

Xstrata Services (UK) Limited

Annual Report and Financial Statements

31 December 2008

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COMPANIES HOUSE

Xstrata Services (UK) Limited

Registered No. 4365240

Directors

M L Davis

T L Reid

R P Elliston (Appointed 1/2/08)

Secretary

R P Elliston

Auditors

Ernst & Young LLP

1 More London Place

London SE1 2AF

Registered Office

Panton House

25 Haymarket

London SW1Y 4EN

Directors' report

The directors present their annual report and financial statements for the year ended 31 December 2008.

Results and dividends

The profit for the year, after taxation, amounted to £65,428,412 (2007 restated £16,589,228). The directors do not recommend the payment of a dividend.

Principal activity and review of the business

The company's principal activity during the year was a service company for Xstrata plc and Xstrata (Schweiz) AG.

Future developments

The directors aim to maintain the management policies, which have resulted in the company's performance in the year.

Risks and uncertainties

The principal activity of the company is that of a service company and as such the company is not exposed to significant risks. Risks that have been identified are classified as financial. The company's exposures to price risk, credit risk, liquidity risk and cash flow risk are not material for the assessment of assets, liabilities and the financial statements.

Key performance indicators

The Companies Act 1985 requires directors to disclose the company's key performance indicators (KPIs). Xstrata plc, the ultimate parent undertaking, manages its KPIs at a Group level on a segment and geographical level. As a result the directors have taken the decision not to disclose KPIs in individual subsidiary accounts. The Xstrata Group KPIs are included within the consolidated accounts of Xstrata plc.

Directors and their interests

The directors who served during the year were those listed on page 1. Richard Elliston was appointed to the Board on 1 February 2008.

All of the directors have a service contract with the company.

There were no other contracts of significance during or at the end of the financial year in which a director of the company was materially interested.

None of the directors who held office at the end of the financial year had an interest in the shares of the company. The interests of the directors holding office on 31 December 2008, in the US\$0.50 ordinary shares of Xstrata plc, were as set out below:

	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 December</i>
	<i>2008</i>	<i>2007</i>
M L Davis	414,489	195,173
T L Reid	53,763	-
R Elliston	2,914	1,855

Directors' report

In addition, details of share options over the US\$0.50 ordinary shares of Xstrata plc, held by the directors who served during the year are as follows:

	<i>At 1 January 2008</i>	<i>Granted during the Year</i>	<i>Exercised during the Year</i>	<i>At 31 December 2008</i>
M L Davis	2,138,992	-	-	2,138,992
T L Reid	928,369	106,058	(300,000)	734,427
R Elliston	36,014	9,234	(14,895)	30,353

Details of the US\$0.50 ordinary shares of Xstrata plc over which the directors who served during the year have rights under the deferred bonus scheme, and conditional rights under the LTIP are as follows:

	<i>At 1 January 2008</i>	<i>Awarded / (Vested)</i>	<i>At 31 December 2008</i>
M L Davis	129,676	1,256,752	1,386,428
T L Reid	182,225	(30,449)	151,776
R Elliston	10,803	(1,698)	9,105

The periods during which the qualifying conditions must be fulfilled ends on 26 February 2009 for deferred bonus shares held at 1 January 2008 and 26 February 2009 and 26 February 2010 for deferred bonus shares awarded during 2008. For conditional rights held under the LTIP scheme at 1 January 2008, the periods during which the qualifying conditions must be fulfilled end on 11 March 2008, 10 March 2009 and 15 March 2010, and for conditional rights awarded under the LTIP scheme during 2008, the period ends on 4 April 2011.

Mr Davis is also entitled to participate in the Added Value Incentive Plan ("AVP"). Participation in the AVP may result in Mr Davis being awarded further Xstrata plc shares. Awards under the AVP are based on growth in total shareholder return over an initial three year performance period relative to an index of global mining companies.

Refer to the Xstrata plc Annual Report 2008 for further details.

Political and charitable contributions

During the year, the company made charitable contributions totalling £368,467 (2007: £1,371,278). No political contributions were made during the year.

Directors' liabilities

The company has granted qualifying third party indemnities to each of its directors for any liability which attaches to them in defending proceedings brought against them, to the extent permitted by the Companies Act. In addition directors and officers of the company are covered by directors' and officers' liability insurance.

Directors' report

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of this information.

Policy and practice with respect to payment of suppliers

It is the company's policy to pay creditors on the dates agreed in the contracts or purchase orders and upon the satisfactory performance of their obligations.

The number of days' purchases represented by trade creditors at year end was 19 (2007: 31).

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



Director
London
16 October 2009

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continues to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditors

So far as each director at the date of the report is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent auditor's report

to the members of Xstrata Services (UK) Limited

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Profit and loss account, Statement of total recognised gains and losses, Balance sheet, and the related notes 1 to 17. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditor's report

to the members of Xstrata Services (UK) Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
16 October 2009

Profit and loss account

for the year ended 31 December 2008

		2008	Restated 2007
	Notes	£	£
Turnover	2	65,394,838	77,725,683
Cost of sales		(4,200,014)	(59,720,332)
Gross profit		61,194,824	18,005,351
Administrative expenses		(1,937,456)	(2,584,299)
Operating profit	3	59,257,368	15,421,052
Interest receivable	6	25,406	32,947
Profit on ordinary activities before taxation		59,282,774	15,453,999
Tax on profit on ordinary activities	7	6,145,638	1,135,229
Profit retained for the financial year		65,428,412	16,589,228

None of the company's activities were acquired or discontinued during the above two financial years.

Statement of total recognised gains and losses
for the year ended 31 December 2008

There are no recognised gains or losses attributable to the shareholders of the company other than the profit of £65,428,412 for the year ended 31 December 2008 (2007 restated: £16,589,228).

Balance sheet

at 31 December 2008

		2008	Restated 2007
	Notes	£	£
Fixed assets			
Tangible fixed assets	8a	1,856,597	489,863
Intangible fixed assets	8b	98,824	811,317
Deferred tax asset	7	18,849,267	19,411,327
		<u>20,804,688</u>	<u>20,712,507</u>
Current assets			
Debtors	9	16,414,694	54,665,982
Cash		374,108	94,644
		<u>16,788,802</u>	<u>54,760,626</u>
Creditors: amounts falling due within one year	10	(66,184,670)	(18,667,483)
Net current assets		<u>(49,395,868)</u>	<u>36,093,143</u>
Total assets less current liabilities		<u>(28,591,180)</u>	<u>56,805,650</u>
Provisions for liabilities	11	(11,142,680)	(52,485,208)
Net assets		<u>(39,733,860)</u>	<u>4,320,442</u>
Capital and reserves			
Called up share capital	13	2	2
Profit and loss account	14	(39,733,862)	4,320,440
Equity shareholders' funds		<u>(39,733,860)</u>	<u>4,320,442</u>

The financial statements were approved by the directors on 16 October 2009 and signed on their behalf by:



T L Reid

Director

Notes to the financial statements

at 31 December 2008

1. Accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards and law in the United Kingdom. The accounting policies adopted are consistent with those of the previous financial year.

Statement of cash flows

The company is exempt from preparing a statement of cash flows under the terms of FRS 1 'Cash Flow Statement (revised 1996)' as it is a member of a group, which produces publicly available accounts.

Tangible and intangible fixed assets

The cost of individual tangible and intangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. Tangible fixed assets comprise mainly office fixtures and fittings, furniture, computer hardware and vehicles. Intangible fixed assets comprise computer software and development.

Depreciation and amortisation

Depreciation (amortisation) is provided on all tangible and intangible fixed assets at rates calculated to write off the cost, less estimated residual value of each asset evenly over its expected useful life, as follows:

Fixtures, fittings, furniture and equipment	over 4 years
Computer hardware, software and development	over 2.5 years
Motor vehicles	over 2.5 years

Impairment

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

If the carrying amount of a fixed asset exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. In assessing recoverable amounts for fixed assets, 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 discount rate.

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Provision is made for gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is measured on a 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.

Share-based payments

Xstrata plc makes share-based awards to employees of the company, including free shares and options in Xstrata plc. In accordance with FRS 20 and UTIF Abstract 44 these awards are accounted for by the company.

Equity-settled awards

For equity-settled awards, the fair value of the awards is charged to the profit and loss account 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 Xstrata plc (market conditions). The fair value is determined by external experts using the models outlined in note 12. 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. As Xstrata plc will ultimately settle these awards in its equity and charge the company, a corresponding payable is recognised by the company.

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, which 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.

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

Equity-settled awards (continued)

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. 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 re-calculated 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 which has expired at the balance sheet date times 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 12).

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Pensions

Contributions to the pension funds are expensed as incurred. The company does not contribute to any defined benefit pension schemes.

Share Capital

Ordinary shares issued by the company are recorded at the net proceeds received, which is the fair value of consideration received less the costs of the share issue.

Comparatives

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

In March 2009, it was established that accruals as at 31 December 2007 omitted £1,007,000 of bonus accruals relating to the 2007 financial year and £128,896 of associated payroll taxes. The prior year has been restated to correct this error and to reflect an additional £1,135,896 in cost of sales and £1,249,486 in revenue, being the on charge of the additional costs to Group companies. This also impacts amounts receivable/payable from/to the Group companies, tax expense, tax payable and the deferred tax asset.

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

Use of estimates

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

Notes to the financial statements

at 31 December 2008

2. Turnover

Turnover, which is stated net of value added tax and accounted for on an accruals basis, arises entirely in the United Kingdom and is attributable to the continuing activity of the provision of services to Xstrata plc and Xstrata (Schweiz) AG. Turnover relates to services provided to other Xstrata plc group companies and is calculated based on the expense incurred by the company plus a margin. Turnover associated with share based payments is recognised at the time an award vests. This may not correspond with the same period the FRS 20 expense for that award is recognised.

3. Operating profit

This is stated after charging:

	2008	2007
	£	£
Amortisation of intangible assets	748,327	648,051
Depreciation of tangible assets	636,026	507,855
Auditors' remuneration - current year	21,000	16,500
Foreign exchange loss/(gain)	335,733	(31,148)

Fees paid to the company's auditor, Ernst & Young LLP, and its associates for services other than the statutory audit of the company are not disclosed in these accounts because the consolidated accounts of Xstrata Services (UK) Limited's ultimate parent, Xstrata plc, are required to disclose non-audit fees on a consolidated basis.

4. Staff costs

	2008	Restated 2007
	£	£
Wages and salaries	8,640,759	14,536,152
Social security costs	9,274,547	5,910,687
Other pension costs	4,367,221	3,705,726
Share based compensation plans (refer note 12)	(26,566,830)	29,997,099
	(4,284,303)	54,149,664

The monthly average number of employees during the year was as follows:

	2008	2007
	No.	No.
Administration	34	30

Notes to the financial statements

at 31 December 2008

5. Directors' emoluments

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2007: \$Nil).

Mick Davis and Trevor Reid are directors of Xstrata plc (the ultimate parent undertaking) in whose accounts the information required by the Companies Act 1985 as regards to emoluments is given. Richard Elliston is the company secretary of Xstrata plc and received no remuneration for services to this company.

The number of directors who were members of pension schemes was as follows:

	2008 No.	2007 No.
Defined contribution schemes	3	3

6. Interest receivable

	2008 £	2007 £
Bank interest receivable	25,406	32,947
	<u>25,406</u>	<u>32,947</u>

Notes to the financial statements

at 31 December 2008

7. Tax on profit on ordinary activities

	2008	Restated 2007
	£	£
UK current tax		
UK corporation tax on profits of the period	(6,154,704)	6,770,601
Adjustments in respect of previous periods	(552,994)	-
	<u>(6,707,698)</u>	<u>6,770,601</u>
UK deferred tax		
Current year originating and reversal of timing differences	(1,952,704)	(7,930,153)
Adjustments in respect of prior years	2,514,764	24,323
	<u>(6,145,638)</u>	<u>(1,135,229)</u>

Factors affecting current tax charge

The main rate of corporation tax changed from 30.00% to 28.00% on 1 April 2008, giving an average rate for the year of 28.50%.

The tax assessed on the profit on ordinary activities for the period is different from the standard rate of corporation tax in the UK of 28.00% (2007: 30.00%). The differences are reconciled below:

	2008	Restated 2007
	£	£
Profit on ordinary activities before tax	59,282,774	15,453,999
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.50% (2007: 30.00%)	16,895,591	4,636,200
Effect of:		
Expenses deductible for tax purposes	(24,730,133)	(7,120,970)
Depreciation in excess of capital allowances	(6,030)	101,069
Other timing differences	(8,775,927)	9,154,302
Unrelieved tax losses carried forward	10,769,530	-
Difference in tax rate of losses carried back	(307,735)	-
Adjustments in respect of previous periods	(552,994)	-
Total current tax	<u>(6,707,698)</u>	<u>6,770,601</u>
Deferred tax asset		
	£	£
At 1 January	19,411,327	11,505,497
Profit and loss account	1,952,704	7,930,153
Adjustments in respect of prior years	(2,514,764)	(24,323)
At 31 December	<u>18,849,267</u>	<u>19,411,327</u>
The deferred tax asset consists of:		
	£	£
Decelerated capital allowances	493,900	323,637
Other timing differences	82,922	675,875
Tax losses brought forward	10,580,590	-
Share based payments	7,691,855	18,411,815
Total deferred tax assets	<u>18,849,267</u>	<u>19,411,327</u>

Notes to the financial statements

at 31 December 2008

7. Tax on profit on ordinary activities (continued)

This asset will be recovered through the future profits arising from the ongoing provision of services to Xstrata plc and Xstrata (Schweiz) AG and when share based payment awards are exercised.

8a. Tangible fixed assets

	<i>Fixtures, fittings and equipment</i>	<i>Computer hardware</i>	<i>Motor vehicles</i>	<i>Total</i>
	£	£	£	£
Cost:				
At 31 December 2007	2,513,603	1,382,101	65,780	3,961,484
Additions	1,025,745	977,015	-	2,002,760
At 31 December 2008	3,539,348	2,359,116	65,780	5,964,244
Depreciation:				
At 31 December 2007	2,486,416	956,700	28,505	3,471,621
Charge for the year	130,198	479,516	26,312	636,026
At 31 December 2008	2,616,614	1,436,216	54,817	4,107,647
Net book value:				
At 31 December 2008	922,734	922,900	10,963	1,856,597
At 31 December 2007	27,187	425,401	37,275	489,863

8b. Intangible fixed assets

	<i>Computer software and development</i>	<i>Total</i>
	£	£
Cost:		
At 31 December 2007	2,646,839	2,646,839
Additions	35,834	35,834
At 31 December 2008	2,682,673	2,682,673
Amortisation:		
At 31 December 2007	1,835,522	1,835,522
Charge for the year	748,327	748,327
At 31 December 2008	2,583,849	2,583,849
Net book value:		
At 31 December 2008	98,824	98,824
At 31 December 2007	811,317	811,317

Notes to the financial statements

at 31 December 2008

9. Debtors

	2008	Restated 2007
	£	£
Amounts owed by other group undertakings	14,151,914	54,023,569
Prepayments	446,301	179,281
Corporation tax	1,401,758	-
Other debtors	414,721	463,132
	<u>16,414,694</u>	<u>54,665,982</u>

10. Creditors: amounts falling due within one year

	2008	Restated 2007
	£	£
Trade creditors	442,988	769,108
Corporation tax	-	8,453,586
Other taxes and social security costs	323,525	508,084
Accruals	3,670,190	8,936,705
Amounts owed to other group undertakings	61,747,967	-
	<u>66,184,670</u>	<u>18,667,483</u>

11. Provisions for liabilities

		Share-based payment compensation plans
	2008	Restated 2007
	£	£
At 1 January	52,485,208	30,798,395
Arising during the year	85,335,182	21,686,813
Utilised	(5,333,010)	-
Fair value movement of share based payment provision	(121,344,700)	-
At 31 December	<u>11,142,680</u>	<u>52,485,208</u>

The Group has granted various share-based compensation plans to certain UK executives and senior employees that will be cash-settled (refer to note 12). The intrinsic value of the cash-settled share-based compensation plans that had vested at 31 December 2008 was £1,190,076 (2007: £43,841,906)

Notes to the financial statements

at 31 December 2008

12. Share-based payments

Xstrata plc has made share-based payment awards to employees of the company. The below disclosures relate to those awards made.

The amount recognised in the profit and loss account during the year is shown in the following table:

	2008	2007
Expense arising from equity settled transactions	95,074,927	8,310,286
(Credit)/expense arising from cash settled transactions	(121,641,757)	21,686,813
Total expense arising from share-based payment transactions	(26,566,830)	29,997,099

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 following years are conditional on TSR relative to a peer group, with the remainder conditional on the real cost savings relative to targets set on a stretching scale over the three-year period.

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 remaining awards, vesting is conditional on 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 will be 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 were 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 which is based on the closing market price of an ordinary share seven trading days prior to the date of grant.

Of the below options, 1.9 million (2007: 1.9 million) are accounted for as cash-settled share-based awards whilst the remainder of the LTIP awards are equity-settled.

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

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at 31 December 2008

12. Share-based payments (continued)

Free Shares

	2008 No	2008 WAEP	2007 No	2007 WAEP
Outstanding as at 1 January	416,131 ¹	NA	746,605 ¹	NA
Granted during the year	107,209	NA	121,823	NA
Exercised during the year	(166,547) ³	NA	(452,297) ²	NA
Forfeited during the year	(22,760)	NA	-	NA
Outstanding as at 31 December	334,033	NA	416,131	NA
Exercisable at 31 December	-	NA	-	NA

¹All shares included in this balance have been accounted for in accordance with FRS 20 Share-based Payments.

²The weighted average share price at the date of exercise of these awards was £23.63.

³The weighted average share price at the date of exercise of these awards was £36.98.

The weighted average remaining contractual life for the free shares outstanding as at 31 December 2008 is 8.2 years (2007: 8.1 years).

The weighted average fair value of free shares granted during the year was £27.27 (2007: £19.78).

Share Options

	2008 No	2008 WAEP	2007 No	2007 WAEP
Outstanding as at 1 January	2,896,653	GBP10.44	2,863,223	GBP8.01
Granted during the year	357,365	GBP35.36	406,077	GBP24.00
Exercised during the year	(436,180) ²	GBP8.48	(372,647) ¹	GBP6.58
Forfeited during the year	(75,865)	GBP24.00	-	-
Outstanding as at 31 December	2,741,973 ³	GBP13.62	2,896,653 ³	GBP10.44
Exercisable at 31 December	1,628,517	GBP6.29	1,509,531	GBP5.74

¹The weighted average share price at the date of exercise of these options was £25.58.

²The weighted average share price at the date of exercise of these options was £39.67.

³All the share options included in this balance have been accounted for in accordance with FRS 20 Share-based Payments.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2008: 6.3 years (2007: 7.0 years).

The weighted average fair value of options granted during the year was £7.48 (2007: £10.32).

The range of exercise prices for options outstanding at the end of the year was £3.22 to £35.36 (2007: £3.22 to £24.00).

Notes to the financial statements

at 31 December 2008

12. Share-based payments (continued)

The following table lists the inputs to the models used to measure the fair value of equity settled awards granted:

	<i>Date of grant</i> 2008	<i>Date of grant</i> 2007
Dividend yield (%)	0.8	1.5
Expected volatility (%)	36	35
Risk-free interest rate (%)	4.1	5.1
Earliest exercise date	04-Apr-11	15-Mar-10
Latest exercise date	03-Apr-18	14-Mar-17
Expected exercise date	19-Jan-12	27-Nov-10
Share price at date of grant	37.06	24.25
Exercise price (GBP)	35.36	24.00
Free share fair value at date of grant (GBP)	30.33	19.73
Option fair value at date of grant (GBP)	11.07	6.74

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 the binomial models, taking into account the terms and conditions of the award.

Directors' Service contracts

Options were granted to two Directors pursuant to the terms on which they were recruited. The options are to be equity-settled. The exercise price was the share price at the date of granting of the share options. The final scheme vested in January 2007 and each scheme has an exercise period of seven years. If the holder ceases to be employed by the Xstrata group for any reason, they may exercise any vested options within six months of such cessation, after which the options lapse. Any unvested options will lapse if the holder is dismissed lawfully under the terms of their contract or if they voluntarily resign except where they have a valid reason to terminate their employment as defined in their employment contract, in which case all unvested options shall immediately vest and become exercisable for a period of six months. In all cases, they will remain exercisable for a period of six months.

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

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at 31 December 2008

12. Share-based payments (continued)

	2008 No	2008 WAEP	2007 No	2007 WAEP
Outstanding as at 1 January	1,142,492	GBP4.25	1,242,492	GBP4.36
Exercised during the year	(148,498) ²	GBP5.68	(100,000) ¹	GBP5.68
Outstanding as at 31 December	993,994	GBP4.03	1,142,492	GBP4.25
Exercisable at 31 December	993,994	GBP4.03	1,142,492	GBP4.25

¹The weighted average share price at the date of exercise of these options was £27.62.

²The weighted average share price at the date of exercise of these options was £41.57.

The above share options have not been accounted for in accordance with FRS 20 Share-based Payments as the options were granted on or before 7 November 2002 and have not been subsequently modified.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2008 is 4.2 years (2007: 5.4 years).

No new options were granted during the year.

The range of exercise prices for options outstanding at the end of the year was £3.84 to £4.22 (2007: £3.84 to £5.68).

Deferred Bonus

The maximum bonus payable under the bonus plan for directors of the company 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 plc 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 FRS 20.

In 2005 the Xstrata plc Remuneration Committee resolved that during the bonus deferral period dividend equivalents would accrue in relation to the deferral, to be delivered at the end of the deferral period and 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:

Notes to the financial statements

at 31 December 2008

12. Share-based payments (continued)

	2008	2007	2006
Market value of deferred bonus award (£)	3,370,797	3,218,834	3,877,692
Number of shares purchased	991,411	111,032	151,048

Directors' 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 and aligns interests with shareholders by means of share ownership. Performance is assessed over periods of three years and five years from the date of award 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 Xstrata plc 2008 Annual Report.

The first cycle of the AVP began on 9 May 2005, the second began on 10 March 2006, the third began on 15 March 2007 and the fourth began on 26 March 2008. The AVP will terminate on 9 May 2010, after which no further awards will be granted.

For the 2008 plan cycle, the market capitalisation on 26 March 2008 was £38 billion, the Participation Percentage was equal to 0.5% and the share price at the measurement date was £35.22. For the 2007 plan cycle, the market capitalisation on 15 March 2007 was £23.4 billion, the Participation Percentage was equal to 0.3% and the share price at the measurement date was £24.25. For the 2006 plan cycle, the market capitalisation on 10 March 2006 was £10.7 billion, the Participation Percentage was equal to 0.3% and the share price at the measurement date was £16.92. For the 2005 plan cycle, the market capitalisation on 9 May 2005 was £6.03 billion, the Participation Percentage was equal to 0.5% and the share price at the measurement date was £9.52. On 6 May 2008 amendments to the rules of the AVP, as outlined in the Directors' Remuneration Report in the Xstrata plc 2007 Annual Report on page 126, were approved at the Xstrata Annual General Meeting. In May 2008, 50% of the interim award of the 2005 AVP cycle was cash-settled as detailed in the Xstrata plc 2008 Annual report. The remaining 50% of the interim award of the 2005 AVP cycle is deferred in equal portions for one and two years and its value moves in accordance with the Company's share price. At 31 December 2008, the fair value of this deferred award was £8.2 million.

Under IFRS 2, at the grant date of 9 May 2005, the fair value of any potential award for the 2005 plan was £3.7 million, using a Monte Carlo simulation model to incorporate the market-based features of the plan. At the grant date of 10 March 2006, the fair value of any potential award for the 2006 plan was £4 million; at the grant date of 15 March 2007, the fair value of any potential award for the 2007 plan was £9.7 million; and the fair value of any potential award of the 2008 share-based payment was £59.6 million, estimated at the grant date of 26 March 2008, using a Monte Carlo simulation model. During the year, it was determined that the AVP should be accounted for as a cash-settled share-based payment to reflect the expected form of settlement. Accordingly, a provision was recognised based on the fair value of each award adjusted for the vesting period yet to lapse using a Monte Carlo simulation model. At 31 December 2008 the fair value of all unvested AVP awards was £9.6 million and the total provision held at 31 December 2008 for the AVP was £7.2 million.

Notes to the financial statements

at 31 December 2008

12. Share-based payments (continued)

The following table lists the inputs to the models used to measure the fair value of the AVP award granted:

	2008		2007	
	<i>Xstrata plc</i>	<i>Xstrata share Indices¹</i>	<i>Xstrata plc</i>	<i>Xstrata share Indices¹</i>
Dividend yield (%)	N/A	N/A ²	N/A	N/A ²
Expected volatility to interim vesting (%)	40	31	N/A	N/A
Expected volatility to final vesting (%)	37	28	38	25
Risk-free interest rate to interim vesting (%)	4.1	4.1	N/A	N/A
Risk-free interest rate to final vesting (%)	4.2	4.2	5.2	5.2
Third anniversary of start of cycle	26 March 2011	26 March 2011	15 March 2010	15 March 2010
Fourth anniversary of start of cycle	26 March 2012	26 March 2012	15 March 2011	15 March 2011
Fifth anniversary of start of cycle	26 March 2013	26 March 2013	15 March 2012	15 March 2012
Sixth anniversary of start of cycle	26 March 2014	26 March 2014	N/A	N/A

¹There are two Xstrata Share Indices used within the valuation model; one is a market capitalisation weighted TSR index comprising 14 global mining firms (2007: 15 global mining firms) who are considered to be Xstrata plc's key competitors for both financial and human capital. The other is a market capitalisation price index comprising the same constituents.

²When 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 2.3% (2007: 2.5%) has been used. For the simulation of Xstrata plc's TSR and the Index TSR a dividend yield is not required.

The following table lists the range of inputs to the models used to measure the fair value of each unvested cycle of the AVP awards amended on 6 May 2008:

	<i>Xstrata share</i>	
	<i>Xstrata plc</i>	<i>Indices¹</i>
Dividend yield (%)	N/A	N/A ²
Expected volatility to interim vesting (%)	42 – 49	33 – 38
Expected volatility to final vesting (%)	38 – 44	24 – 34
Risk-free interest rate to interim vesting (%)	4.4 – 4.5	4.4 – 4.5
Risk-free interest rate to final vesting (%)	4.4 – 4.5	4.4 – 4.5

¹There are two Xstrata Share Indices used within the valuation model; one is a market capitalisation weighted TSR index comprising relevant mining companies who are considered to be Xstrata plc's key competitors for both financial and human capital. The other is a market capitalisation price index comprising the same constituents.

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12. Share-based payments (continued)

²When 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 1.9% has been used. For the simulation of Xstrata plc's TSR and the Index TSR a dividend yield is not required.

The expected volatility reflects the assumption that the historic volatility is indicative of future trends, which may also not necessarily be the actual outcome. The AVP is not an award over a fixed number of shares.

13. Share capital

			2008	2007
			£	£
<i>Authorised</i>				
Ordinary shares of £1 each			1,000	1,000
	2008	2007	2008	2007
	No.	No.	£	£
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	2	2	2	2

14. Reconciliation of shareholders' funds and movement in reserves

	Share capital	Profit and loss account	Total share-holders' funds
	£	£	£
At 31 December 2007 - restated	2	4,320,440	4,320,442
Profit for the year	-	65,428,412	65,428,412
Modification of share based awards	-	(109,482,714)	(109,482,714)
At 31 December 2008	2	(39,733,862)	(39,733,860)

15. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to Nil (2007: £865,000).

16. Related parties

The company has taken advantage of the exemption contained within Financial Reporting Standard No 8 'Related Party Disclosures' and has not disclosed transactions with group companies.

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17. Parent undertaking and controlling party

The ultimate parent company is Xstrata plc, a company incorporated in Great Britain and registered in England and Wales. This is the largest group for which consolidated accounts are prepared. Copies of the consolidated accounts of Xstrata plc may be obtained from Panton House, 25 Haymarket, London SW1Y 4EN.

The immediate parent undertaking of this company is Xstrata (Schweiz) AG, a company incorporated in Switzerland.