]		
– Group auditors – UK	**1**	1
– Group auditors – overseas	**15**	13
	16	14
Amounts paid to auditors for other work	**6**	6
Other audit firms	**8**	7

(a) The Group audit fee includes US$49 000 (2010 US$47 000) in respect of the Parent Company

The Corporate Governance report set out on pages 87 to 95 details the Group's policy with regard to the independence and objectivity of the external and internal auditors and the provision and approval of non-audit services provided by the external auditors

10 Revenue and expenses *continued*

Finance income

US$m	2011	2010
Bank and interest received from third parties	121	76
Call option premium	–	42
Dividends	2	4
Earnings from other financial assets	–	29
Foreign currency gains on other loans*	14	–
Other	–	1
Total finance income	137	152
Finance costs		
Amortisation of loan issue costs	9	12
Convertible borrowings amortised cost charge	–	4
Discount unwinding	145	117
Finance charges payable under finance leases and hire purchase contracts	18	24
Foreign currency losses on other loans*	–	186
Interest on bank loans and overdrafts	23	29
Interest on capital market notes	173	197
Interest on convertible borrowings	–	8
Interest on non-controlling interest loans	5	6
Interest on other financial liabilities	20	9
Hedge ineffectiveness	31	6
Other	28	22
Finance cost before exceptional items	452	620
Loan issue costs written-off on facility refinancing	19	35
Total finance cost	471	655

* These amounts mainly relate to foreign currency gains and losses on US and Canadian dollar inter-company loans in Australian entities

Total interest income and expense (calculated using the effective interest method) for financial assets and liabilities not at fair value through the profit and loss are US$121 million (2010 US$76 million) and US$249 million (2010 US$271 million) respectively

Exceptional items

US$m	2011	2010
Other exceptional items		
Acquisition costs	(4)	(7)
Available-for-sale financial assets write-down	(43)	–
Liability fair value adjustments	–	19
Profit on sale of operations	48	–
Restructuring and closure costs	15	(5)
Operating EBITDA exceptional items	16	7
Impairment of assets	(469)	(559)
Reversal of assets previously impaired	463	–
Operating profit/(loss) on exceptional items	10	(552)
Share of results from associates	12	(6)
Exceptional items before interest and taxation	22	(558)
Loan issue costs written-off on facility refinancing	(19)	(35)
Exceptional items before taxation	3	(593)
Income tax (charge)/credit	(75)	129
Exceptional items after taxation	(72)	(464)

Acquisition costs

During 2011, the Group incurred acquisition costs of US$4 million (2010 US$7 million) in relation to successful offers made to acquire Zanaga and First Coal (refer to note 7)

Available-for-sale financial assets write-down

US$43 million of unrealised losses associated with the decline in market value of listed investments were charged to the income statement during 2011

Liability fair value adjustments

The Group is required to recognise a liability at fair value representing African Rainbow Minerals Limited (ARM) Coal's interest in Xstrata's South African coal operations During the current year, there has been no change in the liability In 2010 the liability decreased by US$19 million due to decreasing South African coal prices and foreign exchange movements

Profit on sale of operations
The Group recognised a US$48 million profit on the disposal of an interest in its Rhovan vanadium operations upon the finalisation of a black empowerment agreement in South Africa (refer to note 8)

Restructuring and closure costs
During 2011, US$15 million of restructuring and closure costs provided for the Kidd metallurgical plants were reversed to the income statement upon the finalisation of the closure In 2010 additional restructuring and closure costs of US$5 million were recognised in relation to the closure of the Kidd metallurgical plants

Impairment of assets and reversal of assets previously impaired
2011
As a consequence of ongoing optimisation across the business, the estimated recoverable amount of the Integrated Nickel Operations (INO) has increased, resulting in an impairment reversal of US$463 million (US$324 million after tax)

The Prospero nickel mine in Australia was permanently closed during 2011 resulting in an impairment of US$469 million (US$328 million after tax) against the carrying value of its assets and surrounding prospective mines

2010
Nickel assets were impaired by US$559 million (US$437 million after tax), including goodwill of US$201 million, following a review of the Araguaia nickel project in Brazil

Share of results from associates
During 2011, US$12 million was recognised in relation to the Group's share of the restructuring and closure costs, impairments, financing costs and related taxation credits recognised by Lonmin In 2010 an amount of US$6 million was recognised in relation to the Group's share of Lonmin plc's exceptional items

Loan issue costs written off on facility refinancing
During 2011, the Group refinanced its bank facilities and wrote off related issue costs of US$19 million (2010 US$35 million)

Income tax (charge)/credit
During 2011, the Group recognised an exceptional tax charge of US$75 million, primarily as a result of the introduction of a number of new taxes levied on the mining industry in Peru, the impairment of assets, profit on sale of operations, refinancing and the reversal of restructuring and closure costs The 2010 credit of US$129 million was recognised primarily as a result of impairment of assets, acquisition costs and restructuring and closure costs

11 Income taxes

Income tax charge

Significant components of the income tax charge for the years ended

US$m	2011	2010
Consolidated income statement		
Current tax		
Based on taxable income for the current year	**2,023**	1,590
Prior year adjustment	**7**	(47)
Total current taxation charge for the year	**2,030**	1,543
Deferred taxation		
Origination and reversal of temporary differences	**160**	205
Change in tax rates	**70**	3
Deferred tax credit arising from the reversal of a previous write-down of a deferred tax asset	**(86)**	(96)
Prior year adjustment	**41**	(2)
Total deferred taxation charge for the year	**185**	110
Total taxation charge	**2,215**	1,653
UK taxation included above		
Current tax	**19**	–
Deferred tax	**12**	(37)
Total taxation charge/(credit)	**31**	(37)
Recognised directly in equity		
Deferred tax		
Available-for-sale financial assets	**(1)**	13
Cash flow hedges	**(19)**	(4)
Other equity classified items	**(52)**	(28)
Total taxation credit reported in equity	**(72)**	(19)

The amounts above include the tax charge attributable to exceptional items

11 Income taxes *continued*

A reconciliation of income tax charge applicable to accounting profit before income tax at the weighted average statutory income tax rate to income tax charge at the Group effective income tax rate for the years ended are as follows

	2011	2010
Profit before taxation	**8,148**	6,608
Expected tax charge at the weighted average statutory income tax rate 26 0% (2010 25 2%)	**2,117**	1,667
Goodwill impairment	**–**	68
Mining and other taxes	**152**	100
Foreign currency gains and losses	**(6)**	21
Investment allowances	**(57)**	(47)
Non-deductible expenses	**17**	–
Rebatable dividends received	**(1)**	(4)
Research and development allowances	**(39)**	(10)
Change in tax rates	**70**	3
Deferred tax (credit)/charge arising from the write-down, or reversal of a previous write-down, of a deferred tax asset	**(86)**	(96)
Prior year adjustment	**48**	(49)
Tax charge at an effective income tax rate	**2,215**	1,653

The above reconciling items are disclosed at the tax rates that apply in the country where they have arisen

The weighted average statutory income tax rate is the average of the standard income tax rates applicable in the countries in which the Group operates weighted by the profit/(loss) before tax of the subsidiaries in the respective countries as included in the consolidated accounts

The change in the average statutory income tax rate is mainly due to the variation in the weight of subsidiaries' profits

Recognition of deferred tax assets

Deferred tax assets for the carry-forward of unused tax losses and unused tax credits are only recognised above the level of deferred tax liabilities to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised

Unrecognised tax losses/unrecognised deductible temporary differences

The Group has unrecognised deferred tax assets in relation to tax losses that are available indefinitely of US$42 million (2010 US$137 million) to carry forward against future taxable income of the companies in which the losses arose Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss-making for some time There are no other deductible temporary differences that have not been recognised at balance sheet date

Temporary differences associated with Group investments

At 31 December 2011, the Group had undistributed earnings of certain Group subsidiaries, associates or joint ventures totalling US$18,206 million (2010 US$12,867 million) for which no deferred tax liabilities have been recognised for any taxes that would be payable on the remittance of these earnings as

- the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future,
- the earnings of the associates will not be distributed until they obtain the consent of the Group, and
- the investments are not held-for-resale and are expected to be recouped by continued use of these operations by the subsidiaries

There are no income tax consequences for the Group attaching to the payment of dividends by the Company to its shareholders

The deferred tax assets/(liabilities) included on the face of the balance sheet are as follows

US$m	2011	2010
Deferred tax assets	**44**	299
Deferred tax liabilities	**(6,250)**	(6 348)
	(6,206)	(6,049)

The reconciliation of net deferred tax liabilities are as follows

US$m	Tax losses	Employee and other provisions	Rehabilitation and closure	Accelerated depreciation and amortisation	Trade and other payables/ receivables	Equity related items	Other	Total
At 1 January 2010	357	321	529	(6,553)	(113)	(113)	10	(5,562)
Tax (charge)/credit recognised in the income statement	(178)	(9)	(201)	215	42	–	21	(110)
Tax (charge)/credit recognised in equity	–	76	–	–	–	(57)	–	19
Acquisition and disposals	–	–	–	(102)	–	–	–	(102)
Translation adjustments	25	33	(12)	(343)	(5)	5	3	(294)
At 31 December 2010	204	421	316	(6,783)	(76)	(165)	34	(6,049)
Tax (charge)/credit recognised in the income statement	9	(60)	108	(295)	60	–	(7)	(185)
Tax credit recognised in equity	–	50	–	–	–	22	–	72
Acquisition and disposals	–	–	–	(140)	–	–	–	(140)
Translation adjustments	(10)	(43)	15	124	21	3	(14)	96
At 31 December 2011	**203**	**368**	**439**	**(7,094)**	**5**	**(140)**	**13**	**(6,206)**

Deferred tax assets and liabilities denominated in foreign currencies are retranslated at year-end exchange rates

Tax audits

The Group periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available For those matters where it is probable that an adjustment will be made, the Group recorded its best estimate of these tax liabilities, including related interest charges Inherent uncertainties exist in estimates of tax contingencies due to changes in tax laws Whilst management believes they have adequately provided for the probable outcome of these matters, future results may include favourable or unfavourable adjustments to these estimated tax liabilities in the period the assessments are made or resolved, or when the statute of limitation lapses The final outcome of tax examinations may result in a materially different outcome than assumed in the tax liabilities

12 Earnings per share

US$m	2011	2010
Profit before exceptional items attributable to ordinary equity holders of the parent	**5,785**	5,152
Exceptional items	**(72)**	(464)
Profit attributable to ordinary equity holders of the parent	**5,713**	4,688
Interest in respect of convertible borrowings	**–**	14
Profit attributable to ordinary equity holders of the parent for diluted earnings per share	**5,713**	4,702
Weighted average number of shares (000s) excluding own shares		
For basic earnings per share	**2,931,448**	2 910 942
Effect of dilution		
– Share-based payments	**37,315**	35 613
– Convertible borrowings	**–**	17,941
For diluted earnings per share	**2,968,763**	2,964,496
Basic earnings per share (US$)		
– basic before exceptional items	**1 97**	1 77
– exceptional items	**(0 02)**	(0 16)
	1 95	1 61
Diluted earnings per share (US$)		
– before exceptional items	**1 95**	1 74
– exceptional items	**(0 02)**	(0 16)
	1 93	1 58

Basic earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares outstanding for the year, excluding own shares Adjustments are made before exceptional items and after exceptional items as outlined above to present a meaningful basis for analysis

Diluted earnings per share is based on basic earnings per share adjusted for the potential dilution if director and employee free shares and share options are exercised

13 Dividends paid and proposed

US$m	2011	2010
Declared and paid during the year*		
Final dividend for 2010 – 20 0 cents per ordinary share (2009 – 8 0 cents per ordinary share)	586	233
Interim dividend for 2011 – 13 0 cents per ordinary share (2010 – 5 0 cents per ordinary share)	381	146
	967	379
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December)		
Final dividend for 2011 – 27 0 cents per ordinary share (2010 – 20 0 cents per ordinary share)	792	586

* This only includes amounts paid to the parent equity holders and not non controlling interest holders

Dividends declared in respect of the year ended 31 December 2011 will be paid on 23 May 2012 The 2011 interim dividend was paid on 7 October 2011

As stated in note 26 own shares held in the ESOP and by the ECMP have waived the right to receive dividends

14 Intangible assets

US$m	Export rights*	Goodwill*	Technology patents*	Feed contract*	Hydro electricity rights*	Other	2011
At 1 January 2011	1,017	6,505	54	197	501	126	8,400
Acquisitions	–	81	–	–	–	39	120
Additions	–	–	–	–	–	31	31
Amortisation charge	(18)	–	(4)	(40)	–	(37)	(99)
Impairment reversal	–	–	–	16	–	–	16
Translation adjustments	(156)	(91)	–	–	–	7	(240)
At 31 December 2011	843	6,495	50	173	501	166	8,228
At 1 January 2011							
Cost	1,128	9,460	86	425	501	254	11,854
Accumulated amortisation	(111)	(2,955)	(32)	(228)	–	(128)	(3,454)
Net carrying amount	1,017	6,505	54	197	501	126	8,400
At 31 December 2011							
Cost	950	9,450	86	425	501	312	11,724
Accumulated amortisation	(107)	(2,955)	(36)	(252)	–	(146)	(3,496)
Net carrying amount	843	6,495	50	173	501	166	8,228

US$m	Export rights*	Goodwill*	Technology patents*	Feed contract*	Hydro electricity rights*	Other	2010
At 1 January 2010	944	6 538	51	256	501	132	8,422
Acquisitions	–	89	–	–	–	–	89
Additions	–	–	–	–	–	11	11
Amortisation charge	(18)	–	(4)	(36)	–	(35)	(93)
Impairment charge	–	(201)	–	–	–	–	(201)
Reclassifications	–	–	–	(23)	–	–	(23)
Translation adjustments	91	79	7	–	–	18	195
At 31 December 2010	1,017	6,505	54	197	501	126	8,400
At 1 January 2010							
Cost	1 026	9,285	75	425	501	215	11,527
Accumulated amortisation	(82)	(2,747)	(24)	(169)	–	(83)	(3 105)
Net carrying amount	944	6 538	51	256	501	132	8,422
At 31 December 2010							
Cost	1 128	9,460	86	425	501	254	11,854
Accumulated amortisation	(111)	(2,955)	(32)	(228)	–	(128)	(3,454)
Net carrying amount	1,017	6,505	54	197	501	126	8,400

* Purchased as part of business combinations

The Group has a 20 2% interest in the service organisation, Richards Bay Coal Terminal Company Limited, acquired in a business combination, through which the shareholders gain access to export markets enabling them to realise higher coal sales prices than in the domestic market The export rights are amortised based on a units-of-production method

The Group previously acquired the right to market to third parties various leading technologies for the mining, mineral processing and metals extraction industries, in a business combination The technology patents are amortised over their useful economic lives of 20 years to June 2023

The Group previously acquired hydroelectricity rights which will be amortised over the expected life of the operation, currently estimated as being 40 years, following commissioning

A long term feed contract is being amortised over an eight-year period

Other intangible assets mainly comprise computer software and software development that are being amortised over their useful economic lives of between three to five years

15 Impairment testing

Goodwill

Goodwill has been allocated to cash-generating units (CGUs) or groups of CGUs no larger than the reportable segments that are expected to benefit from the related acquisitions A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets This is usually considered a single operation or in some cases a number of operations that are in close geographical proximity or share operational efficiencies The carrying values of goodwill by CGU are as follows

US$m	2011	2010
Alloys – Africa	**40**	49
Copper – Americas	**1,185**	1,185
Zinc Lead	**1,546**	1,546
Zinc Lead – Europe	**195**	203
	2,966	2 983

The following goodwill balances result from the requirement on an acquisition to recognise a deferred tax liability, calculated as the difference between the tax effect of the fair value of the acquired assets and liabilities and their tax bases For the purposes of testing this goodwill for impairment, any of the related deferred tax liabilities recognised on acquisition that remain at balance date are treated as part of the relevant CGU or group of CGUs

US$m	2011	2010
Coal – Australia	**357**	358
Coal – Americas North	**22**	–
Coal – Americas South	**464**	464
Copper – Americas South*	**1,445**	1,445
Copper – Australasia	**126**	126
Iron Ore – Africa	**149**	95
Nickel – Americas South*	**119**	119
Nickel – Africa	**78**	78
Nickel – Australasia*	**37**	37
Alloys – Africa	**328**	399
Zinc Lead – Americas North	**244**	244
Zinc Lead – Americas South	**160**	160
	3,529	3,525
	6,495	6,508

* Net of impairment losses discussed below

The Group performs goodwill impairment testing on an annual basis and at the reporting date if there are indicators of impairment The most recent test was undertaken at 31 October 2011 and, for any assets where additional indicators of impairment were identified in November or December, testing was updated at 31 December 2011

In assessing whether goodwill has been impaired, the carrying amount of the CGU or reportable segment is compared with its recoverable amount

The goodwill impairment expense recognised as an exceptional item in the income statement (refer to note 10) relates to the following

US$m	Impairment method	2011	2010
Nickel – Americas South	FVLCS	**–**	201
		–	201

For the purpose of goodwill impairment testing in 2010 and 2011, recoverable amounts were determined based on 'fair value less costs to sell' (FVLCS) calculations with the exception of Coal – Australia goodwill, Coal – Americas South goodwill and Chrome – Africa goodwill which were based on 'value-in-use' (VIU) calculations

Where observable market prices are not available, FVLCS was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants

15 Impairment testing *continued*

VIU is based on the cash flows expected to be generated from mines, smelting and refining operations included within the CGUs or reportable segments Cash flows are projected for periods up to the date that mining and refining are expected to cease, based on management's expectations at the time of completing the testing This date depends on a number of variables, including recoverable reserves and resources, the forecast selling prices for such production and the treatment charges received from the refining operations Cash flows have been projected for a maximum of 45 years (2010 30 years)

Key assumptions

The key assumptions used in the VIU calculations and in determining the FVLCS are

- recoverable reserves and resources,
- commodity prices,
- operating costs,
- treatment charges receivable by smelting and refining operations,
- capital expenditure,
- discount rates, and
- foreign exchange rates

Economically recoverable reserves and resources represent management s expectations at the time of completing the impairment testing, based on reserves and resource statements and exploration and evaluation work undertaken by appropriately qualified persons A summary of the mineral resources and ore reserves is published on the Xstrata plc website

Long-term commodity prices and treatment charges are determined by reference to external market forecasts Specific prices are determined using information available in the market after considering the nature of the commodity produced and long term market expectations Forecast prices vary in accordance with the year the sale is expected to occur The commodity prices used in the impairment review are management estimates and are within the range of the available analyst forecasts at 31 October 2011 and 31 December 2011

The attributable value to reserves and resources using the FVLCS method is based on management's best estimates using market-based forecasts and information available in the market

Operating cost assumptions are based on management's best estimate at the date of impairment testing of the costs to be incurred Costs are determined after considering current operating costs, future cost expectations and the nature and location of the operation

Smelting and refining treatment charges vary in accordance with the commodity prices and time of processing

Future capital expenditure is based on management's best estimate of required future capital requirements, which generally is for the extraction of existing reserves and resources It has been determined by taking into account all committed and anticipated capital expenditure adjusted for future cost estimates

The discount rates that have been used are outlined below In the case of FVLCS they represent real after-tax rates, whereas the VIU discount rates represent real pre-tax rates These rates are based on the weighted average cost of capital specific to each CGU or reportable segment and the currency of the cash flows generated The weighted average cost of capital reflects the current market assessment of the time value of money, equity market volatility and the risks specific to the CGU or reportable segment for which cash flows have not already been adjusted These rates were calculated with reference to market information from third party advisers

	Impairment method	Discount rate 2011	Discount rate 2010
Copper-Americas	FVLCS	**7% – 11%**	7% – 11%
Zinc Lead	FVLCS	**7%**	7%

In assessing the FVLCS another key assumption that would be considered by market participants is foreign exchange rates The rates that have been utilised are based on external market information Specific rates are determined from information available in the market after considering long-term market expectations and the countries in which the Group operates

Sensitivity to changes in assumptions

A significant amount of commodity price and foreign exchange volatility continues to exist in the market Adverse changes in key assumptions as described below could result in changes to impairment charges specifically in relation to Coppers – Americas and Zinc Lead

A summary of the mineral resources and ore reserves related to the goodwill balances, released in December 2011, is summarised as follows

	Reserves		Resources		
Million tonnes	Proved	Probable	Measured	Indicated	Inferred
Copper – Americas	**1,232**	**3,825**	**2,452**	**7,185**	**8,044**
Zinc Lead	**88**	**97**	**323**	**287**	**319**

A summary of the mineral resources and ore reserves related to the goodwill balances released in January 2010, is summarised as follows

	Reserves		Resources		
Million tonnes	Proved	Probable	Measured	Indicated	Inferred
Copper – Americas	1,318	3,283	2,045	6,184	7,246
Zinc Lead	98	81	335	245	238

Commodity prices – commodity price forecasts were based on external market consensus information The copper prices ranged from US$2 62 per pound to US$3 30 per pound (2010 US$2 14 per pound to US$3 76 per pound), US$0 90 per pound to US$0 98 per pound (2010 US$0 98 per pound to US$1 11 per pound) for zinc and US$0 92 per pound to US$0 93 per pound (2010 US$0 79 per pound to US$1 11 per pound) for lead, varying in accordance with the year the sale was expected to occur

Treatment charges received from smelting and refining – in performing the FVLCS calculation for Zinc Lead, treatment charges were estimated to be in the range of US$218 per tonne to US$230 per tonne (2010 US$231 per tonne to US$275 per tonne) for zinc and US$132 per tonne to US$142 per tonne (2010 US$105 per tonne to US$127 per tonne) for lead refining fees, based on the year of processing As outlined above, these prices were based on external market consensus information

Foreign exchange rates – foreign exchange rates used were based on external market consensus information The US$ ARS rate ranged from 4 53 to 7 11 (2010 3 64 to 4 60), AUD US$ rate ranged from 0 80 to 0 95 (2010 0 80 to 0 96) the US$ CAD rate ranged from 1 04 to 1 10 (2010 1 01 to 1 10), the US$ CLP rate from 533 to 596 (2010 483 to 596), the EUR US$ rate ranged from 1 25 to 1 37 (2010 1 25 to 1 41) and the US$ PEN from 2 84 to 3 07 (2010 2 80 to 3 07) varying in accordance with the year the sale was expected to occur

The impairment tests are particularly sensitive to changes in commodity prices, discount rates and foreign exchange rates Changes to these assumptions could have resulted in changes to impairment charges The table below summarises the change required to key assumptions that would result in the carrying value equalling the recoverable values

2011	Excess of recoverable amount over carrying value (US$m)	Change in the key assumption that would result in the recoverable amount equalling the carrying value (%) Commodity prices	Discount rate*	Foreign exchange rate
Copper – Americas	**7,250**	**15%**	**5%**	**75%**
Zinc Lead	**2,116**	**11%**	**2%**	**16%**

* Amounts relate to absolute movement in discount rate

2010	Excess of recoverable amount over carrying value (US$m)	Change in the key assumption that would result in the recoverable amount equalling the carrying value (%) Commodity prices	Discount rate*	Foreign exchange rate
Copper – Americas	5,192	15%	4%	55%
Zinc Lead	3,129	17%	4%	30%

* Amounts relate to absolute movement in discount rate

For the purposes of testing for impairment of goodwill using the VIU basis for chrome, the excess of recoverable amount over the carrying value was US$4,027 million (2010 US$3,328 million) and management is of the opinion that no reasonably possible changes in the key assumptions could result in an impairment expense being recognised

Other non-current assets

The impairment losses/(reversals) recognised as exceptional items in the income statement (refer to note 10), excluding the goodwill impairment above, relate to the following

US$m	Impairment method*	2011	2010
Nickel – Americas North	**FVLCS**	**(392)**	–
Nickel – Americas South	**FVLCS**	**–**	358
Nickel – Australasia	**FVLCS**	**469**	–
Nickel – Europe	**FVLCS**	**(71)**	–
		6	358

* FVLCS was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants

2011

The results of the 2011 impairment testing indicated that the estimated recoverable amount of the Nickel operations in North America and Europe increased following the completion of the optimisation project, resulting in an impairment reversal of US$463 million (US$324 million after tax)

The Prospero nickel mine in Australia was permanently closed during 2011 resulting in the impairment of US$469 million (US$328 million after tax) against the carrying value of its assets and surrounding prospective areas

2010

Impairment charges of US$358 million were incurred following a review of the Araguaia nickel project in Brazil

16 Property, plant and equipment

US$m	Exploration and evaluation	Land and buildings	Mining properties and leases	Plant and equipment	Capital works in progress	2011
At 1 January 2011, net of accumulated depreciation	1,319	3,044	23,611	10,468	7,442	45,884
Acquisitions	6	1	431	99	3	540
Additions	557	489	376	2,821	4,181	8,424
Asset acquisitions	11	–	316	–	–	327
Disposals	–	(2)	(12)	(5)	(14)	(33)
Rehabilitation provision adjustments (refer to note 31)	–	–	475	–	–	475
Reclassifications	(11)	297	756	815	(1,857)	–
Depreciation charge	(4)	(266)	(1,495)	(1,351)	(2)	(3,118)
Net Impairment effect	(66)	–	(63)	107	–	(22)
Translation adjustments	1	(92)	(466)	(361)	(105)	(1,023)
At 31 December 2011, net of accumulated depreciation	1,813	3,471	23,929	12,593	9,648	51,454
At 1 January 2011						
Cost	1,646	4,601	31,430	17,286	7,454	62,417
Accumulated depreciation	(327)	(1,557)	(7,819)	(6,818)	(12)	(16,533)
Net carrying amount	1,319	3,044	23,611	10,468	7,442	45,884
At 31 December 2011						
Cost	2,306	5,238	33,158	20,088	9,659	70,449
Accumulated depreciation	(493)	(1,767)	(9,229)	(7,495)	(11)	(18,995)
Net carrying amount	1,813	3,471	23,929	12,593	9,648	51,454

US$m	Exploration and evaluation	Land and buildings	Mining properties and leases	Plant and equipment	Capital works in progress	2010
At 1 January 2010, net of accumulated depreciation	1,046	2 974	21,142	8,604	5,631	39 397
Acquisitions	86	–	408	(7)	–	487
Additions	367	270	427	1,591	3,684	6 339
Disposals	(2)	(6)	(3)	(12)	(3)	(26)
Rehabilitation provision adjustments (refer to note 31)	–	–	255	–	–	255
Reclassifications	(212)	(118)	1 842	715	(2,204)	23
Depreciation charge	–	(290)	(1 282)	(1,063)	(4)	(2 639)
Impairment charge	–	–	(358)	–	–	(358)
Translation adjustments	34	214	1,180	640	338	2 406
At 31 December 2010 net of accumulated depreciation	1,319	3,044	23 611	10,468	7,442	45,884
At 1 January 2010						
Cost	1 409	4,246	27,038	13,849	5 652	52 194
Accumulated depreciation	(363)	(1,272)	(5,896)	(5 245)	(21)	(12,797)
Net carrying amount	1,046	2,974	21,142	8,604	5,631	39,397
At 31 December 2010						
Cost	1,646	4,601	31,430	17 286	7,454	62,417
Accumulated depreciation	(327)	(1,557)	(7,819)	(6,818)	(12)	(16,533)
Net carrying amount	1,319	3 044	23,611	10,468	7,442	45,884

Land and buildings include non depreciating freehold land amounting to US$726 million (2010 US$662 million)

Mining properties and leases at 31 December 2011 include deferred stripping costs of US$1,193 million (2010 US$1,038 million) US$290 million (2010 US$231 million) of deferred stripping costs were capitalised during the year Capital expenditure (refer to note 9) comprises additions to intangible assets (refer to note 14) and property, plant and equipment excluding deferred stripping costs capitalised during the year

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2011 is US$158 million (2010 US$155 million) Leased assets and assets under hire purchase contracts are pledged as security for the related finance leases and hire purchase liabilities The carrying value of other property, plant and equipment pledged as security is US$6 million (2010 US$18 million)

US$104 million (2010 US$82 million) of borrowing costs were capitalised during the year and there is US$224 million (2010 US$122 million) of capitalised borrowing costs within property, plant and equipment at 31 December 2011 The rate used to determine the amount of borrowing costs eligible for capitalisation was 5 3% (2010 5 7%), which is the effective interest rate of the specific and allocated general borrowings

The carrying value of property, plant and equipment at 31 December 2011 that is temporarily idle is US$59 million (2010 US$51 million)

The Group has made commitments to acquire property, plant and equipment totalling US$1,854 million at 31 December 2011(2010 US$730 million)

17 Biological assets

US$m	2011	2010
At 1 January	23	20
Additions	8	7
Disposals	(8)	(7)
Translation adjustments	–	3
At 31 December	23	23

Biological assets are stated at fair value less estimated selling costs, which has been determined based on independent valuations as at 31 December 2011 and 2010 on the basis of open market value, supported by market evidence As at 31 December 2011, the Group owned 46,000 (2010 47,000) cattle

18 Inventories

US$m	2011	2010
Current		
Raw materials and consumables	1,677	1,493
Work in progress	2,350	2,285
Finished goods	1,215	985
	5,242	4,763
Non current		
Work in progress	7	45
	7	45

Non-current inventories comprises long-term ore stockpiles that are not planned to be processed within one year

19 Trade and other receivables

US$m	2011	2010
Current		
Trade debtors	3,037	3,930
Advances	91	81
Employee entitlement receivables (refer to note 31)	44	38
Recoverable sales tax	559	347
Other debtors	11	67
	3,742	4 463
Non current		
Employee entitlement receivables (refer to note 31)	60	51
Other debtors	150	117
	210	168

20 Investment in associates

Lonmin plc

The share price of Lonmin as listed on the London stock exchange at 31 December 2011 was GBP9 80 per share (2010 GBP19 66 per share) The Group believes that the recoverable amount of the investment using the VIU method was higher than the value based on the listed share price at that date because this share price continues to reflect ongoing uncertainty and volatility in world economic markets as opposed to the fundamental long-term value of this investment, therefore the carrying value is supported on a VIU basis The carrying amount of Lonmin at 31 December 2011 was US$1,536 million (2010 US$1,558 million) The Group held 49 8 million (2010 49 8 million) shares in Lonmin plc at 31 December 2011

Other associates

The Group s other associates are (refer to note 35)

- interests in coal terminals (Newcastle Coal Shippers Pty Ltd, Port Kembla Coal Terminal Limited, WICET Holdings Pty Ltd and Richards Bay Coal Terminal Company Ltd), through which it gains access to export markets and
- a 25% interest in the Noranda Income Fund which owns a zinc refinery in Salaberry-de Valleyfield, Quebec

The Group held 12 5 million (2010 12 5 million) units in the Noranda Income Fund and the unit price as listed on the Toronto stock exchange at 31 December 2011 was CAD 5 68 per unit (2010 CAD4 65 per unit) The Group has determined that the recoverable amount of the investment calculated using the VIU method is higher than the value based on the listed unit price because of the continued uncertainty and volatility in world economic markets

The companies which own the coal terminals are not listed so there is no published quoted price for the value of these investments The Group estimates that the carrying value of these investments is at least equal to fair value

20 Investment in associates continued

The following is a summary of the financial information for the associates

US$m	2011	2010
Share of associates' balance sheet		
Non-current assets	**2,519**	2,545
Current assets	**372**	608
Total assets	**2,891**	3,153
Non-current liabilities	**(657)**	(835)
Current liabilities	**(250)**	(317)
Total liabilities	**(907)**	(1,152)
Non-controlling interests	**(215)**	(215)
Net attributable assets	**1,769**	1 786
Carrying amount of the investment	**1,769**	1,786
Share of associates' revenue and profit		
Revenue	**663**	594
EBITDA	**146**	116
EBIT	**68**	43
Net interest paid	**(4)**	(4)
Income tax (expense)/benefit	**(15)**	(24)
Profit for the year	**49**	15
Attributable to		
Equity holders of the parent	**41**	9
Non-controlling interests	**8**	6
	49	15

All associates have a reporting date of 31 December, except for Lonmin which has a reporting date of 30 September The Group's share of results from associates is included above The Group's share of Lonmin's results is based on Lonmin's financial statements for the year ended 30 September 2011 and adjusted for any significant known transactions between October and December 2011

21 Interests in joint venture entities

The Group has various interests in jointly controlled entities operations and assets as outlined in note 35 The Group recognises its interests in jointly controlled entities using the proportionate method of consolidation as outlined in note 6

The following is a summary of the financial information of the Group's jointly controlled entities in Africa, Australia and South America

US$m	2011	2010
Share of joint ventures' balance sheets		
Non-current assets	**11,163**	10 207
Current assets	**1,016**	1 129
Total assets	**12,179**	11,336
Non-current liabilities	**(1,996)**	(2,025)
Current liabilities	**(747)**	(495)
Total liabilities	**(2,743)**	(2,520)
Net assets	**9,436**	8,816
Net assets consolidated	**9,436**	8,816
Share of joint ventures revenue and profit		
Revenue	**3,075**	2 803
Operating costs (before depreciation and amortisation)	**(762)**	(583)
EBITDA	**2,313**	2,220
Depreciation and amortisation	**(381)**	(366)
EBIT	**1,932**	1,854
Finance income	**1**	70
Finance costs	**(5)**	(24)
Profit before tax	**1,928**	1,900
Income tax expense	**(541)**	(371)
Profit for the year	**1,387**	1,529

22 Available-for-sale financial assets

US$m	2011	2010
At fair value		
Shares – listed	79	160
Shares – unlisted	7	5
Royalty contract	172	182
	258	347

Available-for sale financial assets consist of a long-term royalty income contract and investments in listed and unlisted ordinary shares that have no fixed maturity date or coupon rate These investments are held for strategic purposes

In 2011 and 2010 the listed shares related to companies in the mining industry The listed shares are carried at fair value In 2011, listed shares with a carrying value of US$51 million were sold for a gain of US$29 million (2010 US$135 million sold for a gain of $73 million) and an impairment of $43 million was recognised in the income statement due to the continued subdued equity markets

Unlisted shares mainly comprise interests in ports in Australia used to export coal and are carried at fair value

23 Derivative financial assets

US$m	2011	2010
Current		
At fair value		
Foreign currency cash flow hedges	24	126
Commodity cash flow hedges	31	–
Fair value interest rate hedges	33	77
Other interest rate derivatives	2	1
Other foreign currency derivatives	6	32
	96	236
Non current		
At fair value		
Commodity cash flow hedges	1	–
Fair value interest rate hedges	666	529
Other interest rate derivatives	13	41
	680	570
Total	776	806

24 Other financial assets

US$m	2011	2010
Non current		
At fair value		
Infrastructure loans	183	–
Loans to joint venture partners	396	375
Rehabilitation trust fund	106	91
Other	58	48
	743	514

Infrastructure loans
AUD denominated secured subordinated loan funding has been provided to Wiggins Island Coal Export Terminal Pty Limited for the construction of a coal terminal in Australia The loan is subject to a floating rate of interest and is repayable by 30 September 2020

Loans to joint venture partners
ZAR denominated loans of US$280 million (2010 US$375 million) are receivable from ARM Coal that are subject to a floating rate of interest with no fixed repayment date ZAR denominated loans of US$59 million (2010 US$nil) are receivable from Ngazana Consortium that are subject to a floating rate of interest with no fixed repayment date ZAR denominated loans of US$57 million (2010 US$nil) are receivable from Bakwena-Ba Mogopa Community Trust that are subject to a floating rate of interest and is repayable by 31 December 2026

Rehabilitation trust fund
The rehabilitation trust fund in South Africa receives cash contributions to accumulate funds for the Group's rehabilitation liabilities relating to the eventual closure of the Group's 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 banks that are responsible for making investments in equity and money market instruments The trust fund is to be used according to the terms of the trust deed and the assets are not available for the general purposes of the Group The trust fund is carried at fair value

25 Cash and cash equivalents and non-cash transactions

US$m	2011	2010
Cash at bank and in hand	945	733
Short-term deposits	1,003	989
	1,948	1 722

The majority of cash at bank and in hand earns interest at floating rates of interest with a limited amount at fixed rates of interest or interest-free Short-term deposits are made at call and for less than one week, dependent on the short-term cash requirements of the Group, and earn interest based on the respective short-term deposit rates The fair value of cash and cash equivalents at 31 December 2011 and 31 December 2010 approximates carrying value

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December

US$m	2011	2010
Cash at bank and in hand	945	733
Short-term deposits	1,003	989
Bank overdrafts (refer to note 28)	(5)	(12)
	1,943	1 710

During the year, the Group entered into new finance leases and hire purchase contracts to purchase various items of plant and equipment for US$5 million (2010 US$68 million) which did not require the use of cash and cash equivalents and are not included in the net cash flow used in investing and financing activities in the consolidated cash flow statement

26 Capital and reserves

	US$m
Authorised	
4,500,000,000 ordinary shares of US$0 50 each as at 1 January 2010, 31 December 2010 and 31 December 2011	2 250
50,000 deferred shares of GBP1 00 each as at 1 January 2010 31 December 2010 and at 31 December 2011	–
1 special voting share of US$0 50 as at 1 January 2010, 31 December 2010 and as at 31 December 2011	–
	2,250
Issued, called up and fully paid	
2,939,011,620 ordinary shares of US$0 50 each as at 1 January 2010	1,469
25,680,456 ordinary shares issued on the exercise of convertible borrowings	13
2,964,692,076 ordinary shares of US$0 50 each as at 31 December 2010 and 31 December 2011	1,482
Share premium	
As at 1 January 2010	15 096
25,680,456 ordinary shares issued on the exercise of convertible borrowings	362
As at 31 December 2010 and as at 31 December 2011	15,458

	US$m
Own shares	
40,626,878 ordinary shares of US$0 50 each as at 1 January 2010	(1,306)
5,832,841 ordinary shares disposed during the year	136
521,098 ordinary shares purchased during the year	(11)
35,315,135 ordinary shares of US$0 50 each as at 31 December 2010	(1,181)
2,635,979 ordinary shares disposed during the year	59
777 678 ordinary shares purchased during the year	(18)
33,456,834 ordinary shares of US$0 50 each as at 31 December 2011	(1,140)

Details in respect of the various classes of shares are outlined in the Directors' Report on page 112

Ordinary shares
During 2010, the US$375 million convertible borrowings were converted at the option of the holders into 25,680,456 ordinary shares in Xstrata plc

Own shares
Own shares comprise shares of Xstrata plc held in the ESOP and shares held by Batiss Investments (Batiss) for the ECMP

The shares acquired by the ESOP are either stock market purchases or share issues from the Company The ESOP is used to co-ordinate the funding and manages the delivery of ordinary shares for options and free share awards under the Group's employee award schemes The trustee of the ESOP is permitted to place the shares back into the market and may hold up to 5% of the issued share capital of the Company at any one time At 31 December 2011, 5 028 048 (2010 6 886,349) shares, equivalent to 0 2% (2010 0 2%) of the total issued share capital, were held by the trust with a cost of US$114 million (2010 US$155 million) and market value of US$76 million (2010 US$162 million) The trust has waived the right to receive dividends from the shares that it holds Costs relating to the administration of the trust are expensed in the period in which they are incurred

The shares acquired from the stock market by Batiss and held for the ECMP are used by the Group as a source of financing for future acquisitions or placed back into the market The decision as to 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 is considered in light of the Group's funding requirements and capital structure

Batiss is not permitted to hold more than 10% of the issued share capital of the Company at any one time Batiss has entered into an option agreement with Xstrata Finance (Dubai) Limited (Xstrata Finance), a wholly owned subsidiary within the Xstrata Group, whereby Batiss has granted to Xstrata Finance a right to require Batiss to sell the purchased Xstrata shares to a third party (other than a subsidiary of Xstrata plc), as nominated by Xstrata Finance, at an exercise price of 1p per share Under the option agreement, Xstrata Finance pays 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 Finance for non-voting redeemable preference shares in Batiss, provides the funding for Batiss to acquire the shares in the market These payments are sourced from the existing and future cash resources of Xstrata Finance Xstrata Finance is able to exercise its right under the option agreement for a period of six years from the date of each purchase but has not chosen to do so in either 2011 or 2010

Batiss has waived its right to receive dividends on the shares that it holds At 31 December 2011 28 428,786 (2010 28,428,786) shares, equivalent to 1 0% (2010 1 0%) of the total issued share capital, were held by the trust with a cost of US$1 026 million (2010 US$1,026 million) and market value of US$432 million (2010 US$668 million) Costs relating to the administration of the trust are expensed in the period in which they are incurred

Consolidated changes in equity
Other reserves

US$m	Revaluation reserves	Other reserves	Net unrealised gains/(losses)	Foreign currency translation	Total
At 31 December 2009	1,440	1,229	188	2,749	5 606
Gains on available for sale financial assets	–	–	118	–	118
Realised losses on available-for-sale financial assets	–	–	(73)	–	(73)
Gains on cash flow hedges	–	–	117	–	117
Realised gains on cash flow hedges*	–	–	(131)	–	(131)
Foreign currency translation differences	–	–	–	2,459	2,459
Deferred tax	–	–	(9)	(48)	(57)
At 31 December 2010	1,440	1,229	210	5,160	8,039
Unrealised losses on available for-sale financial assets	–	–	(37)	–	(37)
Realised gains on available-for sale financial assets	–	–	(8)	–	(8)
Gains on cash flow hedges	–	–	26	–	26
Realised gains on cash flow hedges*	–	–	(51)	–	(51)
Foreign currency translation differences	–	–	–	(1 309)	(1,309)
Deferred tax	–	–	19	2	21
At 31 December 2011	1,440	1,229	159	3,853	6,681

* Recycled gains of US$59 million (2010 US$115 million) are included in Revenue in the income statement, including non-controlling interests

Revaluation reserves
This reserve principally records the re-measurement from cost of the 19 9% interest held in Falconbridge Limited (Falconbridge) to the fair value of 19 9% of the identifiable net assets of Falconbridge on 15 August 2006, the date the Group obtained control of Falconbridge

Other reserves
This reserve principally originated during 2002 from the merger of Xstrata AG into Xstrata plc of US$279 million and the issue of shares from the acquisition of the Duiker and Enex Groups of US$935 million

Net unrealised gains/(losses) reserve
This reserve records the re-measurement of available-for-sale financial assets to fair value (refer to note 22) and the effective portion of the gain or loss on cash flow hedging contracts (refer to notes 23 29 and 36) Deferred tax is provided on the re-measurement at tax rates enacted or substantively enacted

26 Capital and reserves continued

Foreign currency translation reserve

This is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries It is also used to record the exchange differences from the translation of quasi equity inter-company loans in foreign operations On disposal or partial disposal of a foreign entity the deferred accumulated amount recognised in this reserve is transferred to the income statement

Capital management

The capital of Xstrata plc is the total equity and long term borrowings, including capital market notes (refer to note 28), on the Group's balance sheet The objective of the Company's capital management is to grow and manage a diversified portfolio of metals and mining businesses with the aim of delivering industry-leading returns for its shareholders The management of the Group's capital is performed by the Board of Directors There are no externally imposed capital requirements

27 Trade and other payables

US$m	2011	2010
Current		
Trade payables	2,562	2,544
Sundry payables	829	730
Interest payable	72	67
Accruals and other payables	1,639	1 461
	5,102	4,802
Non-current		
Accruals and other payables	82	88
	82	88
Total	5,184	4 890

All current payables are expected to be settled in the next 12 months and non-current payables are expected to be settled over a weighted average life of four years (2010 six years)

28 Interest-bearing loans and borrowings

US$m	2011	2010
Current		
At amortised cost		
Bank overdrafts	5	12
Bank loans – other unsecured	139	40
Capital market notes	1,382	2,192
Obligations under finance leases and hire purchase contracts[(i)]	38	74
Other loans	2	–
	1,566	2,318
Non-current		
At amortised cost		
Bank loans – other unsecured	34	173
Capital market notes	8,394	6,550
Non-controlling interest loans	204	243
Obligations under finance leases and hire purchase contracts[(i)]	166	177
Other loans	6	11
	8,804	7,154
Total	10,370	9,472
Less cash and cash equivalents (refer to note 25)	(1,948)	(1,722)
Net debt excluding hedges*	8,422	7 750
Hedges**	(273)	(112)
Net debt including hedges*	8,149	7,638

(i) Secured over specific items of plant and equipment (refer to note 16)
* Net debt is defined as loans and borrowings net of cash and cash equivalents
** Derivative financial instruments that have been designated specifically to provide a hedge of capital market notes have been included above to reflect a more accurate economic position of the Group s overall net debt at year end

Existing facilities in 2011

The Xstrata Group has entered into bank loans described below

Syndicated bank loans

In October 2011, the Group entered into a guaranteed US$6 000 million multi currency revolving syndicated loan facility maturing in October 2016 Interest is payable on drawn down amounts at a rate that is the aggregate of LIBOR and the relevant margin, which is 85 basis points per annum As of 31 December 2011, US$6,000 million was available to be drawn under this facility

Repaid facilities

On 17 September 2010, the Group entered into a guaranteed US$4,000 million multi-currency revolving syndicated loan facility (Syndicate Facilities Agreement) split into two US$2 billion tranches with one tranche maturing three-years after the date of the facility and the other maturing five-years after the date of the facility Interest was payable on drawn down amounts at a rate that was the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which was 90 0 basis points per annum under the three year tranche and 100 0 basis points per annum under the five-year tranche respectively This facility was cancelled in October 2011 and replaced with the US$6,000 million syndicated loan facility

On 25 July 2007, the Group entered into a guaranteed US$4 680 million multi-currency revolving syndicated loan facility (Syndicated Facilities Agreement) Interest was payable on drawn down amounts at a rate that was the aggregate of LIBOR or, in relation to any loan in Euro EURIBOR and the relevant margin, which was 27 5 basis points per annum The facility was cancelled in October 2011

On 6 October 2008 the Group entered into a guaranteed US$5,000 million multi-currency revolving syndicated loan facility (Club Facility) scheduled to mature on 30 September 2011 Interest is payable on drawn down amounts at a rate that is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which is 150 basis points per annum The Club Facility was amended on 30 December 2008 to increase the facility amount to US$5,459 million and on 9 April 2010 to decrease the facility amount to US$3,000 million During 2009, the amounts drawn down under this facility were fully repaid from the proceeds from the rights issue (refer to note 26) This facility was cancelled during 2010 and replaced with the US$4,000 million syndicated loan facility

Capital market notes

As at 31 December 2011, other unsecured private placements included

Facility	Denomination	**At 31 Dec 11 US$m**	Fixed or floating interest rate	**Effective interest rate % in 2011**	Maturity	At 31 Dec 10 US$m	Effective interest rate % in 2010
Series B senior unsecured notes[a]	US$	–	Fixed	6 75	Jun 11	13	6 75
Series B senior unsecured notes[a]	US$	–	Fixed	7 00	Jun 11	52	7 00
Unsecured notes[b]	US$	–	Fixed	5 50	Nov 11	751	5 50
Unsecured notes[b]	US$	1,185	Fixed	5 80	Nov 16	1 144	5 80
Unsecured notes[c]	EUR	677	Fixed	4 88	Jun 12	722	4 88
Unsecured notes[c]	EUR	786	Fixed	5 25	Jun 17	774	5 25
Unsecured notes[d]	US$	495	Fixed	6 90	Nov 37	494	6 90
Unsecured notes[e]	EUR	–	Fixed	5 88	May 11	1 039	5 88
Unsecured notes[e]	EUR	875	Fixed	6 25	May 15	874	6 25
Unsecured notes[e]	GBP	936	Fixed	7 38	May 20	842	7 38
Senior debentures[f]	US$	–	Fixed	6 03	Feb 11	308	6 03
Senior debentures[f]	US$	255	Fixed	5 88	Jun 12	265	5 88
Senior debentures[f]	US$	302	Fixed	6 06	Jul 12	305	6 06
Senior debentures[f]	US$	397	Fixed	6 34	Oct 15	391	6 34
Senior debentures[f]	US$	266	Fixed	6 16	Jun 15	264	6 16
Senior debentures[f]	US$	241	Fixed	6 39	Jun 17	240	6 39
Senior debentures[f]	US$	235	Fixed	6 77	Jun 35	234	6 77
Unsecured notes[g]	US$	797	Fixed	2 85	Nov 14	–	–
Unsecured notes[g]	US$	697	Fixed	3 60	Jan 17	–	–
Unsecured notes[g]	US$	994	Fixed	4 95	Nov 21	–	–
Unsecured notes[g]	US$	490	Fixed	6 00	Nov 41	–	–
Commercial paper[h]	US$	148	Floating	0 33	Jan 12	30	0 42
		9,776				8 742	

(a) An Australian subsidiary designated the series B senior unsecured notes as a fair value hedge of an investment in South America The hedge was used to reduce exposure to foreign currency risk

(b) In November 2006 the Group issued guaranteed capital market notes to refinance existing debt facilities of a US$1 000 million 10 year note at a fixed interest rate of 5 8% and a US$750 million five year note at a fixed interest rate of 5 5%

(c) In June 2007 the Group issued a two tranche EUR1 000 million guaranteed bond offering comprising EUR500 million 4 875% fixed guaranteed notes due 2012 and EUR500 million 5 25% fixed guaranteed notes due 2017 These bonds have been swapped to US$ The swaps have been accounted for as cash flow hedges with an unrealised loss of US$54 million (2010 unrealised loss of US$12 million) at 31 December 2011 (refer to note 36)

(d) In November 2007 the Group issued guaranteed 30-year notes of US$500 million bearing interest at a fixed rate of 6 9%

(e) In May 2008 the Group issued a two tranche EUR1 350 million guaranteed bond offering comprising EUR750 million 5 875% fixed guaranteed notes due 2011 and EUR600 million 6 25% fixed guaranteed notes due 2015 In May 2008 the Group issued a guaranteed bond offering of GBP500 million 7 375% fixed guaranteed notes due 2020 These bonds have been swapped to US$ The swaps have been accounted for as cash flow hedges with an unrealised loss of US$369 million at 31 December 2011 (2010 unrealised loss of US$510 million)

(f) The guaranteed senior debentures were assumed by the Group through the acquisition of Falconbridge in 2006 Pursuant to the terms of the note indentures as amended by supplemental indentures Xstrata plc has fully and unconditionally guaranteed in favour of the holders of the senior debentures the payment within 15 days of when due of all financial liabilities and obligations of Xstrata Canada Corporation to such holders under the terms of the senior debentures

(g) In November 2011 the Group issued a four tranche US$3 000 million guaranteed bond offering comprising fixed interest US$800 million 2 85% notes due 2014 US$700 million 3 60% notes due 2017 US$1 000 million 4 95% notes due 2021 and US$500 million 6 00% notes due 2041

(h) In February 2008 the Group entered into a US$1 000 million commercial paper programme facility with maturities of up to 12 months Interest is payable on the notes at a rate that is based on LIBOR

A portion of the fixed interest rate of the unsecured notes and senior debentures has been swapped to a floating rate The swaps have been accounted for as fair value hedges with an unrealised gain of US$702 million (2010 US$609 million unrealised gain) at 31 December 2011 (refer to note 36)
Hedging ineffectiveness during 2011 resulted in other financial loss of US$31 million (2010 US$6 million loss)

28 Interest-bearing loans and borrowings *continued*

Bank loans – other unsecured

The Group has debts of proportionally consolidated joint ventures of US$139 million (2010 US$139 million) which bear interest at a rate based on LIBOR plus 175 basis points, repayable in August 2012 and US$34 million (2010 US$34 million) which bear interest at a rate based on LIBOR plus 187 basis points, repayable in April 2015

Bank overdrafts – unsecured

The Group has bank overdrafts that are subject to local and US$ prime floating interest rates in which they have been drawn down The majority of the bank overdrafts are denominated in Canadian and US dollars

Non-controlling interest loans

Non-controlling interest loans include AUD denominated loans of US$204 million (2010 US$162 million) payable to Indophil Resources Limited for the Tampakan copper project The loan is subject to a fixed rate of interest of 4%, payable quarterly with no fixed repayment date, and is not payable within 12 months

Other loans

Other loans include

A loan of US$8 million (2010 US$6 million) from the Cantabria Government and the Spanish Ministry of Industry & Energy, unsecured and interest free

29 Derivative financial liabilities

US$m	2011	2010
Current		
At fair value		
Commodity cash flow hedges	–	50
Foreign currency cash flow hedges	47	170
Other foreign currency derivatives	16	163
Other interest rate derivatives	2	–
	65	383
Non current		
At fair value		
Foreign currency cash flow hedges	396	352
Other interest rate derivatives	21	14
	417	366
Total	482	749

30 Other financial liabilities

US$m	2011	2010
Non-current		
At fair value		
Loans from joint venture partners	212	236
At amortised cost		
Loans from development project partners	496	420
Total	708	656

Loans from joint venture partners

A ZAR denominated loan of US$212 million (2010 US$236 million) is payable to ARM Coal The loan is subject to a floating rate of interest based on a dividend calculation with no fixed repayment date and is not callable within 12 months

Loans from development project partners

A US$ denominated loan of US$496 million (2010 US$420 million) is payable to Société Minière du Sud Pacifique for the Koniambo nickel project The loan is subject to a floating rate of interest based on a dividend calculation with no fixed repayment date and is not callable within 12 months

31 Provisions

US$m	Employee entitlements	Share-based compensation plans	Post-retirement medical plans	Rehabilitation costs	Onerous contracts	Other	2011
At 1 January	596	252	535	2,229	178	289	4,079
Acquisitions	–	–	–	2	–	2	4
Arising during the year	377	–	57	19	–	163	616
Discount unwinding	4	–	–	131	10	–	145
PPE asset adjustment (refer to note 16)	–	–	–	475	–	–	475
Reversals	–	(153)	–	–	–	(15)	(168)
Utilised	(287)	–	(27)	(91)	(11)	(167)	(583)
Translation adjustments	(12)	(2)	(6)	(55)	(1)	(6)	(82)
At 31 December	678	97	559	2,710	176	266	4,486
Current	472	–	–	125	12	169	778
Non current	206	97	559	2,585	164	97	3,708
	678	97	559	2,710	176	266	4,486

US$m	Employee entitlements	Share-based compensation plans	Post retirement medical plans	Rehabilitation costs	Onerous contracts	Other	2010
At 1 January	477	224	444	1 860	182	280	3,467
Arising during the year	289	62	90	40	4	132	617
Discount unwinding	3	–	–	104	10	–	117
PPE asset adjustment (refer to note 16)	–	–	–	255	–	–	255
Utilised	(227)	(19)	(25)	(123)	(41)	(132)	(567)
Translation adjustments	54	(15)	26	93	23	9	190
At 31 December	596	252	535	2,229	178	289	4 079
Current	397	–	–	102	25	187	711
Non-current	199	252	535	2 127	153	102	3,368
	596	252	535	2,229	178	289	4,079

Employee entitlements
The employee entitlement provisions mainly represent the value of excess leave entitlements allocated over the leave taken by the employees of the Group These amounts are expected to be utilised as the employees either take their accrued leave or receive equivalent benefits upon ceasing employment Current employee entitlements include excess short-term leave entitlements and the portion of non-current employee entitlements that are expected to be incurred within 12 months Non-current entitlements include long service leave entitlements that are payable upon an employee attaining a certain period of service and workers compensation provisions For some entitlements, amounts will also be recovered from an independent fund (refer to note 19) The current portion of these costs is expected to be utilised in the next 12 months and the non current portion of these costs is expected to be utilised over a weighted average life of 10 years (2010 eight years)

Share-based compensation plans
The Group has granted various share-based compensation plans to certain executives and senior employees that will be cash-settled (refer to note 34) The intrinsic value of the cash settled share-based compensation plans that had vested at 31 December 2011 was US$28 million (2010 US$53 million)

Post-retirement medical plans
The Group operates unfunded post-retirement medical benefit plans in North America and a comparatively smaller plan in South Africa for a number of current and former employees Independent qualified actuaries using the projected unit credit method assess the accumulated benefit obligation and annual cost of accrued benefits The current portion of these costs is expected to be utilised in the next 12 months and the non-current portion of these costs is expected to be utilised over a weighted average life of 20 years (2010 20 years) (refer to note 34)

Rehabilitation costs
Rehabilitation provision represents the estimated costs required to provide adequate restoration and rehabilitation upon the completion of mining activities These amounts will reverse when such rehabilitation has been performed The current portion of these costs is expected to be utilised in the next 12 months and the non-current portion of these costs is expected to be utilised over a weighted average life of 24 years (2010 29 years) (refer to note 24)

Onerous contracts
Onerous contract provisions represent the restatement of various long-term contracts to their current market value at the acquisition date of subsidiaries These provisions are expected to be utilised over a weighted average life of three years (2010 10 years)

Other
Other includes provisions for litigation of US$54 million (2010 US$59 million) and restructuring of US$27 million (2010 US$23 million) The current portion of these costs is expected to be utilised in the next 12 months and the non current portion of these costs is expected to be utilised over a weighted average life of four years (2010 four years)

32 Other liabilities

US$m	2011	2010
Current		
Deferred income	55	30
	55	30
Non-current		
Deferred income	8	9
	8	9

33 Commitments and contingencies

Operating lease commitments – Group as lessee

The Group has entered into leases for buildings, motor vehicles and sundry plant and equipment These leases have an average life of five years (2010 five years) with renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal There are no restrictions placed upon the lessee by entering into these leases Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows

US$m	2011	2010
Less than 1 year	78	44
Between 1 and 5 years	150	83
More than 5 years	29	21
	257	148

Finance lease and hire purchase commitments

The Group has entered into finance leases and hire purchase contracts for various items of plant and machinery The majority of these leases include a residual balloon payment at the end of the lease term and title passing to the Group Future minimum lease payments under finance leases and hire purchase contracts together with the future finance charges as at 31 December are as follows

US$m	Un-discounted minimum payments 2011	Present value of minimum payments 2011	Un discounted minimum payments 2010	Present value of minimum payments 2010
Less than 1 year	59	38	96	74
Between 1 and 5 years	114	46	122	49
More than 5 years	165	120	190	128
Total minimum lease payments	338	204	408	251
Less amounts representing finance lease charges	(134)	–	(157)	–
Present value of minimum lease payments	204	204	251	251

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to US$4,278 million (2010 US$2,163 million), including

- Xstrata Coal US$174 million (2010 US$nil) for fleet expansion at Ravensworth North and $383 million (2010 US$nil) for Ulan West expansion project,
- Xstrata Copper US$226 million (2010 US$244 million) for the Ernest Henry underground and magnetite facility, US$303 million (2010 US$374 million) for the Antapaccay expansion project and $756 million (2010 US$35 million) for Las Bambas project, and
- Xstrata Nickel US$388 million (2010 US$523 million) for the Koniambo project

The balance of the other amounts contracted for but not provided relates to various minor commitments around the Group mainly for the purchase of new property, plant and equipment

Included in the above is US$713 million (2010 US$272 million) representing the Group s share of the capital commitments that have been incurred jointly with other venturers

Finance leases entered into after 31 December 2011 amounted to US$nil (2010 US$nil)

Guarantees

Xstrata Coal Australia has contracted US$1,864 million (2010 US$1,580 million) for rail take or pay commitments, US$3 691 million (2010 US$2,473 million) for port take or pay commitments, US$146 million (2010 US$114 million) for tyres take or pay commitments US$21 million (2010 US$30 million) for electricity take or pay commitments, US$126 million (2010 US$266 million) for explosives take or pay commitments, US$189 million (2010 US$126 million) for performance guarantees to customers and suppliers under contracts for supply of coal and services and US$418 million (2010 US$260 million) for guarantees to the New South Wales and Queensland Departments for Mineral Resources in respect of various mining leases and the performance thereof

Xstrata Coal South Africa has issued guarantees to the Department of Minerals and Energy to obtain certain prospecting permits of US$67 million (2010 US$81 million) and performance guarantees to suppliers of US$6 million (2010 US$6 million) Xstrata Coal South Africa has tyres take or pay commitments of US$20 million (2010 US$37 million)

Xstrata Alloys has issued guarantees to Eskom for power usage and early termination of power usage of US$23 million (2010 US$16 million) and to the Department of Mineral and Energy Mineral Resources, municipalities and governmental boards in respect of various mining leases and the performance thereof for US$51 million (2010 US$31 million)

Xstrata Technology Australia has issued performance guarantees to customers for US$49 million (2010 US$40 million) and Xstrata Copper has issued performance guarantees to customers and suppliers and guarantees to the Queensland Departments for Mineral Resources and other government agencies in respect of various mining leases and the performance thereof environmental bonds and self insurance licences for US$291 million (2010 US$212 million) and has contracted US$820 million (2010 US$973 million) for gas, water and electricity commitments

Xstrata Copper has issued various guarantees in relation to the faithful performance of construction contracts for the Lomas Bayas II project totalling US$11 million (2010 US$nil) It has also issued guarantees for compliance of various contracts for the Lomas Bayas operation totalling US$4 million (2010 US$nil)

Xstrata Nickel has contracted US$338 million (2010 US$299 million) for energy purchase commitments of which US$10 million (2010 US$10 million) has been issued to a supplier as a letter of credit, and issued bank guarantees to the Government of Western Australia for rehabilitation costs of US$4 million (2010 US$3 million)

Xstrata Zinc has issued performance guarantees to the Northern Territory government for an electricity supply and pipeline agreement of US$18 million (2010 US$10 million), and to suppliers of US$3 million (2010 US$1 million) It has provided bank guarantees to the Northern Territory government for rehabilitation costs of US$76 million (2010 US$79 million)

Xstrata Zinc has issued bank guarantees in Spain of US$116 million (2010 US$60 million) This includes US$4 million (2010 US$5 million) as a guarantee to the local government for the rehabilitation of the closed Reocin mine (Cantabria, Spain) and US$2 million (2010 US$2 million) as guarantee of the rehabilitation of a jarofix pond in San Juan de Nieva

A letter of credit of US$191 million (2010 US$194 million) has been given for the pension liabilities of the Group s Canadian operations

Letters of credit have been issued to the Canadian government for rehabilitation costs of US$214 million (2010 US$124 million)

Included in the above is US$6,045 million (2010 US$4,697 million) representing the Group's share of guarantees that have been incurred jointly with other venturers

34 Employee benefits

Share-based payments

The expense recognised for share based payments during the year is shown in the following table

US$m	2011	2010
Expense arising from equity-settled transactions	**149**	116
Expense arising from cash-settled transactions	**(153)**	62
Total expense arising from share based payment transactions	**(4)**	178

The Group operates a number of share-based payment plans which are outlined below There have been no cancellations or modifications to any of the plans during 2011 or 2010

Xstrata plc Long Term Incentive Plan (LTIP)

The LTIP has two elements

(i) A 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) An option to acquire ordinary shares at a specified exercise price after the third anniversary of grant, subject to and to the extent that, performance criteria determined at the time of grant have been satisfied

All LTIP awards that vest are subject to the satisfaction of certain performance criteria being met over a three-year performance period The 2003 LTIP awards are only subject to the Total Shareholder Return (TSR) performance criteria Half of the options and free share awards granted in 2004 and 2005 are conditional on TSR relative to a peer group with the remainder conditional on the Group's real cost savings relative to targets set on a stretching scale over the three-year period Options and free share awards made to corporate employees in 2006, 2007 and 2008 were granted on the same basis as in 2004 and 2005 75% of options and free shares awarded to business unit employees in 2006 2007 and 2008 are conditional on achieving real cost savings and the remaining 25% are conditional on TSR performance criteria The allocation of performance criteria pertaining to the options and free share awards granted in 2010 and 2011 is summarised in the following table

34 Employee benefits continued

Award	Employees	Number	% TSR	% cost savings	TSR	Cost savings
2011						
Options	Corporate	**3,269,555**	**50%**	**50%**	**1,634,777**	**1,634,778**
	Business units	**6,203,333**	**25%**	**75%**	**1,550,833**	**4,652,500**
		9,472,888			**3,185,610**	**6,287,278**
Free shares	Corporate	**1,923,725**	**50%**	**50%**	**961,863**	**961,862**
	Business units	**1,524,404**	**25%**	**75%**	**381,101**	**1,143,303**
		3,448,129			**1,342,964**	**2,105,165**
2010						
Options	Corporate	3,610 726	50%	50%	1,805,363	1,805 363
	Business units	10,658 235	25%	75%	2,664,559	7,993,676
		14,268,961			4,469,922	9,799 039
Free shares	Corporate	1 329,146	50%	50%	664,573	664,573
	Business units	2 951,543	25%	75%	737,886	2 213,657
		4,280,689			1 402 459	2,878,230

For the awards conditional on TSR, one-half of the award will vest if TSR growth is at the median of the specified peer group, the full award will vest for performance at or above the second decile, with straight-line vesting between these points No vesting will occur for below median performance For the awards where vesting is conditional on the Group's real cost savings relative to targets set on a stretching scale 10% of the award will vest for 1% cost savings 70% for 2% cost savings and all awards for 3% or more cost savings, with straight-line vesting between these points No vesting will occur if cost savings are less than 1% Real cost savings are measured in relation to operating costs after adjusting for the effects of inflation, excluding depreciation commodity price-linked costs, effects of currencies on translation of local currency costs and planned life-of-mine adjustments No other features of the LTIP awards are incorporated into the measurement of fair value

No consideration will be payable on the vesting of an LTIP award of free ordinary shares On exercise of an option a participant will be required to pay an exercise price that is based on the closing market price of an ordinary share seven trading days prior to the date of grant

Of the options listed below, 6 4 million (2010 5 5 million) are accounted for as cash-settled share based awards whilst the remainder of the LTIP awards are equity-settled

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

Free shares

	2011 Number	2010 Number
Outstanding as at 1 January	**14,264,247**	12,159,847
Granted during the year	**3,448,129**	4,280,689
Forfeited during the year	**(630,553)**	(1,182,800)
Exercised during the year	**(864,229)**[2]	(993,489)[1]
Outstanding as at 31 December	**16,217,594**[3]	14 264 247[3]
Exercisable at 31 December	–	–

1 The weighted average share price at the date of exercise of these awards was GBP11 72
2 The weighted average share price at the date of exercise of these awards was GBP14 84
3 All shares included in this balance have been accounted for in accordance with IFRS 2 Share based payments

The weighted average remaining contractual life for the free shares outstanding as at 31 December 2011 is 8 years (2010 8 years)

The weighted average fair value of free shares granted during the year was GBP12 14 per share (2010 GBP9 39 per share)

Share options

	2011 Number	2011 WAEP	2010 Number	2010 WAEP
Outstanding as at 1 January	**59,015,377**	**GBP7 31**	50,157,996	GBP6 66
Granted during the year	**9,472,888**	**GBP14 68**	14,268,961	GBP10 31
Forfeited during the year	**(2,204,837)**	**GBP17 47**	(4,109,304)	GBP10 13
Exercised during the year	**(1,325,909)**	**GBP7 27**	(1,302,276)[1]	GBP6 20
Outstanding as at 31 December	**64,957,519**[3]	**GBP8 04**	59,015 377[3]	GBP7 31
Exercisable at 31 December	**13,986,891**	**GBP10 73**	11 917 584	GBP7 89

1 The weighted average share price at the date of exercise of these options was GBP12 37
2 The weighted average share price at the date of exercise of these options was GBP14 20
3 All the share options included in this balance have been accounted for in accordance with IFRS 2 Share based payments except for 50 229 options (2010 50 229 options) issued in 2002

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 was 7 years (2010 8 years)

The weighted average fair value of options granted during the year was GBP6 98 (2010 GBP5 55)

The range of exercise prices for options outstanding at the end of the year was GBP1 82 to GBP20 02 (2010 GBP1 82 to GBP20 02)

The following table lists the inputs to the models used to measure the fair value of equity settled awards granted

	Date of grant 2011	Date of grant 2010
Dividend yield (%)	**1 4**	1 4
Expected volatility (%)	**74**	69
Risk-free interest rate (%)	**2 5**	2 5
Earliest exercise date	**18 Feb 14**	18 Feb 13
Latest exercise date	**18 Feb 21**	18 Feb 20
Expected exercise date	**3 Dec 14**	3 Dec 13
Share price at date of grant (GBP)	**14 30**	10 86
Exercise price (GBP)	**14 68**	10 31
Free share fair value at date of grant (GBP)	**13 72**	9 39
Option fair value at date of grant (GBP)	**7 26**	5 25

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur The expected volatility reflects the assumption that the historic volatility is indicative of future trends which may also not necessarily be the actual outcome

Both the free shares and the equity settled options are equity-settled plans and the fair value is measured at the date of grant

The fair value of the cash-settled options is measured at the date of grant and at each reporting date until the liability is settled using binomial models, taking into account the terms and conditions of the award At 31 December 2011 the provision held for cash settled awards was US$42 million (2010 US$70 million) (refer to note 31)

Deferred bonus

As detailed within the Directors' Remuneration report on pages 96 to 109, the maximum bonus payable under the bonus plan for Executive Directors and the members of the Executive Committee is 300% of salary Bonuses are payable in three tranches as follows

- the maximum bonus, which any one participant is eligible to receive in cash will be limited to 100% of the individual's base salary,
- any additional bonus up to a further 100% of base salary will be deferred for a period of one year, and
- any remaining bonus will be deferred for a period of two years

The deferred elements will take the form of awards of Xstrata shares conditional on the participant remaining in employment throughout the deferral period The number of shares awarded will be determined by reference to the market value of the shares at the date concurrent awards under the LTIP are made The deferred elements have been treated as an equity-settled share-based payment in accordance with IFRS 2

During the bonus deferral period dividend equivalents accrue and are delivered at the end of the deferral period subject to the deferral award vesting

As dividend equivalents are receivable on the deferred amounts, the fair value of the deferral is technically equal to the value of the bonuses deferred

The following deferred bonus awards have been made

	2011	2010	2009
Market value of deferred bonus award (US$m)	**21**	18	10
Number of shares purchased	**1,119,976**	777,678	521,098

Chief Executive's Added Value Plan (AVP)

The AVP is a long-term incentive and retention plan for the Chief Executive which rewards outperformance in creating additional long-term shareholder value over the value created by Xstrata plc's peer companies (refer to the Directors' Remuneration report on pages 96 to 109) and aligns interests with shareholders by means of share ownership by the Chief Executive Performance is assessed over periods of three years and five years from the grant date of each cycle and is based upon the growth in the Company's TSR over the relevant performance period relative to an index of global mining companies, which form the Xstrata TSR Index A description of the performance requirements and the vesting schedule of the plan are detailed within the Directors Remuneration report on pages 96 to 109 The first cycle of the AVP began in 2005 and has occurred annually until 2009 There was no 2010 AVP and no further awards will be granted

For the 2009 plan cycle, the market capitalisation on 17 April 2009 was US$21 7 billion, the participation percentage was equal to 0 3% and the share price at the measurement date was US$8 73 (post rights issue) For the 2008 plan cycle, the market capitalisation on 26 March 2008 was US$76 4 billion, the participation percentage was equal to 0 5% and the share price at the measurement date was US$70 50 For the 2007 plan cycle, the market capitalisation on 15 March 2007 was US$45 2 billion, the participation percentage was equal to 0 3% and the share price at the measurement date was US$46 77 For the 2006 plan cycle, the market capitalisation on 10 March 2006 was US$18 6 billion, the participation percentage was equal to 0 3% and the share price at the measurement date was US$29 39 For the 2005 plan cycle, the market capitalisation on 9 May 2005 was US$11 4 billion the participation percentage was equal to 0 5% and the share price at the measurement date was US$18 00 In 2009, 25% of the deferred interim award of the 2005 AVP cycle was cash-settled and in 2010, the remaining 25% of the deferred interim award of the 2005 AVP cycle was equity settled as detailed in the Directors' Remuneration report on pages 96 to 109

Notes to the financial statements *continued*

34 Employee benefits *continued*

The fair value of all awards which are accounted for as cash-settled share-based payments to reflect the expected form of settlement, has been estimated in accordance with IFRS 2 using a Monte Carlo simulation model to incorporate the market-based features of the plan The following table presents the fair value of each cycle of the award at grant date and the value of the unvested portion of each cycle if conditions that existed at 31 December 2011 are those at the time of vesting

Plan cycle US$m	Grant date	Estimated fair value at grant date	Value of unvested award based on conditions at 31 December* 2011	2010
2009	17 Apr 2009	135	32	87

* This amount represents the value of the award if it had vested as at 31 December 2011 and 31 December 2010

In accordance with IFRS 2 as it applies to cash-settled share-based payments, a provision was recognised based on the fair value of each cycle adjusted for the vesting period yet to lapse This model determined the fair value of each cycle at 31 December 2011 to estimate the final performance of the Group and its performance relative to its peers Any ultimate payments may vary significantly from the estimated fair values determined at 31 December 2011 as a result of differences between the estimated outcomes determined by the simulation model and the actual outcomes At 31 December 2011 the total provision held for the AVP was US$44 million (2010 US$167 million) representing the 2009 plan (refer to note 31) There were no 2010 and 2011 AVP awards The decrease in the provision during the year reflects the comparative rate of performance of the Company in the 2011 year against the peer group, to which the design of the plan gives additional weighting when that group itself is rising The ultimate value of each cycle will reflect its intrinsic value at the date of vesting which depends on relative outperformance over the cycle as a whole

The following table lists the inputs to the models used to measure the fair value of the AVP award at grant date

	2009 Xstrata plc	Xstrata share indices[1]
Dividend yield (%)	N/A	N/A[2]
Expected volatility to interim vesting (%)[3]	76	53
Expected volatility to final vesting (%)[3]	62	43
Risk-free interest rate to interim vesting (%)	2 4	2 4
Risk-free interest rate to final vesting (%)	2 6	2 6
Third anniversary of start of cycle	17 April 2012	17 April 2012
Fourth anniversary of start of cycle	17 April 2013	17 April 2013
Fifth anniversary of start of cycle	17 April 2014	17 April 2014

1 There are two Xstrata share indices used within the valuation model one is a market capitalisation weighted TSR index comprising 16 global mining firms considered to be Xstrata s key competitors for both financial and human capital the other is a market capitalisation price index comprising the same global mining firm constituents
2 When simulating the Xstrata price index a dividend yield is included to account for the suppressing impact that a dividend payment has on the constituent share prices A yield of 4 2% has been used For the simulation of Xstrata s TSR and the Index TSR a dividend yield is not required as TSR comprises share price growth and dividend distributions which are assumed to be reinvested into the shares
3 Volatility is calculated using daily historic share price data over the period up to the measurement date that is equal in length to the expected remaining life of the award

Pensions and other post-employment benefit plans

The net expense recognised in the income statement for the year ended 31 December

US$m	2011	2010
Defined benefit pension plans	**46**	45
Defined contribution pension plans	**174**	132
Post-retirement medical plans	**41**	38
	261	215

Defined contribution pension plans

The Group participates in a number of defined contribution pension plans and industry-wide schemes covering the majority of its employees The assets are held separately from those of the Group and are generally invested with insurance companies and regulated by local legislation

Post-retirement medical plans

The Group participates in a number of post-retirement medical benefits All material post-retirement medical benefit liabilities are in North America, with smaller exposures in South Africa Independent qualified actuaries assess the accumulated benefit obligation and annual cost of accrued benefits using the projected unit credit method The actuaries have updated the valuations to 31 December 2011

Defined benefit pension plans

The Group contributes to defined benefit pension plans for a number of its employees Independent professionally qualified actuaries assess the pension costs and funding of these plans using the projected unit method The actuaries have updated the valuations to 31 December 2011 All significant pension assets and liabilities are in North America

The following tables summarise the components of the net expense recognised in cost of sales in the income statement and the funded status and amounts recognised in the balance sheet for the defined benefit pension plans and post retirement medical plans The weighted average principal economic assumptions used to determine the actuarial values are as follows

	Pension plans 2011	**Post-Retirement medical plans 2011**	Pension plans 2010	Post Retirement medical plans 2010
Rate of salary increases	**3 3%**	**–**	3 3%	–
Rate of pension increases	**1 9%**	**–**	2 2%	–
Expected rate of return on plan assets				
Equities	**7 3%**	**–**	8 1%	–
Bonds	**4 0%**	**–**	5 0%	–
Total	**5 1%**	**–**	6 1%	–
Discount rate	**4 3%**	**4 6%**	5 3%	5 5%
Inflation rate	**2 9%**	**5 5%**	3 2%	5 5%
Rate of medical cost increases	**–**	**6 5%**	–	8 0%

A one percentage point change in the assumed rate of increase in healthcare costs would have the following impact

US$m	**Increase 2011**	**Decrease 2011**	Increase 2010	Decrease 2010
Effect on the current service cost and interest cost	**6**	**4**	5	4
Effect on the defined benefit obligation	**65**	**53**	71	57

The pension plan mortality rate used at 31 December 2011 and 31 December 2010 was UP-94 for North American pension and post-retirement medical plans These rates refer to published projected mortality tables by actuarial bodies in North America and take into account the assumed increases in the life expectancy and are calculated for both current and future pensioners There are no significant differences in these rates between schemes The average life expectancy in the pension plans was 85 years (2010 84 years) and in the medical plans was 83 years (2010 82 years) as at 31 December 2011

The assets and liabilities of the schemes and the amounts recognised in the Group balance sheet at 31 December are as follows

US$m	**Pension plans 2011**	**Post-retirement medical plans 2011**	Pension plans 2010	Post retirement medical plans 2010
Present value of benefit obligations	**3,070**	**559**	2,821	535
Assets at fair value	**(2,378)**	**–**	(2,197)	–
Net liability	**692**	**559**	624	535
Net liability as at 31 December represented by				
Pension deficits/provisions	**692**	**559**	625	535
Pension assets	**–**	**–**	(1)	–
Net liability	**692**	**559**	624	535

Historical adjustments are as follows

US$m	**2011**	2010	2009	2008	2007
Defined benefit obligation	**3,070**	2 821	2,556	1,994	2,721
Plan assets	**(2,378)**	(2,197)	(2,145)	(1,677)	(2,495)
Net deficit	**692**	624	411	317	226
Experience (gain)/loss adjustments on plan liabilities	**12**	(64)	(12)	74	69
Experience (gain)/loss adjustments on plan assets	**11**	(81)	(131)	480	126

34 Employee benefits *continued*

The reconciliation of the net liability movement during the year in the net pension and post-retirement medical plan liability (before allowance of deferred tax) is as follows

US$m	Pension plans 2011	Post-retirement medical plans 2011	Pension plans 2010	Post retirement medical plans 2010
Net liability as at 1 January	624	535	411	444
Total benefit expense	46	41	45	38
Actuarial (gains)/losses	179	16	249	52
Employer contributions	(142)	(27)	(108)	(25)
Translation adjustments	(15)	(6)	27	26
Net liability as at 31 December	692	559	624	535

Additional contributions of US$83 million in 2012, US$76 million in 2013 US$61 million in 2014, US$56 million in 2015 and US$37 million in 2016 are being made in order to eliminate the deficiency in the North America plans The total contributions to the defined benefit pension plans in 2011 including these further contributions are US$136 million

The components of benefit expense/(income) recognised in the income statement during the year are as follows

US$m	Pension plans 2011	Post-retirement medical plans 2011	Pension plans 2010	Post retirement medical plans 2010
Service cost	38	11	26	9
Interest cost	149	30	151	29
Expected return on plan assets (net of expected expenses)	(141)	–	(132)	–
	46	41	45	38

The components of actuarial losses/(gains) recognised in the statement of comprehensive income during the year are as follows

US$m	Pension plans 2011	Post-retirement medical plans 2011	Pension plans 2010	Post retirement medical plans 2010
Expected return on plan assets (net of expected expenses)	141	–	132	–
Actual return on plan assets	(130)	–	(213)	–
Actual return less expected return on plan assets	11	–	(81)	–
Actuarial losses/(gains) on obligations	12	–	(64)	–
Change of minimum funding requirement	(159)	–	194	–
Change of assumptions	315	16	200	52
	179	16	249	52

The cumulative amount of net actuarial losses recognised in the statement of comprehensive income is US$700 million (2010 loss US$521 million)

The reconciliation of the present value of benefit obligations and fair value of plan asset movements during the year is as follows

US$m	Pension plans 2011	Post-retirement medical plans 2011	Pension plans 2010	Post retirement medical plans 2010
Benefit obligation present value as at 1 January	2,821	535	2,556	444
Current service cost	38	11	26	9
Interest cost	149	30	151	29
Employee contributions	1	–	1	–
Actuarial losses/(gains)	12	–	(64)	–
Actual benefit payments	(197)	(27)	(182)	(25)
Change of assumptions	315	16	200	52
Translation adjustments	(69)	(6)	133	26
Benefit obligation present value as at 31 December	3,070	559	2,821	535
Plan assets fair value as at 1 January	2,197	–	2,145	–
Actual return on plan assets	130	–	213	–
Company contributions	142	–	108	–
Employee contributions	1	–	1	–
Change of minimum funding requirement	159	–	(194)	–
Benefits paid from fund	(197)	–	(182)	–
Translation adjustments	(54)	–	106	–
Plan assets fair value as at 31 December	2,378	–	2,197	–
Net liability as at 31 December	692	559	624	535
Net liability as at 1 January	624	535	411	444

The defined benefit obligation present value included above for unfunded pension plans at 31 December 2011 was US$8 million (2010 US$8 million)

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows

	Pension plans 2011	Pension plans 2010
Equities	34%	40%
Bonds	63%	57%
Other	3%	3%

Included in equities is US$nil (2010 US$nil) of Xstrata plc shares

The overall expected rate of return on assets is determined based on the market value weighted expected return applicable to the underlying asset category

35 Related parties

Name	Country of incorporation	Principal activities	% of ordinary shares held & voting rights
Principal subsidiaries			
Xstrata Coal			
Abelshore Pty Limited	Australia	Coal operations	100%
AZSA Holdings Pty Limited	Australia	Holding company	100%
Coalex Holdings Pty Limited	Australia	Coal operations	78%
Cook Resources Mining Pty Limited	Australia	Coal operations	100%
Cumnock No 1 Colliery Pty Limited	Australia	Coal operations	100%
Enex Foydell Limited	Australia	Coal operations	100%
Enex Liddell Pty Limited	Australia	Coal operations	100%
Enex Oakbridge Pty Limited	Australia	Coal operations	100%
Enex Togara Pty Limited	Australia	Coal project	100%
Jonsha Pty Limited	Australia	Coal operations	100%
Oakbridge Pty Limited	Australia	Coal operations	78%
Oceanic Coal Australia Limited	Australia	Coal operations	100%
Ravensworth Operations Pty Limited	Australia	Coal operations	100%
Resource Pacific Pty Limited	Australia	Coal operations	77 8%
Saxonvale Coal Pty Limited	Australia	Coal operations	78%
Tahmoor Coal Pty Limited	Australia	Coal operations	100%
The Wallerawang Collieries Limited	Australia	Coal operations	74 1%
Ulan Coal Mines Limited	Australia	Coal operations	90%
Ulan Power Company Pty Limited	Australia	Feasibility projects	100%
United Collieries Pty Limited	Australia	Coal operations	95%
Xstrata Coal Queensland Pty Limited	Australia	Coal operations	100%
Xstrata Mangoola Pty Limited	Australia	Coal project	100%
Xstrata Rail (NSW) Pty Limited	Australia	Rail project	100%
Xstrata Newpac Pty Limited	Australia	Investment company	100%
Xstrata Coal Donkin Limited	Canada	Coal project	100%
Tavistock Collieries (Pty) Limited	South Africa	Coal operations	100%
Tironimus AG	Switzerland	Holding company	100%
Xstrata Coal Marketing AG	Switzerland	Marketing & trading	100%
Xstrata Alloys			
Xstrata South Africa (Pty) Limited	South Africa	Coal, chrome, platinum & vanadium operations	100%
Eland Platinum Holdings Limited	South Africa	Platinum operations	74%
African Carbon Union (Pty) Limited	South Africa	Char operations	74%
Char Technology (Pty) Limited	South Africa	Char operations	100%
African Fine Carbon (Pty) Limited	South Africa	Char operations	100%
African Carbon Manufacturers (Pty) Limited	South Africa	Char operations	100%
African Carbon Producers (Pty) Limited	South Africa	Char operations	100%

Name	Country of incorporation	Principal activities	% of ordinary shares held & voting rights
Xstrata Copper			
Ernest Henry Mining Pty Limited	Australia	Copper operations	100%
Minera Alumbrera Limited*	Antigua	Copper operations	50%
Mount Isa Mines Limited	Australia	Copper, lead and zinc operations	100%
Sagittarius Mines, Inc	Philippines	Holding company	62 5%
Xstrata Tintaya S A	Peru	Copper operations	100%
Compania Minera Xstrata Lomas Bayas	Chile	Copper operations	100%
Xstrata Inversiones Chile Limitada	Chile	Holding company	100%
Xstrata Copper Chile S A	Chile	Copper smelter	100%
Xstrata Commodities Middle East DMCC††	UAE	Marketing	100%
Xstrata Recycling Inc	USA	Copper recycling	100%
Xstrata Iron Ore			
Xstrata Projects Pty Limited	Australia	Exploration company	100%
Ploutos Australia Pty Limited	Australia	Holding company	100%
Sidero Pty Limited	Australia	Holding company	100%
Xstrata Projects Services (UK) Pty Limited	UK	Service Provider	100%
Sphere Minerals Limited	Australia	Exploration company	87 8%
Xstrata Nickel			
Xstrata Nickel International Limited	Barbados	Nickel feeds acquisition	100%
Falconbridge Dominicana S A	Dom Republic	Ferronickel operations	85 3%
Xstrata Nickel Marketing S A	Belgium	Nickel marketing	100%
Xstrata Nikkelverk AS	Norway	Nickel refinery	100%
Xstrata Nickel International S A	Belgium	Nickel procurement agent	100%
Xstrata Nickel Australasia Pty Ltd	Australia	Nickel operations	100%
Xstrata Nouvelle Calédonie SAS	New Caledonia	Service Provider	100%
Xstrata Brasil Exploracao Mineral Ltda	Brazil	Exploration	100%
Koniambo Nickel SAS**	New Caledonia	Ferronickel project	49%
Xstrata Zinc			
Asturiana de Zinc SA	Spain	Zinc smelter	100%
Britannia Refined Metals Limited	UK	Lead smelter	100%
McArthur River Mining Pty Limited	Australia	Zinc operations	100%
Xstrata Zinc GmbH	Germany	Zinc smelter	100%
Xstrata Technology			
Xstrata Technology Pty Limited	Australia	Technology operations	100%
MIM Process Technology South Africa (Pty) Limited	South Africa	Technology operations	100%
Mintrade Pty Ltd	Australia	Technology operations	100%
Xstrata Technology Canada Limited	Canada	Technology operations	100%
Shengzhou Xstrata Metal Refining Technology Company Limited	China	Technology operations	50%
Other			
Xstrata (Schweiz) AG ***	Switzerland	Holding company	100%
Xstrata Capital Corporation AVV†	Aruba	Finance company	100%
Xstrata Finance (Dubai) Limited††	UAE	Finance company	100%
Xstrata Holdings Pty Limited	Australia	Holding company	100%
Xstrata Queensland Limited	Australia	Holding company	100%
Xstrata Canada Corporation	Canada	Copper, nickel and zinc operations	100%
Xstrata Canada Financial Corp	Canada	Finance company	100%
Xstrata Finance (Canada) Limited	Canada	Finance company	100%
1184760 Alberta Limited	Canada	Holding company	100%

* This investment is treated as a subsidiary as the Group is entitled to two of the four Board positions of Minera Alumbrera Limited including the Chairman who is the manager of the copper operations The Chairman has the casting vote where any vote is split equally between the four board positions However in a limited number of situations the vote must be unanimous including transactions with related parties

** The Group has de facto control of Koniambo Nickel SAS as a result of its industry expertise and the ability to control the operating and financing decisions of the joint venture

* *Directly held by the Parent Company

† 43% of ordinary shares held by the Parent Company

†† 90% held by the Parent Company

35 Related parties *continued*

Name	Principal place of operations/country of incorporation	Principal activities	Effective interest held
Principal joint ventures			
Xstrata Coal			
Bulga Joint Venture	Australia	Coal operations	68 25%
Cerrejón Joint Venture	Colombia	Coal operations	33 33%
Cumnock Joint Venture	Australia	Coal operations	90%
Donkin Joint Venture	Canada	Coal project	75%
Goedgevonden Joint Venture	South Africa	Coal operations	73 99%
Foybrook Joint Venture	Australia	Coal operations	67 5%
Liddell Joint Venture	Australia	Coal operations	67 5%
Macquarie Coal Joint Venture	Australia	Coal operations	80%
Newlands, Collinsville, Abbot Point Joint Venture	Australia	Coal operations	55%
Rolleston Pentland Wandoan Joint Venture	Australia	Coal operations	75%
Ravensworth Underground Mine Joint Venture	Australia	Coal operations	70%
Oaky Creek Coal Joint Venture	Australia	Coal operations	55%
Togara North Joint Venture	Australia	Coal project	70%
Ulan Coal Mines Joint Venture	Australia	Coal operations	90%
United Joint Venture	Australia	Coal operations	95%
Xstrata Alloys			
Merafe Pooling and Sharing Venture	South Africa	Chrome operations	79 5%
Mototolo Joint Venture	South Africa	Platinum operations	37%
Xstrata Copper			
Antamina Joint Venture	Peru	Copper & zinc operations	33 75%
Collahuasi Joint Venture	Chile	Copper operations	44%
Xstrata Nickel			
Kabanga Joint Venture	Tanzania	Nickel project	50%
Xstrata Iron Ore			
El Aouj Joint Venture	Mauritania	Iron ore project	44%
Principal associates			
Xstrata Alloys			
Lonmin plc	UK	Platinum operations	24 6%
Xstrata Coal			
ARM Coal (Pty) Limited	South Africa	Coal operations	49%
Newcastle Coal Shippers Pty Limited	Australia	Coal terminal	31%
Port Kembla Coal Terminal Limited	Australia	Coal terminal	33%
Richards Bay Coal Terminal Company Limited	South Africa	Coal terminal	20 2%
Xstrata Zinc			
Noranda Income Fund	Canada	Zinc refinery	25%

The Group comprises a large number of companies and it is not practical to include all of these in the above list All entities operate mainly in the country of incorporation and these interests are held indirectly by the Parent Company unless otherwise indicated

As disclosure about related undertakings under section 410 of the Companies Act 2006 (the 2006 Act) would result in information of excessive length being given in the notes to the financial statements, advantage has been taken of the alternative compliance option given under section 410 (2) of the 2006 Act by giving information only in respect of undertakings whose results or financial position affect the figures shown in the financial statements

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

	Glencore*		Joint venture entities		Associates	
US$m	2011	2010	2011	2010	2011	2010
Sales**	9,475	9,319	–	–	591	543
Purchases	1,098	745	799	617	–	5
Treatment and refining charges	241	301	–	–	228	206
Treatment and refining revenue	17	13	–	–	–	–
Agency and other charges	83	89	–	–	–	–
Interest and other revenues	1	4	–	–	–	–
Call option premium (refer to note 10)	–	42	–	–	–	–
Earnings from other financial assets (refer to note 10)	–	29	–	–	–	–
Amounts payable	134	78	130	120	26	21
Amounts receivable**	560	842	–	–	56	47

* Includes share of joint ventures
** No provision for doubtful debts has been raised in respect of transactions with related parties

Included in the transactions with Glencore International plc (Glencore) are US$1 227 million (2010 US$980 million) of back to-back sales whereby the title to the goods has passed to Glencore but they are then on-sold to customers at the same sales price that the Group received

Amounts receivable and payable are included in Trade and other receivables (refer to note 19) and in Trade and other payables (refer to note 27) are unsecured and will be settled in cash

Glencore International plc – substantial shareholder
As at 31 December 2011, Glencore owned 34 1% (2010 34 1%) of the issued share capital of the Company, representing 1,010,403,999 ordinary shares (2010 1,010,403,999 ordinary shares)

Alloys
Xstrata Alloys entered into a ferrochrome marketing agreement with Glencore on 21 April 1995, appointing Glencore as its exclusive worldwide marketing agent for the sale of Xstrata Alloys' and Merafe's entire production of ferrochrome other than ferrochrome sold into the USA, Canada and certain Asian countries The agreement continues for as long as Xstrata Alloys and Merafe produce ferrochrome Glencore is obliged to use its best endeavours to arrange sales at prevailing market rates subject to initial agreement and approval by Xstrata Alloys and Merafe prior to concluding the sale Glencore assists Xstrata Alloys in negotiating sales contracts with third parties Glencore is entitled to receive an agency fee of 3 5% on FOB sales revenue and an additional fee of 0 75% on FOB sales revenue for assuming the risk of non-payment by customers on this material Glencore assumes 60% of the risk of non-payment by customers in relation to ferrochrome sales

If at any time Xstrata Alloys and Merafe notifies Glencore that it is able to find purchasers for its production at prices higher than those generally obtainable by Glencore Xstrata Alloys 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 certain administrative tasks it performs for Xstrata Alloys Interest is charged by Xstrata Alloys on single monthly settlements made by Glencore, and Glencore charges interest on any selling expenses incurred on behalf of Xstrata Alloys at LIBOR and a margin of 150 basis points

Ferrochrome sold into the USA 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 months 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

Mitsui & Co Ltd is the appointed distributing agent for ferrochrome sales into China, Japan and South Korea up to a maximum of 105,000 tonnes per annum A change in distributing agent for sales into these countries must be undertaken with the consent of Glencore

Xstrata Alloys entered into a chrome ore marketing agreement with Glencore in July 2010, appointing Glencore as its exclusive worldwide marketing agent for the sale of Xstrata Alloys' and Merafe s entire production of chrome ore The agreement is for a fixed term extended to 20 May 2012 Glencore is entitled to receive an agency fee of 2% on FOB sales revenue loading port value Glencore assumes 100% of the risk of non-payment by customers in relation to chrome ore sales Interest is charged by Xstrata Alloys on single monthly settlements by Glencore at LIBOR and a margin of 150 basis points

In January 2005, the Group entered into a 13 year marketing agreement with Glencore in respect of Rhovan's and Vantech's (closed in 2004) entire production of vanadium other than vanadium sold into the USA and Canada

Glencore is obliged to use its best endeavours to arrange sales of vanadium pentoxide and ferrovanadium to customers at prevailing market rates subject to initial agreement and approval by Xstrata Alloys prior to concluding the sale Xstrata Alloys is obliged to pay to Glencore an agency fee of 3 5% on FOB sales revenue and an additional fee of 1 5% on FOB sales revenue for assuming the risk of non-payment by customers on this material Glencore assumes 100% of the risk of non payment by customers in relation to vanadium sales

35 Related parties *continued*

If at any time Xstrata Alloys notifies Glencore that it is able to find purchasers for its production at prices higher than those generally obtainable by Glencore Xstrata Alloys 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 Interest is charged by Xstrata Alloys on single monthly settlements made by Glencore, and Glencore charges interest on any selling expenses incurred on behalf of Xstrata Alloys at LIBOR and a margin of 150 basis points

Vanadium pentoxide and ferrovanadium sold into the USA and Canada are distributed by Glencore Ltd and Glencore Canada Inc respectively under two distribution agreements The distribution agreements have the same terms as the marketing agreement and consequently 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

Coal

In 2002, the Group entered into a 20 year market advisory agreement with Glencore with fee reviews at the end of every fifth year of the agreement Pursuant to this agreement, Glencore acts as the Group's market adviser with respect to its export production of coal (other than for Xstrata Coal s share of production from the Cerrejon thermal coal operation in Colombia) The fee payable to Glencore is US$0 50 per attributable tonne of coal exported by the Group from Australia or South Africa

In 2011, the Group entered into market standard forward commodity price derivatives for 2,825,000 tonnes (2010 1 070,000 tonnes) and bought market standard forward commodity price derivatives for nil tonnes (2010 385 000 tonnes) with Glencore as counter-party During the year ended 31 December 2011, 1 845,000 sold tonnes and nil bought tonnes were delivered at an average FOB price of US$112 31 and US$nil per tonne respectively (2010 3 360 000 sold tonnes and 385,000 bought tonnes at an average FOB price of US$76 73 and US$86 54 per tonne respectively) At 31 December 2011, 2,050,000 tonnes (2010 965,000 tonnes) were contracted with Glencore for delivery in 2012 and 2013 These derivatives are on arm s-length terms and conditions and are included within Derivative financial assets and liabilities (refer to notes 23, 29 and 36)

In April 2010, the Group entered into a five-year fuel supply agreement with Glencore to supply diesel fuels to coal mines and cattle stations in New South Wales and Queensland Under this supply agreement US$313 million (2010 US$147 million) worth of fuel was delivered during the year ended 31 December 2011 The supply agreement is on arm's-length terms and prices change monthly according to the world market price per barrel

In February 2010 Cerrejon entered into a five-year fuel supply agreement with Glencore to supply diesel fuels The Group's share of the fuel purchases for the year ended 31 December 2011 was US$97 million (2010 US$65 million) The supply agreement is on arm s-length terms and prices change for each shipment according to the world market price per barrel

All coal purchases and sales with Glencore are on arm's-length terms and conditions

Copper

Xstrata Copper has entered into an 'evergreen' service agreement with Glencore with a 12 month cancellation notice for the supply of advice, support and assistance with regard to its marketing and operational hedging activities

Copper cathode sales agreements for 287,000 tonnes (2010 334,000 tonnes) were entered into between Xstrata Copper Canada, Xstrata Copper North Chile, Xstrata Commodities Middle East and Glencore for the period 1 January to 31 December 2011 All sales are based on either spot or benchmark terms in accordance with prevailing market conditions

Xstrata Copper (Minera Alumbrera Limited) has entered into frame contracts for 140,000 tonnes (2010 257,000 tonnes) with Glencore on an 'evergreen' basis The sales terms for the copper concentrate are negotiated annually on arm's-length terms and conditions Minera Alumbrera Limited on occasions sells concentrate to Glencore at prevailing spot market prices

Copper concentrate sales agreements for 52,000 tonnes (2010 74 000 tonnes) were entered into between Xstrata Copper Tintaya and Glencore based on benchmark terms

A spot copper concentrate sales agreement for 25 000 tonnes (2010 nil tonnes) was entered into between Xstrata Copper Canada and Glencore during 2011

Copper concentrate sales agreements have been entered into between Xstrata Commodities Middle East and Glencore for 132,000 tonnes (2010 126 000 tonnes) on an 'evergreen' basis at benchmark terms Xstrata Commodities Middle East has sold 30 000 tonnes (2010 145,000 tonnes) of concentrate to Glencore on a spot basis on occasions throughout the period at prevailing market terms

A copper concentrate sales agreement for 76,000 tonnes (2010 nil tonnes) was entered into between Xstrata Commodities Middle East and Philippine Associated Smelting and Refining Corporation (PASAR) - owned 78% by Glencore International AG - for a three year period effective from 1 January 2011 and 'evergreen' thereafter at benchmark terms

Xstrata Copper North Queensland has entered into a sales agreement for 62,000 tonnes (2010 30,000 tonnes) with Glencore for copper concentrate for a three year period effective from 1 June 2008 and 'evergreen' thereafter This agreement is based on annual benchmark terms

Copper concentrate purchase agreements were entered into between Xstrata Copper North Chile, Xstrata Commodities Middle East and Glencore for 12,000 tonnes (2010 47 500 tonnes) for an 'evergreen' frame contract at benchmark terms in accordance with prevailing market conditions Spot copper concentrate purchase agreements were entered into between Copper North Chile, Copper Commodities Middle East and Glencore for 91 000 tonnes (2010 12,000 tonnes) at spot terms

Copper blister and anode sales agreements for 23,830 tonnes (2010 27,090 tonnes) were entered into between Xstrata Commodities Middle East and Glencore for the period 1 January to 31 December 2011 at benchmark terms

A sulphuric acid sale agreement for 20,000 tonnes (2010 50 000 tonnes) was entered into between Xstrata Copper North Chile and Glencore for the period 1 January to 31 December 2011 at benchmark terms

Molybdenum concentrate sales contracts for 4,476 tonnes (2010 832 tonnes) were entered into between Xstrata Copper (Minera Alumbrera Limited/Xstrata Norte Exploraciones) and Glencore for the period 1 January to 31 December 2011 at market related terms

Spot magnetite sales contracts for 450,000 tonnes (2010 nil tonnes) were entered into between Xstrata Commodities Middle East and Glencore between July and December 2011 at market related terms

All sales transactions with Glencore are on arm's-length terms and conditions

Nickel

In March 2007, Xstrata Nickel entered into sole distributorship agreements with Glencore for its nickel, cobalt and Falcondo ferronickel production These agreements are effective until 31 December 2012 and are automatically renewed for successive three-year periods unless terminated by either party with not less than 12 months notice prior to the end of the original term or any renewal terms, or unless Xstrata Nickel permanently ceases production of these metals

Xstrata Nickel, at its sole discretion, may cease suspend or reduce production at any time Glencore is obliged to distribute the products with all due care and diligence and to cultivate and maintain good relations with purchasers and potential purchasers in accordance with sound commercial principles and taking into account Xstrata Nickel s business principles All sales terms and conditions are on an arm s-length basis For nickel and cobalt sales, the price basis is the month following the month of delivery to Glencore with reference to, in the case of nickel, the monthly average LME cash "sellers" settlement price and in the case of cobalt Metal Bulletin low grade For ferronickel the price basis is with reference to the nickel price quoted on the LME at a time linked to the sale to the end customer Accordingly, provisionally priced nickel, cobalt and ferronickel revenues are subject to final price adjustments due to future price changes During the year ended 31 December 2011, Xstrata Nickel sold to Glencore 92,647 tonnes of nickel, 2,915 tonnes of cobalt, and 12,880 tonnes of nickel in ferronickel compared with 92,139 tonnes of nickel 3 104 tonnes of cobalt, and nil tonnes of nickel in ferronickel for the year ended 31 December 2010 In addition Glencore pre-pays to Xstrata Nickel in two equal instalments each month 100% of the value of that month s planned production The pre-payment balance as at 31 December 2011 amounted to US$44 million (31 December 2010 US$36 million) in favour of Glencore

In August 2011 Xstrata Nickel and Glencore agreed to extend the term of the nickel and cobalt distribution agreements (in respect of nickel) until 31 December 2017 with a significantly higher performance floor becoming effective 1 January 2013 Xstrata Nickel is the exclusive distribution agent for Koniambo and in August 2011 concluded a ferronickel sub-distribution with Glencore for an initial period ending 31 December 2017 and to cover all of the ferronickel produced at Koniambo to be commissioned in 2012 In December 2011 Glencore gave to Xstrata Nickel notices of termination of the cobalt and Falcondo ferronickel distribution arrangements, and accordingly, these arrangements expire at the end of 2012

Xstrata Nickel has entered into purchase agreements with Glencore for raw material feeds to the Sudbury smelter in Canada and Nikkelverk refinery in Norway Contracts may include both a metal purchase and a metal return component for cobalt Pricing terms and treatment charges are based on prevailing market rates During 2011 Xstrata Nickel purchased from Glencore 140 tonnes of nickel, 141 tonnes of copper, 52 tonnes of cobalt, and 2 kilograms of PGM (2010 102 tonnes, 109 tonnes, 15 tonnes and 66 kilograms, respectively) In addition, during 2011, Xstrata Nickel returned to Glencore 92 tonnes of cobalt (2010 64 tonnes)

Xstrata Nickel also sold refined copper to Glencore on arm's-length terms and conditions under a contract covering the period 1 January to 31 December 2011, in which Glencore agreed to purchase all copper production not otherwise sold by Xstrata Nickel under its long-term contracts The term of this contract has been extended to 31 December 2012 During 2011 Xstrata Nickel sold to Glencore 5,903 tonnes of copper (2010 3 698 tonnes under spot arrangements)

Zinc

On 1 January 2007 Xstrata Zinc renewed a service agreement for an initial period of 3 years (which shall continue in effect thereafter unless terminated by any of the parties giving the other prior written notice of no less than twelve calendar months) with Glencore (the Xstrata Zinc Service Agreement), under the terms of which Glencore provides advice and assistance with respect to pricing and structural issues regarding hedging and the optimization of internal flows of raw materials The fees payable by Asturiana under the Asturiana Service Agreement are US$2 million per annum

In 2011, Xstrata Zinc (San Juan de Nieva and Nordenham) agreed to supply Glencore with 257,639 tonnes (2010 255,000 tonnes) of SHG zinc slabs or CGG ingots based on market prices plus the respective FOB/CPT market premium

In 2011, Britannia Refined Metals agreed to supply Glencore with 2,946 tonnes (2010 22,960 tonnes) of 99 99% refined lead based on market prices plus the respective Ex works market premium The agreement was made on an arm's-length basis and at terms prevailing in the current market

In 2011, Xstrata Zinc Canada made agreements to supply Glencore with 6 241 tonnes of lead metal ingots and jumbos All agreements are based on market prices plus the respective DDP premium (2010 18 300 tonnes)

In 2011, Xstrata Zinc (Mt Isa) has an evergreen contract to supply 80,000 tonnes to Glencore (2010 80 000 tonnes) During the period January to December 2011, 83,545 tonnes were shipped (2010 80,000 tonnes)

In 2011 Xstrata Zinc contracted to sell 300 000 tonnes of zinc concentrate to Glencore under an evergreen swap contract In return, Xstrata Zinc contracted to purchase 300 000 tonnes of various zinc concentrate qualities delivered to Xstrata Zinc smelters (2010 300,000 tonnes)

In 2011, Xstrata Zinc sold 123 000 tonnes of zinc concentrate under various spot sales contracts The spot contracts were supplied from Mt Isa Antamina and McArthur River (2010 158,400 tonnes)

In 2011 Xstrata Zinc (McArthur River) has an agreement to supply Glencore 247,800 tonnes of bulk concentrate on an evergreen basis (2010 247,800 tonnes) In 2011, 247 800 tonnes were shipped under this agreement (2010 245 700 tonnes) Further to the aforementioned agreement an additional 40,000 tonnes of BMS bulk concentrate were sold under an annual contract (2010 60,000 tonnes BMS bulk) and 21 650 tonnes of MRM bulk concentrate were sold under spot contracts (2010 28,500 tonnes)

In 2011 Xstrata Zinc Canada purchased 36 800 tonnes of lead concentrates from Glencore for delivery to the Belledune lead smelter under various spot contracts (2010 26,708 tonnes)

All evergreen and annual zinc concentrate and bulk concentrate contracts are based on recognised annual industry benchmark treatment charges and related terms for price participation and silver payables Spot contracts are negotiated at prevailing market terms

Technology

In 2006 Xstrata Technology was contracted to install a copper ISASMELT™ furnace, a lead ISASMELT™ furnace and an IsaProcess copper refinery at Kazzinc, a Glencore subsidiary for US$99 million The project commenced in May 2006 and commissioning is ongoing with expected completion date late 2012 This transaction with Kazzinc is on arm's length terms and conditions

35 Related parties *continued*

Associates

Platinum

The Group acquired 24 9% of Lonmin PLC shares on 6 October 2008 and equity accounts this investment as an associate During 2010, the Group participated in a rights issue for US$58 million (refer to note 20)

Coal

Xstrata Coal has a number of investments in export coal terminals, allowing it to export coal into overseas markets

Xstrata Coal South Africa holds a 20 2% (2010 20 2%) interest in Richards Bay Coal Terminal Company Ltd (RBCT), a company that operates the coal terminal in Richards Bay, South Africa Xstrata Coal South Africa reimburses RBCT for its share of operating and capital expenditure

Xstrata Coal Australia has a 33% (2010 33%) interest in Port Kembla Coal Terminal Limited and a 31% (2010 31%) interest in Newcastle Coal Shippers Pty Limited Xstrata Coal Australia reimburses these coal terminals for its share of coal loading and handling charges

Zinc

The Group has a 25% economic and voting interest in the Noranda Income Fund (NIF), which owns a zinc refinery in Salaberry-de-Valleyfield Quebec The Group's interest in the NIF are held as ordinary units of the partnership, which are subordinate to the priority units in respect of cash distributions in any month until 3 May 2017 In addition the Group has entered into a supply and processing agreement that continues until 2 May 2017, and is obligated to sell to the NIF up to 550,000 tonnes of zinc concentrate per year The NIF pays the Group a concentrate price, based on the price of zinc metal on the London Metal Exchange, for the payable zinc metal contained in the concentrate less a processing fee of US$0 393183 per pound (2010 US$0 37333 per pound) of such payable zinc metal at 31 December 2011

Joint venture entities

Coal

Xstrata Coal has a one-third interest in the Cerrejon thermal coal operation in Colombia All purchase terms and conditions are set on an arm's-length basis

Copper

Xstrata Copper has a 44% interest in the Collahuasi joint venture in Chile The Collahuasi joint venture has fixed-term contracts for the sale of copper concentrate to Xstrata Copper for 120,000 tonnes per year expiring in 2014 The treatment and refining charges are based on benchmark terms in accordance with the prevailing market In addition, Xstrata Copper, via its 44% equity share in Collahuasi purchases 44% of the uncommitted copper concentrates production in each calendar year These tonnes are purchased from Collahuasi in line with prevailing benchmark terms

Xstrata Copper has a 33 75% interest in the Antamina joint venture in Peru The Antamina joint venture has fixed-term contracts for the sale of copper concentrate to Xstrata Copper for 170 000 tonnes per year expiring in 2013 The treatment and refining charges are based on benchmark terms in accordance with the prevailing market In addition, Xstrata Copper via its 33 75% equity share in Antamina, purchases 37 5% of the uncommitted copper concentrates production in each calendar year These tonnes are purchased from Antamina in line with prevailing benchmark terms

Iron Ore

Xstrata Iron Ore has a 50% interest in El Aouj Mining Company in Mauritania

All other purchases between the joint venture entities and the Group are set on an arm's-length basis based on either spot or benchmark terms in accordance with prevailing market conditions

Remuneration of key management personnel of the Group

US$m	2011	2010
Wages and salaries*	**23**	21
Pension and other post-retirement benefit costs*	**8**	7
Share-based compensation plans**	**(116)**	86
	(85)	114

* Includes amounts paid to Directors disclosed in the Directors Remuneration report on pages 96 to 109
** Amounts are based on the income statement expense/(credit) for the year calculated in accordance with IFRS 2

Directors' loans

An interest-free short-term loan of US$1 million (2010 US$2 million) was provided to the Chief Executive in accordance with the Group s policy to cover periods where employees of the Group are exposed to overlapping periods of double taxation due to the requirement of working in multiple jurisdictions The terms of the loan agreement require repayment of the loan amount on realisation of the foreign taxation credit claimed

36 Financial instruments

Principles of risk management

The main risks arising from the Group's financial instruments are credit risk, interest rate risk liquidity risk foreign currency risk and commodity price risk These risks arise from exposures that occur in the normal course of business and are managed by the Treasury Committee, which operates as a sub-committee of the Executive Committee The responsibilities of the Treasury Committee include the recommendation of policies to manage financial instrument risks These recommendations are reviewed and approved by the Board of Directors and implemented by the Group's Treasury Department

The overall objective of the Treasury Committee is to effectively manage credit risk, liquidity risk and other market risks in accordance with the Group s strategy Other responsibilities of the Treasury Committee include management of the Group's cash resources and debt funding programmes, approval of counter-parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the Group The Group uses both conventional financial instruments and derivative financial instruments to manage these risks

The Group's Treasury Department prepares monthly treasury reports which monitor all significant treasury activities undertaken by Group companies The report also benchmarks significant treasury activities The Treasury Committee and Executive Committee review these reports to monitor the financial instrument risks of the Group and to ensure compliance with established Group policies and procedures

The Group s significant financial instruments, other than derivatives, comprise bank loans and overdrafts, capital market notes, finance leases hire purchase contracts, cash and short-term deposits The main purpose of these financial instruments is to finance the Group's acquisitions and ongoing operations The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations

Derivative transactions are entered into solely to mitigate risks and hedge accounting under IAS 39 is only applied when certain criteria have been met Market fluctuations in derivative financial instruments designated as hedges are used to offset the fluctuations in the underlying exposure The Group does not hold derivatives for trading or speculative purposes The Group's accounting policies in relation to derivatives are set out in note 6

Credit risk

Exposure to credit risk arises as a result of transactions in the Group s ordinary course of business and is applicable to all financial assets Investments in cash, short term deposits, derivative instruments and similar assets are with approved counter party banks and other financial institutions Counter-parties are assessed prior to, during and after the conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level The Group's major exposure to credit risk is in respect of trade receivables Given the geographical industry spread of the Group's ultimate customers and the solvency of major trade debtors, credit risk is believed to be limited

			Past the due date but not impaired				
US$m	Neither impaired nor past the due date	Less than 30 days	Between 30 and 90 days	Between 91 and 180 days	Between 181 and 365 days	More than 1 year	Total
Trade debtors							
2011	**2,765**	**133**	**69**	**63**	**4**	**3**	**3,037**
2010	3,809	34	68	14	1	4	3,930

The credit quality of the Group's significant customers is monitored on an ongoing basis by the Credit Department Receivables that are neither past due nor impaired are considered of high credit quality

There were no material impairments of trade debtors as at 31 December 2011 or 2010 The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets No collateral is held in respect of impaired assets or assets that are past due but not impaired

Details of guarantees material to the Group are outlined in note 33

Where concentrations of credit risk exist, management closely monitors the receivable and ensures appropriate controls are in place to ensure recovery A portion of the Group's revenues is generated from sales to Glencore, a related party These sales are governed by various sales, marketing and distribution agreements as outlined in note 35 In general Glencore acts as a sales and marketing agent on selling purchases from the Group to a wide variety of purchasers As these agreements have been in place for a number of years and the Group has not been exposed to significant unrecoverable amounts, the Group does not believe these arrangements expose it to unacceptable credit risks Credit risk is minimal and not concentrated for other financial assets

The maximum exposure to credit risk is limited to the total carrying value of financial assets on the balance sheet as at the reporting date being an amount of US$7 716 million (2010 US$8,020 million) The Group does not have netting agreements with any debtors

Liquidity risk

Liquidity risk is the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price The Group's Treasury Department is responsible for management of liquidity risk, including funding, settlements, related processes and policies The Group manages its liquidity risk on a consolidated basis utilising various sources of finance to maintain flexibility while ensuring access to cost-effective funds when required The operational, tax, capital and regulatory requirements and obligations of the Group are considered in the management of liquidity risk In addition, management utilises both short- and long term cash flow forecasts and other consolidated financial information to manage liquidity risk

The Group s Treasury Department monitors the Group's long term credit ratings from major ratings agencies including Standard & Poor's and Moody's when assessing the ongoing credit-worthiness of the Group At 31 December 2011, the Group had long-term credit ratings of BBB+ (stable outlook) from Standard & Poor's (2010 BBB (positive outlook)) and Baa2 (positive outlook) from Moody's (2010 Baa2 (stable outlook)) and A (low) from DBRS (2010 A (low)) The ratings agencies consider a number of qualitative measurements when assessing the credit-worthiness of a company These include an assessment of the quality of assets and management, attitudes to risk industry type and the performance of a company in relation to its peers They also examine a number of financial ratios such as leverage, debt to operating cash flow, interest coverage, total liabilities to total assets and return on invested capital The Group s Treasury Department continuously monitors the Group's performance relative to these ratios as a guide to the ongoing credit-worthiness of the Group

36 Financial instruments *continued*

The Group has various borrowing facilities available to it This ensures flexibility to minimise liquidity risk and ensures the ongoing solvency of the Group The undrawn committed facilities available at 31 December 2011 in respect of which all conditions precedent had been met at that date are as follows

Available undrawn borrowing facilities and maturity

US$m	2011	2010
Expiring in		
Less than 1 year	243	52
Between 1 and 2 years	–	4,680
Between 2 and 3 years	–	2,000
Between 4 and 5 years	6,000	2,000
	6,243	8 732

The following tables show the Group's contractually agreed undiscounted forecast cash flows from financial assets and liabilities, including derivatives Expected cash flows from derivative contracts are not materially different from the maturity profile disclosed below

US$m	Due within 1 year	Due between 1-2 years	Due between 2-3 years	Due between 3-4 years	Due between 4-5 years	Due after 5 years	Total
At 31 December 2011							
Non-derivative financial assets							
Interest bearing cash and cash equivalents	1,852	–	–	–	–	–	1,852
Other financial assets	3,742	–	–	–	1	1,249	4,992
Derivative financial assets							
Derivatives contracts	96	1	–	171	177	331	776
Total	5,690	1	–	171	178	1,580	7,620
Non-derivative financial liabilities							
Interest-bearing loans and borrowings	(1,566)	(13)	(807)	(1,583)	(1,197)	(5,204)	(10,370)
Interest payments on loans and borrowings	(553)	(476)	(473)	(408)	(355)	(2,359)	(4,624)
Other non-interest bearing liabilities	(5,102)	(17)	(42)	(48)	(50)	(633)	(5,892)
Derivative financial liabilities							
Derivatives contracts	(65)	–	–	(161)	–	(256)	(482)
Total	(7,286)	(506)	(1,322)	(2,200)	(1,602)	(8,452)	(21,368)

US$m	Due within 1 year	Due between 1-2 years	Due between 2 3 years	Due between 3 4 years	Due between 4 5 years	Due after 5 years	Total
At 31 December 2010							
Non-derivative financial assets							
Interest bearing cash and cash equivalents	1,680	–	–	–	–	–	1 680
Other financial assets	4,505	117	–	–	–	912	5,534
Derivative financial assets							
Derivatives contracts	236	73	–	–	143	354	806
Total	6,421	190	–	–	143	1,266	8 020
Non-derivative financial liabilities							
Interest-bearing loans and borrowings	(2 318)	(1 526)	(13)	(13)	(1,576)	(4 026)	(9,472)
Interest payments on loans and borrowings	(570)	(390)	(350)	(350)	(307)	(1,611)	(3,578)
Other non-interest bearing liabilities	(4,802)	–	(34)	(41)	(42)	(627)	(5,546)
Derivative financial liabilities							
Derivatives contracts	(383)	(12)	–	–	(136)	(218)	(749)
Total	(8 073)	(1,928)	(397)	(404)	(2 061)	(6,482)	(19 345)

All instruments held at 31 December 2011 and 31 December 2010 and for which payments were already contractually agreed are included Amounts in foreign currency are each translated at the closing rate at the reporting date The variable interest payments arising from the financial instruments were calculated using interest rates as at the reporting date Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period Future forecast transactions or transactions subsequent to year-end are not included

Market risk analysis

IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant market risk variables on the Group's profit and shareholders' equity The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date The Group s primary market exposures are to interest rate risk foreign currency risk and commodity price risk

Interest rate risk

The Group is exposed to interest rate risk primarily as a result of exposures to movements in the LIBOR It is the Group's preference to borrow and invest at floating rates of interest, notwithstanding that some borrowings are at fixed rates In addition, a limited amount of fixed rate hedging may be undertaken during periods where the Group s exposure to movements in short-term interest rates is more significant In keeping with the Group s preference to borrow at floating rates of interest, the following interest rate swap contracts were outstanding at 31 December 2011 and 2010

US$m	Principal amount 2011	Average rate % 2011	Fair value 2011	Principal amount 2010	Average rate % 2010	Fair value 2010
At fair value						
Interest rate swap from US$ fixed rates						
Maturing in less than 1 year*	925	1 44	36	2,255	1 26	78
Maturing between 1and 2 years*	–	–	–	925	1 11	73
Maturing between 3 and 4 years*	1,430	2 29	171	–	–	–
Maturing between 4 and 5 years*	1,000	1 35	177	1,439	1 95	143
Maturing greater than 5 years*	1,660	2 31	314	2,660	1 65	346
Interest rate swap to US$ fixed rates						
Maturing in less than 1 year*	100	4 54	(2)	–	–	–
Maturing between 1and 2 years*	–	–	–	100	4 54	(6)
	5,115	2 00	696	7,379	1 56	634

* Relates to the Unsecured notes and Senior debentures (refer to note 28)

The interest rate risk profile of the Group as at 31 December 2011 are as follows

US$m	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due more than 5 years	2011
Fixed rate by balance sheet category							
Cash and cash equivalents	706	–	–	–	–	–	706
Capital market notes*	(1,234)	–	(797)	(1,538)	(1,185)	(4,874)	(9,628)
Non controlling interest loans	–	–	–	–	–	(204)	(204)
Finance leases/hire purchase contracts	(38)	(13)	(10)	(11)	(12)	(120)	(204)
	(566)	(13)	(807)	(1,549)	(1,197)	(5,198)	(9,330)
Fixed rate by currency							
AUD	97	(6)	(7)	(7)	(9)	(309)	(241)
CAD	(3)	(3)	(3)	(3)	(3)	(7)	(22)
CLP	3	–	–	–	–	–	3
EUR	(677)	–	–	(875)	–	(786)	(2,338)
GBP	–	–	–	–	–	(936)	(936)
US$	14	(3)	(797)	(664)	(1,185)	(3,153)	(5,788)
ZAR	–	(1)	–	–	–	(7)	(8)
	(566)	(13)	(807)	(1,549)	(1,197)	(5,198)	(9,330)
Floating rate by balance sheet category							
Cash and cash equivalents	1,146	–	–	–	–	–	1,146
Capital market notes	(148)	–	–	–	–	–	(148)
Bank loans – other unsecured	(139)	–	–	(34)	–	–	(173)
	859	–	–	(34)	–	–	825
Floating rate by currency							
AUD	191	–	–	–	–	–	191
ARS	19	–	–	–	–	–	19
CAD	5	–	–	–	–	–	5
CLP	4	–	–	–	–	–	4
EUR	28	–	–	–	–	–	28
GBP	15	–	–	–	–	–	15
US$	508	–	–	(34)	–	–	474
ZAR	74	–	–	–	–	–	74
Other	15	–	–	–	–	–	15
	859	–	–	(34)	–	–	825

* These borrowings are subject to interest rate swaps

36 Financial instruments *continued*

The interest rate risk profile of the Group as at 31 December 2010 are as follows

US$m	Falling due within 1 year	Falling due between 1 2 years	Falling due between 2 3 years	Falling due between 3 4 years	Falling due between 4 5 years	Falling due more than 5 years	2010
Fixed rate by balance sheet category							
Cash and cash equivalents	794	–	–	–	–	–	794
Capital market notes*	(2 162)	(1,292)	–	–	(1,528)	(3 730)	(8,712)
Non-controlling interest loans	–	(81)	–	–	–	(162)	(243)
Finance leases/hire purchase contracts	(71)	(9)	(5)	(5)	(4)	(19)	(113)
Other loans	–	–	–	–	–	(5)	(5)
	(1,439)	(1 382)	(5)	(5)	(1 532)	(3,916)	(8,279)
Fixed rate by currency							
AUD	(7)	(1)	(1)	(1)	–	(161)	(171)
CAD	(2)	(3)	(3)	(3)	(3)	(9)	(23)
CLP	21	–	–	–	–	–	21
EUR	(1 040)	(722)	–	–	(874)	(774)	(3,410)
GBP	10	–	–	–	–	(842)	(832)
US$	(421)	(655)	(1)	(1)	(655)	(2,119)	(3,852)
ZAR	–	(1)	–	–	–	(11)	(12)
	(1 439)	(1,382)	(5)	(5)	(1,532)	(3 916)	(8,279)
Floating rate by balance sheet category							
Cash and cash equivalents	886	–	–	–	–	–	886
Capital market notes	(30)	–	–	–	–	–	(30)
Bank loans – other unsecured	(40)	(139)	–	–	(34)	–	(213)
Bank overdrafts	(9)	–	–	–	–	–	(9)
	807	(139)	–	–	(34)	–	634
Floating rate by currency							
AUD	235	–	–	–	–	–	235
ARS	12	–	–	–	–	–	12
CAD	8	–	–	–	–	–	8
CLP	22	–	–	–	–	–	22
EUR	20	–	–	–	–	–	20
GBP	1	–	–	–	–	–	1
NOK	3	–	–	–	–	–	3
US$	453	(139)	–	–	(34)	–	280
ZAR	46	–	–	–	–	–	46
Other	7	–	–	–	–	–	7
	807	(139)	–	–	(34)	–	634

* These borrowings are subject to interest rate swaps

The interest charged on floating rate financial liabilities is based on the relevant national inter-bank rates and re-priced at least annually Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk

IFRS 7 requires interest rate sensitivity analysis that shows the effects of changes in market interest rates on the income statement and, if appropriate shareholders' equity The interest rate sensitivity analysis is based on the following assumptions

- for non-derivative financial instruments with fixed interest rate terms a change in market interest rates only affects income if these are measured at their fair value Consequently, all non-derivative financial instruments with fixed interest rate terms that are carried at amortised cost are excluded from this analysis (with the exception of those subject to a fixed to floating rate swap)
- items subject to an effective fixed to floating interest rate swap hedge are assumed to be floating instruments for the purpose of this analysis,
- for floating rate instruments income statement impacts assume adjustments to interest income and expense for a 12-month period,

- the Group does not have significant cash flow hedges related to interest rate risk As such, movements that would occur in equity as a result of a hypothetical change in interest rates at reporting date have been excluded from this analysis
- changes in the carrying value of derivative financial instruments designated as fair value hedges are assumed to be fully effective with no impact on the income statement or equity,
- changes in the carrying value of derivative financial instruments not in hedging relationships are assumed to impact the income statement
- the Group does not have material exposure to interest rate risk from available-for-sale financial instruments As such, these financial instruments have been excluded from this analysis,
- the balance of interest-bearing financial instruments at reporting date is representative of the balance for the year as a whole and hypothetical interest rate movements are deemed to apply for the entire reporting period, and
- the impact of interest rate movements on the carrying value of pension obligations has been excluded

If the market interest rates had been 100 basis points higher (lower) at 31 December 2011 income would have been US$51million (2010 US$69 million) higher (lower) There would be no material effect on equity reserves other than those relating directly to movements in the income statement

Foreign currency risk
Owing to the Group's significant operations in Australia, North America, South America, South Africa and Europe the balance sheet and results can be affected significantly by movements in exchange rates The long-term relationship between commodity prices and the currencies of most of the countries where the Group operates provides a degree of natural protection However, in the short term it can be quite volatile The presentation currency of the Group is the US$

Foreign currency hedges
Group subsidiaries located in Australia and Canada have entered into AUD/US$ and CAD/US$ exchange contracts to hedge a portion of their US$ denominated revenue and third-party loans The Group also enters into forward contracts to hedge specific one-off foreign currency transactions The open foreign currency exchange contracts as at 31 December 2011 are as follows

Classified as cash flow hedges**

US$m	**Contract amount 2011**	**Average forward rate 2011**	**Fair value 2011**	Contract amount 2010	Average forward rate 2010	Fair value 2010
Forward contracts – sell US$/buy AUD						
Maturing in less than 1 year	**1,932**	**1 0017**	**24**	876	0 9125	97
	1,932	**1 0017**	**24**	876	0 9125	97
Forward contracts – sell US$/buy EUR						
Maturing in less than 1 year	**675**	**1 3500**	**(27)**	1 174	1 5650	(170)
Maturing between 1 and 2 years*	**–**	**–**	**–**	675	1 3500	(6)
Maturing between 3 and 4 years*	**939**	**1 5650**	**(161)**	–	–	–
Maturing between 4 and 5 years*	**–**	**–**	**–**	939	1 5650	(136)
Maturing after 5 years*	**675**	**1 3500**	**(27)**	675	1 3500	(6)
	2,289	**1 4382**	**(215)**	3,463	1 4812	(318)
Forward contracts – sell US$/buy GBP						
Maturing after 5 years*	**985**	**1 9700**	**(208)**	985	1 9700	(204)
	985	**1 9700**	**(208)**	985	1 9700	(204)
Forward contracts – sell US$/buy ZAR						
Maturing in less than 1 year	**547**	**7 9437**	**(20)**	348	7 3373	29
	547	**7 9437**	**(20)**	348	7 3373	29

* Relates to the Unsecured notes (refer to note 28)
** The timing of hedged cash flows is expected to coincide with the maturities of the hedging instruments to which they relate

36 Financial instruments *continued*

Classified as other derivatives

US$m	Contract amount 2011	Average forward rate 2011	Fair value 2011	Contract amount 2010	Average forward rate 2010	Fair value 2010
Forward contracts – sell CAD/buy US$						
Maturing in less than 1 year	–	–	–	320	1 5013	(163)
	–	–	–	320	1 5013	(163)
Forward contracts – sell US$/buy CAD						
Maturing in less than 1 year	1,113	1 0087	(10)	1,364	1 0196	32
	1,113	1 0087	(10)	1,364	1 0196	32

For the purpose of IFRS 7 sensitivity analysis, currency risks arise because financial instruments are denominated in a currency that is not the functional currency of the subsidiary or joint venture The movements shown below largely result from trade payables and receivables that are not denominated in the local entity's functional currency Trade payables and receivables generally arise as a result of the operations of the Group in the ordinary course of business

The currency sensitivity analysis is based on the following assumptions

- differences resulting from the translation of financial statements of subsidiaries or joint ventures into the Group's presentation currency US$, are not taken into consideration
- the major currency exposures for the Group relate to the US$ and local currencies of subsidiaries and joint ventures Foreign currency exposures between two currencies where one is not the US$ are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis,
- derivative financial instruments designated as cash flow hedges are assumed to be fully effective hedges and therefore any movements in carrying value are captured within equity and have no impact on the income statement analysis
- changes in the carrying value of derivative financial instruments designated as fair value hedges are assumed to be fully effective with no impact on the income statement or equity,
- changes in the carrying value of derivative financial instruments not in hedging relationships are assumed to impact the income statement, and
- the impact of foreign currency movements on the carrying value of pension obligations has been excluded

In accordance with IFRS 7, the impact of foreign currencies has been determined based on the balances of financial assets and liabilities at 31 December 2011 This sensitivity does not represent the income statement impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time

If the US$ had gained (lost) 5% against all currencies significant to the Group, the impact would have been

Local currency to the US$	Closing exchange rate 2011	Effect on net earnings of a 5% change 2011	Effect on equity of a 5% change 2011	Closing exchange rate 2010	Effect on net earnings of a 5% change 2010	Effect on equity of a 5% change 2010
US$ ARS	4 3063	(4)	–	3 9759	(3)	–
AUD US$	1 0205	3	1	1 0233	(10)	(1)
US$ CAD	1 0212	5	–	0 9983	7	–
US$ CLP	519 50	5	–	468 00	5	–
US$ COP	1,938	–	–	1 920	2	–
EUR US$	1 2960	4	–	1 3387	3	–
GBP US$	1 5550	–	–	1 5613	(1)	–
US$ PEN	2 6904	4	–	2 8063	4	–
US$ ZAR	8 0796	(8)	–	6 6276	(17)	–
Total		9	1		(10)	(1)

Commodity price risk

The Group is exposed to fluctuations in commodity prices, with the commodity mix spread between those that are priced by reference to prevailing market prices on terminal markets and those that are set on a contract basis with customers, generally on an annual basis Commodity price risks arise in all major commodities that the Group produces Commodity price risk is managed by maintaining a diversified portfolio of commodities and typically does not involve large-scale strategic hedging or price management initiatives

Due to the volatile nature of commodity prices and the historical relationship between prices and the currencies of most of the countries where the Group operates hedging may be entered into only in limited circumstances and subject to strict limits laid down by the Board of Directors

Commodity hedging
The Australian and South African operations have entered into coal forwards to hedge prices of future sales of coal The open forwards and collars commodity contracts as at 31 December 2011 are as follows

Classified as cash flow hedges

	Tonnes 2011	Average price US$ 2011	Fair value US$m 2011	Tonnes 2010	Average price US$ 2010	Fair value US$m 2010
Coal forwards – US$ denominated contracts						
FOB						
Maturing in less than 1 year	4,590,000	114 72	31	1,320 000	97 32	(32)
Maturing between 1 and 2 years	90,000	124 00	1	–	–	–
	4,680,000	114 90	32	1,320,000	97 32	(32)
Coal forwards – US$ denominated contracts						
CIF						
Maturing in less than 1 year	–	–	–	935,000	104 70	(22)
	–	–	–	935,000	104 70	(22)

The maturities of these hedges reflect the expected timing of cash flows related to these instruments

The IFRS 7 sensitivity analysis below has been prepared using the following assumptions

- this analysis only takes into account commodities for which the Group has significant exposure,
- fixed-price sale and purchases contracts will not fluctuate with movements in commodity prices and are therefore excluded from this analysis,
- derivative financial instruments designated as cash flow hedges are assumed to be fully effective hedges and therefore any movements in carrying value are captured within equity and have no impact on the income statement analysis
- changes in the carrying value of derivative financial instruments designated as fair value hedges are assumed to be fully effective with no impact on the income statement or equity, and
- changes in the carrying value of derivative financial instruments not in hedging relationships are assumed to impact the income statement

In accordance with IFRS 7, the impact of commodity prices has been determined based on the balances of financial assets and liabilities at 31 December 2011 This sensitivity does not represent the income statement impact that would be expected from a movement in commodity prices over the course of a period of time

If prices for all commodities for which the Group has significant exposure had been 10% higher (lower) at 31 December 2011, income would have been US$194 million higher (lower) (2010 US$173 million higher (lower)) and equity reserves would have been US$20 million lower (higher) (2010 US$3 million lower (higher)) as a result of changes to reserves for commodity cash flow hedges There would be no other material changes in reserves of the Group as at 31 December 2011 or 2010 other than those relating directly to income statement movements

Fair values
Set out below is a comparison by category of carrying value and fair values of the Group s financial instruments that are not carried at fair value in the financial statements at 31 December

US$m	Carrying value 2011	Fair value 2011	Carrying value 2010	Fair value 2010
Financial liabilities				
Capital market notes	9,628	9,628	8,712	8,714
Non controlling interest loans	204	210	243	248
Finance leases	204	206	251	252
Other loans	8	8	11	12

Market rates at 31 December 2011 have been used to determine the fair value of fixed interest loans

36 Financial instruments *continued*

The following table shows the carrying amounts as at 31 December for each category of financial assets and liabilities as required by IFRS 7

US$m	2011	2010
Financial assets		
Cash and cash equivalents	**1,948**	1,722
Financial assets designated at fair value through profit and loss	**106**	91
Loans and receivables	**4,628**	5,054
Available-for-sale financial assets	**258**	347
Derivative financial assets	**776**	806
Financial liabilities		
Financial liabilities measured at amortised cost	**16,050**	14 782
Financial liabilities designated at fair value through profit and loss	**212**	236
Derivative financial liabilities	**482**	749

The following table shows the gains/(losses) for each category of financial assets and liabilities as required by IFRS 7

US$m	2011	2010
Financial assets and liabilities		
Available-for-sale financial assets gains/(losses) recognised in equity	**(37)**	118
Available-for-sale financial assets gains/(losses) recognised in the income statement	**8**	73
Derivative financial instruments gains recognised in equity	**26**	117
Derivative financial instruments gains recognised in the income statement	**14**	117

Interest revenues and expenses are not included in the calculation of the gains/(losses) of financial assets and liabilities

The Group uses various valuation techniques in determining the fair value of financial assets and liabilities The following fair value hierarchy is used to categorise and disclose the Group s financial assets and liabilities held at fair value for which a valuation technique is used

- Level 1 quoted (unadjusted) prices in active markets for identical assets or liabilities,
- Level 2 other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly, and
- Level 3 techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The table below presents financial assets measured at fair value

US$m	2011	Level 1	Level 2	Level 3
Commodity cash flow hedges	32	–	32	–
Foreign currency cash flow hedges	24	–	24	–
Fair value interest rate hedges	699	–	699	–
Other interest rate derivatives	15	–	15	–
Other foreign currency derivatives	6	–	6	–
Shares – listed	79	79	–	–
Shares – unlisted	7	–	7	–
Royalty contract	172	–	172	–
Rehabilitation trust fund	106	–	106	–
Loans to joint venture partners	396	–	396	–
TBU	183	–	183	–
Other financial assets	58	–	58	–

US$m	2010	Level 1	Level 2	Level 3
Foreign currency cash flow hedges	126	–	126	–
Fair value interest rate hedges	606	–	606	–
Other interest rate derivatives	42	–	42	–
Other foreign currency derivatives	32	–	32	–
Shares – listed	160	160	–	–
Shares – unlisted	5	–	5	–
Royalty contract	182	–	182	–
Rehabilitation trust fund	91	–	91	–
Loans to joint venture partners	375	–	375	–
Other financial assets	48	–	48	–

The table below presents financial liabilities measured at fair value

US$m	2011	Level 1	Level 2	Level 3
Foreign currency cash flow hedges	443	–	443	–
Other interest rate derivatives	23	–	23	–
Other foreign currency derivatives	16	–	16	–
Loans from joint venture partners	212	–	–	212

US$m	2010	Level 1	Level 2	Level 3
Commodity cash flow hedges	50	–	50	–
Foreign currency cash flow hedges	522	–	522	–
Other interest rate derivatives	14	–	14	–
Other foreign currency derivatives	163	–	163	–
Loans from joint venture partners	236	–	–	236

37 Events after balance sheet date

Recommended all-share merger of equals between Glencore International plc and Xstrata plc

The Glencore Directors and the Independent Xstrata Directors have reached agreement on the terms of a recommended all-share merger of equals of Glencore and Xstrata plc The terms of the Merger will provide holders of scheme shares with 2 8 new Glencore shares for each Xstrata plc share held The merger will be effected by way of a Court sanctioned scheme of arrangement of Xstrata plc under Part 26 of the UK Companies Act, pursuant to which Glencore will acquire the entire issued and to be issued ordinary share capital of Xstrata plc not already owned by the Glencore Group The merger is subject to a number of conditions including shareholder approval of both companies

On 8 March 2012, the Group announced it has agreed to acquire the Sukunka hard coking deposit in British Columbia, Canada, from Talisman Energy Incorporated for US$500 million in cash, subject to customary conditions

On 13 March 2012, the Group announced the creation of a joint venture between Xstrata Coal and JX Nippon Oil & Corporation Group (JX) comprising contiguous metallurgical coal assets in the Peace River Coalfields in Western Canada JX paid US$435 million in cash to acquire a 25% interest in the Peace River Coalfields in Western Canada

Independent Auditor's report to the members of Xstrata plc

We have audited the Parent Company financial statements of Xstrata plc for the year ended 31 December 2011 which comprise the balance sheet and the related notes 1 to 10 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor s report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As explained more fully in the Statement of directors' responsibility set out on page 116, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Parent Company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the Parent Company financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements and the part of the Directors remuneration report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

Other matter
We have reported separately on the Group financial statements of Xstrata plc for the year ended 31 December 2011

Ernst & Young LLP

Mirco Bardella (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London United Kingdom

15 March 2012

The maintenance and integrity of the Xstrata plc website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

Balance sheet

As at 31 December 2011

US$m	Notes	2011	2010
Fixed assets			
Investments	2	**24,480**	20,427
		24,480	20,427
Current assets			
Debtors amounts falling due within one year	3	**3**	5
Creditors amounts falling due within one year	4	**(4,834)**	(617)
Net current assets		**(4,831)**	(612)
Attributable net assets		**19,649**	19,815
Capital and reserves			
Called up share capital	6, 7	**1,482**	1,482
Share premium	6, 7	**15,458**	15,458
Other reserves	7	**949**	949
Own shares	7	**(107)**	(148)
Retained earnings	7	**1,867**	2,074
Equity and shareholders funds		**19,649**	19,815

The financial statements on pages 189 to 194 were approved by the Board of Directors on 15 March 2012 and signed on its behalf by

Trevor Reid
Chief Financial Officer

No Income Statement is presented for Xstrata plc as permitted by section 408 of the Companies Act 2006 The profit of Xstrata plc for the year ended 31 December 2011 was US$656 million (2010 US$153 million)

There were no recognised gains and losses attributable to the shareholders of the Company other than the profit of US$656 million for the year ended 31 December 2011 (2010 US$153 million)

Notes to the financial statements

1 Accounting policies

Basis of preparation
These financial statements have been prepared in accordance with applicable UK accounting standards The accounting policies are consistent with the prior year

Xstrata plc (the Company) has adopted the following principal accounting policies

Investments
Equity investments in subsidiaries are carried at cost less any provision for impairments

Financial assets
Financial assets are classified as either financial assets at fair value through profit and loss, loans and receivables, held to-maturity investments, or available-for-sale financial assets, as appropriate The Company determines the classification of its financial assets at initial recognition When financial assets are recognised initially, they are measured at fair value on the trade date plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale Such assets are carried at amortised cost using the effective interest method This cost is computed as the amount initially recognised minus principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount

Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process Loans and receivables are derecognised when the Company no longer has a right to receive cash flows from the asset

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i e the effective interest rate computed at initial recognition) The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost (that would have been measured if there had been no impairment) at the reversal date

Impairment
The carrying values 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 amounts Such review is undertaken on cash-generating units

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

Provisions for liabilities
Provisions are recognised when the Company has a present obligation, as a 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 when 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 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

Own shares
The cost of purchases of own shares held by the Employee Share Ownership Plan (ESOP) trust are deducted from equity Where they are issued to employees or sold, no gain or loss is recognised in the profit and loss account Any proceeds received on the disposal of the shares or on the transfer of shares to employees are recognised in equity

Share-based payments
The Company makes share based awards, including free shares and options in the Company, to certain employees and directors of the Group The expense recognised in the financial statements relates only to those share-based awards that are granted by the Company, to its employees and directors Expenses relating to awards granted to employees and directors of other Group companies are allocated to those companies in accordance with UITF Abstract 44

Equity-settled awards
For equity-settled awards, the fair value is charged to the profit and loss account and credited to retained earnings, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest (taking into account the achievement of non-market based performance conditions) The fair value of the equity-settled awards is determined at the date of the grant by external experts using the models outlined in note 34 of the Group consolidated financial statements

At each balance sheet date prior to vesting the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed (after adjusting for non market performance conditions) The movement in cumulative expense is recognised in the profit and loss account with a corresponding entry within equity

Cash-settled awards
For cash settled awards, the fair value is recalculated at each balance date until the awards are settled based on the estimated number of awards that are expected to vest adjusting for market and non-market-based performance conditions During the vesting period, a liability is recognised representing the portion of the vesting period that has expired at the balance sheet date multiplied by the fair value of the awards at that date After vesting the full fair value of the unsettled awards at each balance date is recognised as a liability Movements in the liability are recognised in the profit and loss account The fair value is recalculated using an option pricing model (refer to note 34 of the Group consolidated financial statements)

Refer to the accounting policies and note 34 of the Group consolidated financial statements for a full explanation of the valuation of and accounting for the share based awards

Loans from subsidiaries
Loans from subsidiaries are recognised at inception at the fair value of the proceeds received net of issue costs Subsequently, they are measured at amortised cost using the effective interest method Finance costs are recognised in the profit and loss account using the effective interest rate method

Foreign currency transactions
Foreign currency transactions are booked in the functional currency (US$) at the exchange rate ruling on the date of the transaction Foreign currency monetary assets and liabilities are translated into the functional currency at rates of exchange ruling at the balance sheet date Exchange differences are recorded in the profit and loss account Foreign currency non monetary assets and liabilities are not restated at balance sheet date

Revenue
Interest income is recognised as earned on an accruals basis using the effective interest method

Dividend income is recognised as earned when the Company's right to receive payment is established

Income for other services is recognised when the service has been rendered, the amount of revenue (and associated costs) can be reliably measured, and it is probable that economic benefits will flow to the Company

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 financial statements is in conformity with Generally Accepted Accounting Practice and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period Actual outcomes could differ from these estimates

2 Investments

US$m	Investment in subsidiaries	Loans to subsidiaries	Total
Cost			
At 1 January 2011	20,365	62	20,427
Additions – existing investments	4,029	24	4,053
At 31 December 2011	**24,394**	**86**	**24,480**

The subsidiary undertakings of the Company as at 31 December and the percentage holding of ordinary share capital are set out below

Name	Country of incorporation	Principal activities	% of ordinary shares held & voting rights
Principal subsidiaries			
Xstrata (Schweiz) AG	Switzerland	Holding company	100%
Xstrata Finance (Dubai) Limited	UAE	Finance company	90%
Xstrata Commodities Middle East DMCC	UAE	Marketing company	90%
Xstrata Capital Corporation AVV*	Aruba	Finance company	43%
Xstrata (Nederland) BV	Netherlands	Finance company	75%
Xstrata Finance (Luxembourg) S a r L	Luxembourg	Finance company	90%
Xstrata Coal Sales PTE LTD	Singapore	Trading company	90%

* The voting rights are 51%

The principal country of operation is the country of incorporation, and all subsidiaries are unlisted Refer to note 35 of the Group consolidated financial statements for a list of significant subsidiaries associates and joint ventures

3 Debtors – amounts falling due within one year

US$m	2011	2010
Other debtors	**3**	5
	3	5

4 Creditors – amounts falling due within one year

US$m	2011	2010
Loans from subsidiaries	**4,832**	613
Other creditors	**2**	4
	4,834	617

5 Dividends paid and proposed

US$m	2011	2010
Declared and paid during the year		
Final dividend for 2010 – 20 0 cents per ordinary share (2009 – 8 0 cents per ordinary share)	**586**	233
Interim dividend for 2011 – 13 0 cents per ordinary share (2010 – 5 0 cents per ordinary share)	**381**	146
	967	379
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December)		
Final dividend for 2011 – 27 0 cents per ordinary share (2010 – 20 0 cents per ordinary share)	**792**	586

6 Capital

US$m	
Authorised	
4,500,000,000 ordinary shares of US$0 50 each as at 1 January 2010, 31 December 2010 and 31 December 2011	2,250
50,000 deferred shares of GBP1 00 each as at 1 January 2010, 31 December 2010 and at 31 December 2011	–
1 special voting share of US$0 50 as at 1 January 2010, 31 December 2010 and as at 31 December 2011	–
Issued, called up and fully paid	
2 939,011,620 ordinary shares of US$0 50 each as at 1 January 2010	1 469
25,680,456 ordinary shares issued on the exercise of convertible borrowings	13
2 964,692 076 ordinary shares of US$0 50 each as at 31 December 2010 and 31 December 2011	1,482
Share premium	
As at 1 January 2010	15,096
25,680,456 ordinary shares issued on the exercise of convertible borrowings	362
As at 31 December 2010 and as at 31 December 2011	15,458

Issue of ordinary shares

During 2010, the US$375 million convertible borrowings were converted at the option of the holders into 25 680,456 ordinary shares in Xstrata plc

Details in respect of the various classes of shares are outlined in the Directors' Report on page 112

7 Capital and reserves

US$m	Share capital	Share premium account	Other reserves	Own shares	Retained earnings	2011
Capital and reserves						
At 1 January 2011	1,482	15,458	949	(148)	2,074	19,815
Attributable profit for the year	–	–	–	–	656	656
Own shares purchased	–	–	–	(18)	–	(18)
Own shares sold	–	–	–	59	(44)	15
Equity-settled share-based payments	–	–	–	–	148	148
Dividends	–	–	–	–	(967)	(967)
At 31 December 2011	1,482	15,458	949	(107)	1,867	19,649

US$m	Share capital	Share premium account	Other reserves	Own shares	Retained earnings	2010
Capital and reserves						
At 1 January 2010	1,469	15 096	949	(273)	2,267	19 508
Attributable profit for the year	–	–	–	–	153	153
Issue of share capital	13	362	–	–	20	395
Own shares purchased	–	–	–	(11)	–	(11)
Own shares sold	–	–	–	136	(122)	14
Equity settled share-based payments	–	–	–	–	135	135
Dividends	–	–	–	–	(379)	(379)
At 31 December 2010	1,482	15 458	949	(148)	2 074	19 815

Share premium account
Share premium account compromises capital contribution reserves of US$14,679million (2010 US$14,679million) and share premium arising from the issue of shares to the ESOP of US$761million (2010 US$761million)

Other reserves
This reserve principally originated during 2002 from issue of shares from the acquisition of the Duiker and Enex Groups of US$935million

Own shares
Own shares comprise shares of Xstrata plc held in the ESOP

The shares acquired by the ESOP are either stock market purchases or share issues from the Company The ESOP is used to co-ordinate the funding and manages the delivery of ordinary shares for options and free share awards under the Group's employee award schemes The trustee of the ESOP is permitted to place the shares back into the market and may hold up to 5% of the issued share capital of the Company at any one time At 31 December 2011 5,028 048 (2010 6,886,349) shares, equivalent to 0 2% (2010 0 2%) of the total issued share capital, were held by the trust with a cost of US$107 million (2010 US$148 million) and market value of US$76 million (2010 US$162 million) The trust has waived the right to receive dividends from the shares that it holds Costs relating to the administration of the trust are expensed in the period in which they are incurred

9 Other income and expenses
The audit fee is US$49,000 (2010 US$47,000) in respect of the Company Refer to note 10 of the Group consolidated financial statements for further information on Auditors' remuneration

Refer to the Directors Remuneration report on pages 96 to 109 for the remuneration of directors

10 Guarantees
The Company has provided guarantees for the financial obligations of a number of Group companies

Specifically, the Company has provided

In November 2011 the Group issued US$ denominated capital market notes in a US$3,000 million four-tranche transaction comprising 3 year, 5 year, 10 year and 30 year notes The fixed interest facilities were issued by Xstrata Finance (Canada) Limited The capital market notes comprise US$800 million 2 85% guaranteed notes due November 2014, US$700 million 3 60% guaranteed notes due January 2017 US$1,000 million 4 95% guaranteed notes due November 2021 and US$500 million 6 00% guaranteed notes due November 2041 These capital market notes are guaranteed by the Company, Xstrata (Schweiz) AG Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corporation

In October 2011 the Group entered into a guaranteed US$6,000 million multi-currency revolving syndicated loan facility maturing in October 2016 Interest is payable on drawn down amounts at a rate that is the aggregate of LIBOR, or in relation to Euro, EURIBOR and the relevant margin, which is 85 basis points per annum As of 31 December 2011 US$6 000 million was available to be drawn under this facility The loan was entered into by Xstrata (Schweiz) AG, Xstrata Canada Financial Corporation, Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited and is guaranteed by the Company, Xstrata (Schweiz) AG, Xstrata Canada Financial Corporation Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited

10 Guarantees *continued*

In September 2010, the Group entered into a guaranteed US$4,000 million multi-currency revolving syndicated loan facility split into two US$2,000 million tranches, with one tranche maturing three years after the date of the facility and the other maturing five years after the date of the facility Interest was payable on drawn down amounts at a rate that is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR, plus 90 basis points per annum under the three-year tranche and 100 basis points per annum under the five-year tranche respectively The loan was entered into by Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corporation and is guaranteed by the Company, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited, Xstrata Finance (Canada) Limited and Xstrata Canada Financial Corporation The facility was cancelled in October 2011 and replaced with the US$6,000 million multi currency revolving syndicated loan facility

In October 2008 the Group entered into a guaranteed US$5,000 million multi-currency revolving syndicated loan facility (Club Facility) with interest payable on drawn down amounts at a rate that is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR, plus 150 basis points per annum The loan was entered into by Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corporation and is guaranteed by the Company, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited, Xstrata Finance (Canada) Limited and Xstrata Canada Financial Corporation The Club Facility was amended on 30 December 2008 to increase the facility amount to US$5,459 million and on 9 April 2010 to decrease the facility amount to US$3,000 million The facility was cancelled in September 2010 and replaced with the US$4,000 million multi-currency revolving syndicated loan facility

In May 2008 the Group issued EUR1,350 million of notes in two tranches under its Euro Medium-Term Note Programme These comprised EUR750 million 5 875% fixed guaranteed notes due 2011 and EUR600 million 6 25% fixed guaranteed notes due 2015 In May 2008, the Group issued GBP500 million 7 375% fixed guaranteed notes due 2020 The notes were issued by Xstrata Canada Financial Corporation and are guaranteed by the Company, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited In addition the notes were swapped into US$ currency and a floating rate with the swaps guaranteed by the Company and Xstrata (Schweiz) AG

In November 2007, the Group completed a US$500 million 30-year bond issue bearing interest at 6 90% per annum The bond was issued by Xstrata Finance (Canada) Limited and is fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by the Company Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited

In July 2007, the Group entered into a guaranteed US$4,680 million multi-currency revolving syndicated loan with interest payable at a rate that is based on LIBOR plus 27 5 basis points per annum US$2,160 million of the loan was entered into by Xstrata Finance (Canada) Limited and is guaranteed by the Company Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited US$2,520 million of the loan was entered into by Xstrata (Schweiz) AG and is guaranteed by the Company, Xstrata Finance (Canada) Limited and Xstrata Finance (Dubai) Limited The facility was cancelled in October 2011 and replaced with the US$6,000 million multi-currency revolving syndicated loan facility

In June 2007, the Group issued EUR1,000 million of notes in two tranches under its Euro Medium-Term Note Programme These comprised EUR500 million guaranteed 4 875% notes due 14 June 2012 and EUR500 million guaranteed 5 250% notes due 13 June 2017 The notes were issued by Xstrata Finance (Canada) Limited, and are fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited In addition, the notes were swapped into US$ currency and a floating rate with the swaps guaranteed by the Company and Xstrata (Schweiz) AG

The Group assumed a number of senior debentures on the acquisition of Falconbridge Limited (refer to note 28 of the Group consolidated financial statements) Pursuant to the terms of the note indentures as amended by supplemental indentures, the Company has fully and unconditionally guaranteed in favour of the holders of the senior debentures the payment, within 15 days of when due, of all financial liabilities and obligations of Falconbridge Limited to such holders under the terms of the senior debentures

In November 2006, the Group issued US$2 250 million of capital market notes in three tranches to refinance existing debt facilities The notes comprise a US$1 000 million 10-year facility at a fixed interest rate of 5 8% a US$750 million five-year facility at a fixed interest rate of 5 5%, and a US$500 million three-year facility with interest payable at a rate based on LIBOR plus 35 basis points The fixed interest facilities were issued by Xstrata Finance (Canada) Limited and the floating rate facility was issued by Xstrata Finance (Dubai) Limited The Xstrata Finance (Dubai) Limited issue was guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Canada) Limited The Xstrata Finance (Canada) Limited issues were guaranteed by the Company Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited In addition, the Xstrata Finance (Canada) Limited issues were swapped into a floating rate with the swaps guaranteed by the Company and Xstrata (Schweiz) AG The Xstrata Finance (Dubai) Limited issue matured in November 2009 and has been repaid

Cautionary note regarding forward-looking statements

The Business review section of this report comprising the Business, Strategy, Financial and Operating reviews has been prepared in accordance with the Accounting Standards Board Reporting Statement on Operating and Financial Reviews (January 2006), as applicable best practice guidance for UK companies required to prepare a business review The Chairman's statement, Chief Executive's report and the business units' operating reviews, in particular the Strategy section, include an analysis of the main trends and factors likely to affect the future development, performance and position of the business This includes statements that are or may be deemed to be, forward-looking statements' which are prospective in nature All statements other than statements of historical fact are forward looking statements We may also make written and oral forward looking statements in

- our interim reports our summary financial statements to
- shareholders our offering circulars and our prospectuses,
- our press releases and other written materials, and
- oral statements made by our officers, directors or employees to
- third parties, including to financial analysts

Often, but not always, these forward looking statements can be identified by the use of forward looking terminology, including the words 'is expected' 'believes', 'estimates' 'budgets , 'forecasts', 'projects', 'anticipates', 'expects', 'intends', 'plans', 'goal', 'target', 'aim', 'may' 'will' would , could or 'should' or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers directors and employees concerning, amongst other things our results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy and the industries in which we operate

By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond our ability to control or predict Forward-looking statements are not guarantees of future performance Our actual results of operations, financial condition, liquidity, dividend policy and the development of the industries in which we operate may differ materially from the impression created by the forward looking statements contained in this Annual Report Important factors that could cause these differences include, but are not limited to, general economic and business conditions, commodity price volatility, industry trends, competition, changes in government and other regulation, including in relation to the environment, health and safety, taxation, labour relations and work stoppages changes in political and economic stability, currency fluctuations, our ability to integrate new businesses and recover our reserves or develop new reserves, and changes in business strategy or development plans and other risks including those described in the Business review section of this Annual Report Even if the results of operations financial condition liquidity and dividend policy and the development of the industries in which we operate are consistent with the forward looking statements contained in this Annual Report, those results or developments may not be indicative of our results or developments in subsequent periods

Forward looking statements speak only as of the date they are made Other than in accordance with our legal or regulatory obligations (including under the Listing Rules and the Disclosure and Transparency Rules) we do not undertake any obligation to update or revise publicly any forward looking statement, whether as a result of new information, future events or otherwise

The Directors' report in this Annual Report has been prepared for the members of the Company and its purpose is to assist shareholders to assess the Company's strategies and the potential for those strategies to succeed and for no other purpose The Company its directors employees agents and advisers do not accept or assume responsibility for any other purpose or to any other person to whom this Annual Report is shown or into whose access it may come, and any such responsibility or liability is expressly disclaimed

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Shareholder calendar 2012
Annual General Meeting
1 May 2012

Half-yearly results
7 August 2012