

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000, as amended (the “FSMA”) if you are in the United Kingdom, or from another appropriately authorised independent financial adviser if you are in a territory outside the United Kingdom.

If you sell or transfer or have sold or otherwise transferred all of your Existing Shares (other than ex-rights) held in certificated form before 3 March 2009 (the “ex-rights date”), please forward this Supplementary Prospectus and the Prospectus (and any Provisional Allotment Letter, if and when received) at once to the purchaser or transferee or the stockbroker, bank or other agent through whom the sale or transfer is/was effected for onward transmission to the purchaser or transferee. Neither this Supplementary Prospectus nor the Prospectus nor the Provisional Allotment Letter (if and when received) should, however, be distributed, forwarded to or transmitted in, or into, any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to, and subject to certain exceptions, the United States, Australia, Canada, Japan and South Africa. Please refer to paragraphs 7 and 8 of Part VII — “Use of Proceeds and Terms and Conditions of the Rights Issue” of the Prospectus if you propose to send this Supplementary Prospectus and/or the Prospectus and/or the Provisional Allotment Letter (if and when received) outside the United Kingdom. If you sell or have sold or otherwise transferred all or some of your Existing Shares (other than ex-rights) held in uncertificated form before the ex-rights date, a claim transaction will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee. If you sell or transfer or have sold or transferred only part of your holding of Existing Shares (other than ex-rights) in certificated form, please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately. Instructions regarding split applications are set out in paragraph 3(f) of Part VII — “Use of Proceeds and Terms and Conditions of the Rights Issue” of the Prospectus and are also set out in the Provisional Allotment Letter.

This Supplementary Prospectus is supplemental to, and must be read in conjunction with, the prospectus published by Xstrata on 2 February 2009 in respect of the Rights Issue and the Proposed Acquisition (the “Prospectus”). Save as disclosed in this Supplementary Prospectus, since the publication of the Prospectus there have been no significant new factors, material mistakes or inaccuracies relating to the information contained in the Prospectus.

To the extent there is any inconsistency between a statement in this Supplementary Prospectus and a statement in the Prospectus, the statement in this Supplementary Prospectus shall prevail.

The Company and the Directors, whose names appear in Part VI — “Directors and Senior Management of Xstrata” of the Prospectus, accept responsibility for the information contained in this Supplementary Prospectus. Having taken all reasonable care to ensure that such is the case, the information contained in this Supplementary Prospectus is, to the best of the knowledge of the Company and the Directors, in accordance with the facts and contains no omission likely to affect its import.

Except as otherwise indicated, terms have the meanings ascribed to them in Part XI — “Definitions and Glossary of Technical Terms” of the Prospectus. References to times in this Supplementary Prospectus are to London time unless otherwise stated.

You should read this Supplementary Prospectus, the Prospectus and the information incorporated by reference into this Supplementary Prospectus and the Prospectus, in their entirety, in particular the section of the Prospectus headed “Risk Factors” at pages 7 to 26 (inclusive) thereof.

Xstrata plc

(incorporated in England and Wales under the Companies Act 1985, with registered number 4345939)

Supplementary Prospectus

Proposed 2 for 1 Rights Issue of up to

1,982,508,352 New Shares at 210 pence per New Share

Proposed Related Party Acquisition of the Prodeco Business from Glencore

The distribution of this Supplementary Prospectus and/or the Prospectus and/or the Provisional Allotment Letter and/or the transfer of Nil Paid Rights, Fully Paid Rights and/or New Shares into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this Supplementary Prospectus and/or the Prospectus and/or the Provisional Allotment Letter come should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions. In particular, subject to certain exceptions, this Supplementary Prospectus, the Prospectus, the Provisional Allotment Letter and any other such documents should not be distributed, forwarded to or transmitted in or into the United States, Australia, Canada, Japan or South Africa.

The latest time for acceptance and payment in full of entitlements under the Rights Issue is 11.00 a.m. (London time) on 17 March 2009. The procedure for acceptance and payment is set out in Part VII — “Use of Proceeds and Terms and Conditions of the Rights Issue” of the Prospectus and, for Qualifying Non-CREST Shareholders only, is also set out in the Provisional Allotment Letter. Qualifying CREST Shareholders should refer to paragraph 4 of Part VII — “Use of Proceeds and Terms and Conditions of the Rights Issue” of the Prospectus.

The Nil Paid Rights, the Fully Paid Rights and the New Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction. The Nil Paid Rights, the Fully Paid Rights and the New Shares may not be offered, sold, taken up, exercised, resold, transferred or delivered, directly or indirectly, within the United States except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. There will be no public offer of the Nil Paid Rights, the Fully Paid Rights or the New Shares in the United States.

The Existing Shares are listed on the Official List, admitted to trading on the London Stock Exchange’s main market for listed securities and admitted to listing on the SIX. Application has been made to the Financial Services Authority for the New Shares (nil and fully paid) to be issued in connection with the Rights Issue to which the Prospectus and this Supplementary Prospectus relate to be listed on the Official List and to the London Stock Exchange for the New Shares (nil and fully paid) to be admitted to trading on the London Stock Exchange’s main market for listed securities. Application has also been made to the Admission Board of the SIX for the New Shares (nil and fully paid) to be admitted to listing on the SIX. It is expected that Admission and Swiss Admission will become effective and that dealings in the New Shares will commence on the London Stock Exchange and on the SIX, nil paid, at 8.00 a.m. (London time) on 3 March 2009.

This Supplementary Prospectus comprises a supplementary prospectus relating to Xstrata, the offer of New Shares under the Rights Issue and Admission and has been prepared in accordance with the prospectus rules made under Part VI of the FSMA (the “Prospectus Rules”) and, in particular, Prospectus Rule 3.4. This Supplementary Prospectus has been approved by the Financial Services Authority in accordance with section 85 of the FSMA. This Supplementary Prospectus will be made available to the public in accordance with the Prospectus Rules. Xstrata has requested that the Financial Services Authority provide a certificate of approval and a copy of this Supplementary Prospectus to the relevant competent authority in Ireland.

Qualifying Shareholders holding Ordinary Shares through the SIX SIS System should contact the Swiss Bank through which they hold Ordinary Shares for details of how to participate in the Rights Issue.

Deutsche Bank, JPMorgan Cazenove and J.P. Morgan Securities Ltd. are each authorised and regulated by the Financial Services Authority in the UK and are acting for Xstrata and no one else in connection with the Rights Issue and the Proposed Acquisition and will not be responsible to anyone other than Xstrata for providing the protections afforded to their respective clients or for providing advice in relation to the Rights Issue, the Proposed Acquisition and/or any other matter referred to in this Supplementary Prospectus and/or the Prospectus.

Rothschild, which is authorised and regulated by the Financial Services Authority in the UK, is acting exclusively for Xstrata and Xstrata (Schweiz) AG and no one else in connection with the Proposed Acquisition and will not be responsible to anyone other than Xstrata or Xstrata (Schweiz) AG for providing the protections afforded to its clients or for providing advice in relation to the Proposed Acquisition and/or any other matter referred to in this Supplementary Prospectus and/or the Prospectus.

In addition to this Supplementary Prospectus and the Prospectus it is expected that Qualifying Non-CREST Shareholders, other than (subject to certain exceptions) those with registered addresses or who are located in the United States, Australia, Canada, Japan or South Africa, will be sent a Provisional Allotment Letter on 2 March 2009. In addition, it is expected that Qualifying CREST Shareholders (none of whom will be sent a Provisional Allotment Letter), other than (subject to certain exceptions) those with registered addresses in the United States, Australia, Canada, Japan or South Africa, will receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled on 3 March 2009. The Nil Paid Rights so credited are expected to be enabled for settlement by Euroclear as soon as practicable after Admission. Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this Supplementary Prospectus, the Prospectus and the Rights Issue.

None of this Supplementary Prospectus, the Prospectus, the Provisional Allotment Letter nor the crediting of Nil Paid Rights to a stock account in CREST constitutes or will constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, New Shares, Nil Paid Rights and/or Fully Paid Rights to be issued in connection with the Rights Issue and/or to take up entitlements to Nil Paid Rights, in any jurisdiction in which such an offer or solicitation is unlawful. Except as otherwise provided for herein, neither this Supplementary Prospectus, the Prospectus nor a Provisional Allotment Letter nor the crediting of Nil Paid Rights to a stock account in CREST constitutes or forms part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, New Shares, Nil Paid Rights and/or Fully Paid Rights to any Shareholder with a registered address in, or who is resident in, the United States, Australia, Canada, Japan or South Africa. Subject to certain exceptions, Provisional Allotment Letters will not be posted to any person in the United States, Australia, Canada, Japan or South Africa nor will Nil Paid Rights be credited to any stock account in CREST with a registered address in the United States, Australia, Canada, Japan or South Africa. The attention of Overseas Shareholders and other recipients of this Supplementary Prospectus, the Prospectus and/or the Provisional Allotment Letter who are residents or citizens of any country other than the United Kingdom or who have a contractual or other obligation to forward this Supplementary Prospectus, the Prospectus and/or the Provisional Allotment Letter to a jurisdiction outside the United Kingdom is drawn to paragraphs 7 and 8 of Part VII — “Use of Proceeds and Terms and Conditions of the Rights Issue” of the Prospectus.

The contents of this Supplementary Prospectus should not be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for advice.

Any reproduction or distribution of this Supplementary Prospectus in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the New Shares, the Nil Paid Rights or the Fully Paid Rights is prohibited. Each offeree of the New Shares, the Nil Paid Rights or the Fully Paid Rights by accepting delivery of this Supplementary Prospectus or otherwise accessing this Supplementary Prospectus agrees to the foregoing.

NOTICE TO US INVESTORS

For the Rights Issue, Xstrata is relying upon exemptions from registration under US securities laws for an offer that does not involve a public offering in the United States. Deutsche Bank and JPMorgan Cazenove may arrange for the offer of New Shares not taken up in the Rights Issue in the United States only to persons reasonably believed to be QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The New Shares, the Nil Paid Rights and the Fully Paid Rights offered and sold outside the United States are being offered and sold in reliance on Regulation S. In addition, until 40 days after the latter of the commencement of the Rights Issue or the procurement of subscribers of those New Shares not taken up by Deutsche Bank and JPMorgan Cazenove, an offer, sale or transfer of the Nil Paid Rights, the Fully Paid Rights or the New Shares within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the Securities Act.

The New Shares, the Nil Paid Rights and the Fully Paid Rights have not been approved or disapproved by the SEC, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Shares, the Nil Paid Rights or the Fully Paid Rights or the accuracy or adequacy of this Supplementary Prospectus, the Prospectus or the Provisional Allotment Letter. Any representation to the contrary is a criminal offence in the United States.

The New Shares, the Nil Paid Rights and the Fully Paid Rights have not been and will not be registered under the Securities Act or under any relevant securities laws of any state or other jurisdiction of the United States and, accordingly, may not be offered, sold, taken up, exercised, resold, transferred or delivered, directly or indirectly, within the United States absent registration under the Securities Act, or an applicable exemption from the registration requirements of the Securities Act, and in compliance with state securities laws.

Except as otherwise provided for herein, none of this Supplementary Prospectus, the Prospectus, the Provisional Allotment Letter nor the crediting of Nil Paid Rights to a stock account in CREST constitutes or forms part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, New Shares, Nil Paid Rights and/or Fully Paid Rights to any Shareholder with a registered address in, or who is resident in, the United States. If you are in the United States, you may not exercise your Nil Paid Rights or Fully Paid Rights and/or acquire any New Shares offered hereby unless you are a QIB. In addition, in order to exercise your Nil Paid Rights or Fully Paid Rights and/or acquire any New Shares offered hereby you must sign and deliver an investor letter, substantially in the form described under paragraph 7(d) of Part VII — “Use of Proceeds and Terms and Conditions of the Rights Issue” of the Prospectus.

If you sign such an investor letter, you will be, amongst other things:

- representing that you and any account for which you are acquiring the New Shares, the Nil Paid Rights or the Fully Paid Rights are a QIB;
- agreeing not to reoffer, sell, pledge or otherwise transfer the New Shares, the Nil Paid Rights or the Fully Paid Rights, except:
 - in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act;
 - to another QIB in accordance with Rule 144A under the Securities Act (if available); or
 - pursuant to Rule 144 under the Securities Act (if available), and in compliance with any applicable securities laws of any state or other jurisdiction of the United States; and
- agreeing not to deposit any New Shares, the Nil Paid Rights or the Fully Paid Rights into any unrestricted depositary facility established or maintained by a depositary bank, unless they have been registered pursuant to an effective registration statement under the Securities Act.

No representation has been, or will be, made by Xstrata or the Banks as to the availability of Rule 144 under the Securities Act or any other exemption under the Securities Act or any state securities laws for the reoffer, sale, pledge or transfer of the New Shares, the Nil Paid Rights or the Fully Paid Rights.

Any envelope containing a Provisional Allotment Letter and post-marked from the United States will not be accepted unless it contains a duly executed investor letter in the appropriate form as described in paragraph 7(d) of Part VII — “Use of Proceeds and Terms and Conditions of the Rights Issue” of the Prospectus. Similarly, any Provisional Allotment Letter in which the exercising holder requests New Shares to be issued in registered form and gives an address in the United States will not be accepted unless it contains a duly executed investor letter.

Any payments received in respect of Provisional Allotment Letters that do not meet the foregoing criteria will be returned without interest.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE OR NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS SECTION.

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Supplementary Summary

This document (the “Supplementary Prospectus”) is supplemental to, and should be read in conjunction with, the Prospectus.

Following the publication of the Prospectus on 2 February 2009, on 2 March 2009 the Board of Directors approved (a) the group financial statements for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes (the “Group Financial Statements”), and (b) the parent company financial statements of Xstrata for the year ended 31 December 2008 which comprise the balance sheet and the related notes (the “Company Financial Statements” and, together with the Group Financial Statements, the “Financial Statements”). Ernst & Young LLP have audited the Group Financial Statements and the Company Financial Statements and have issued independent audit reports dated 2 March 2009 in relation thereto. Xstrata and the Directors regard the audited Financial Statements and, specifically, the notes thereto and the audited Company Financial Statements, to be significant new factors relating to the information contained in the Prospectus and, accordingly, have prepared and published this Supplementary Prospectus in accordance with section 87G of the FSMA, the Prospectus Rules and the Listing Rules. Save as disclosed in this Supplementary Prospectus, there is no other information that is required to be disclosed in this Supplementary Prospectus pursuant to section 87G of the FSMA.

The summary below supplements the paragraph entitled “Selected IFRS financial information on the Xstrata Group” of the “Summary” section of the Prospectus.

Selected audited IFRS financial information on the Xstrata Group

The financial information set out below has been extracted without material amendment from (i) sections A and B of Part I — “Financial Information and Operating and Financial Review Relating to the Xstrata Group — Financial Information on the Xstrata Group” of the Prospectus in respect of the financial information presented for the years ended 31 December 2005, 2006 and 2007 and the six months ended 30 June 2007 and 2008, and (ii) section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements” of this Supplementary Prospectus in respect of the financial information presented for the year ended 31 December 2008, in each case where it is shown with important notes describing certain of the line items.

Supplementary Summary

	Year ended 31 December			Six months ended 30 June		Year ended 31 December
	2005	2006 (audited)	2007	2007 (unaudited)	2008	2008 (audited)
	<i>(in US\$ millions, except as otherwise stated)</i>					
Revenue	8,050	17,632	28,542	14,232	16,092	27,952
EBITDA (before exceptional items)	3,103	7,107	10,888	5,687	5,694	9,657
EBITDA	3,093	7,136	11,138	5,938	5,619	9,424
EBIT (before exceptional items)	2,520	5,863	8,792	4,671	4,513	7,261
EBIT	2,510	4,514	9,042	4,922	4,438	6,054
Profit before taxation	2,462	3,915	8,127	4,466	4,031	5,168
Attributable profit (before exceptional items)	1,660	3,350	5,424	2,769	2,829	4,698
Profit attributable to equity holders of parent	1,706	1,947	5,543	3,002	2,753	3,595
Earning per share (US\$) (before exceptional items)	2.71	4.34	5.66	2.88	2.95	4.90
Earning per share (US\$)	2.79	2.52	5.78	3.07	2.87	3.75
Dividends per share — declared and paid (US¢)	25	34	46	30	34	52.0
Dividends per share — proposed (US¢)	25	30	34	16	18	—
Net debt	2,611	13,601	11,975	10,039	14,777	16,306
Net assets	8,137	19,722	25,258	22,420	28,456	24,399
Net debt to equity	32.1%	69.0%	47.4%	44.8%	51.9%	66.8%
Net cash flow from operating activities	2,325	5,286	7,414	3,921	3,085	6,585
Net cash flow from/(used in) investing activities	(2,363)	(20,021)	(3,871)	95	(5,810)	(10,393)
Net cash flow from/(used in) financing activities	122	15,918	(4,208)	(4,426)	2,978	3,915
Net increase/(decrease) in cash and cash equivalents	84	1,183	(665)	(410)	253	107

Copies of this Supplementary Prospectus, the Prospectus and certain other documents referred to herein and in the Prospectus will be on display during normal business hours for a period of 12 months following the date of publication of this Supplementary Prospectus at Xstrata's registered office and at the offices of Freshfields Bruckhaus Deringer LLP in London.

Important Information

Withdrawal rights

Qualifying Shareholders are reminded of their statutory withdrawal rights in respect of the Rights Issue pursuant to section 87Q(4) of the FSMA, which arise upon the publication of this Supplementary Prospectus.

As also set out in paragraph 5(b) (“Withdrawal rights”) of Part VII — “Use of Proceeds and Terms and Conditions of the Rights Issue” of the Prospectus, persons wishing to exercise or direct the exercise of statutory withdrawal rights pursuant to section 87Q(4) of the FSMA after the issue by Xstrata of this Supplementary Prospectus must do so by lodging a written notice of withdrawal (which shall not include a notice sent by facsimile or any other form of electronic communication) so as to be sent before the end of the period of two working days beginning with the first working day after the date on which this Supplementary Prospectus was published. The withdrawal notice must include the full name and address of the person wishing to exercise such right of withdrawal and, if such person is a CREST member, the participant ID and the member account ID of such CREST member. The notice of withdrawal must be deposited by post with Computershare Investor Service PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE. Notice of withdrawal of acceptance given by any other means or which is deposited with Computershare Investor Service PLC after the end of the specified above period will be invalid. Furthermore, the exercise of withdrawal rights will not be permitted after payment by the relevant person of its subscription in full and allotment of the New Shares to such person becoming unconditional. In such circumstances, Shareholders are advised to consult their professional advisers.

Cautionary note regarding forward-looking statements

This Supplementary Prospectus, the Prospectus and the information incorporated by reference into this Supplementary Prospectus and the Prospectus include statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “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. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Supplementary Prospectus, the Prospectus and the information incorporated by reference into this Supplementary Prospectus and the Prospectus and include statements regarding the intentions, beliefs or current expectations of the Directors, Xstrata or the Xstrata Group concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of the Xstrata Group and the Enlarged Group and the industries in which they operate.

This Supplementary Prospectus, the Prospectus and the information incorporated by reference into this Supplementary Prospectus and the Prospectus also contain forward-looking statements regarding the Proposed Acquisition, including statements regarding and relating to the expected completion, and the expected timing of completion, of the Proposed Acquisition (which is conditional, amongst other things, upon Shareholder approval and receipt of certain regulatory clearances) and anticipated benefits of the Proposed Acquisition.

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 Xstrata’s ability to control or predict. Forward-looking statements are not guarantees of future performance. The Xstrata Group’s and the Enlarged Group’s actual results of operations, financial condition, liquidity, dividend policy and the development of the industries in which they operate may differ materially from the impression created by the forward-looking statements contained in this Supplementary Prospectus and/or the Prospectus and/or the information incorporated by reference into this Supplementary Prospectus and the Prospectus. Further, actual developments in relation to the Proposed Acquisition, and the expected completion of the Proposed Acquisition may differ materially from those contemplated by forward-looking statements depending on certain factors which include, but are not limited to: the risk that Shareholders may not vote in favour of the Resolutions; the risk that the Xstrata Group will not be able to obtain the required approvals or clearances from regulatory and other agencies and bodies on a timely basis or at all; the risk that the other conditions of the Rights Issue and the Proposed Acquisition may not be satisfied on a timely basis or at all; the risk that the Xstrata Group may not realise the anticipated benefits, operational and other synergies and/or cost savings from the Proposed Acquisition; and the risk that the Xstrata Group may incur and/or experience unanticipated costs and/or delays and/or difficulties relating to the integration of the Prodeco Business. In addition, even if the results of operations, financial condition, liquidity and dividend policy of the Xstrata Group and the Enlarged Group (as the case may be), and the development of the industries in which they operate, are consistent with the forward-looking statements contained in this Supplementary Prospectus and/or the Prospectus and/or the information incorporated by reference into this Supplementary Prospectus and the Prospectus, those

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results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to: general economic and business conditions; commodity price volatility; industry trends; competition; the availability of debt and other financing on acceptable terms; changes in government and other regulation, including in relation to the environment, health and safety and taxation, labour relations and work stoppages; changes in political and economic stability; currency fluctuations (including the €/US\$, £/US\$, A\$/US\$, C\$/US\$, ZAR/US\$, ARS/US\$, CHF/US\$, CLP/US\$, the Colombian peso/US\$, the Peruvian Sol/US\$ and the Kroner/US\$ exchange rates); the Xstrata Group's and the Enlarged Group's ability to integrate new businesses (including the Prodeco Business) and recover their reserves or develop new reserves and changes in business strategy or development plans and other risks, including those described in the section of the Prospectus headed "Risk Factors".

You are advised to read this Supplementary Prospectus, the Prospectus and the information incorporated by reference into this Supplementary Prospectus and the Prospectus in their entirety, and, in particular, the sections of this Supplementary Prospectus headed "Important Information" and Part I — "Financial Statements for the Year Ended 31 December 2008" and the sections of the Prospectus headed "Summary", "Risk Factors", Part I — "Financial Information and Operating and Financial Review Relating to the Xstrata Group", Part II — "Information on the Xstrata Group" and Part III — "Unaudited Preliminary Results for the Xstrata Group for the Year Ended 31 December 2008" for a further discussion of the factors that could affect the Xstrata Group's and the Enlarged Group's future performance and the industries in which they operate. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Supplementary Prospectus and/or the Prospectus and/or the information incorporated by reference into this Supplementary Prospectus and the Prospectus may not occur.

Other than in accordance with their legal or regulatory obligations (including under the Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules), neither Xstrata, Rothschild nor any of the Banks undertakes any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

Overseas Shareholders

Overseas Shareholders should read paragraphs 7 and 8 of Part VII — "Use of Proceeds and Terms and Conditions of the Rights Issue" of the Prospectus.

No profit forecast

No statement in this Supplementary Prospectus (or the Prospectus) is intended as a profit forecast or a profit estimate and no statement in this Supplementary Prospectus (or the Prospectus) should be interpreted to mean that earnings per Ordinary Share for the current or future financial years would necessarily match or exceed the historical published earnings per Ordinary Share.

General

Provisional allotments of entitlements to New Shares which are the subject of a valid withdrawal notice will be deemed to be declined. Such entitlements to New Shares will be subject to the provisions of paragraph 5(a) of Part VII — "Use of Proceeds and Terms and Conditions of the Rights Issue" of the Prospectus as if the entitlement had not been validly taken up.

Apart from the responsibilities and liabilities, if any, which may be imposed on Deutsche Bank, JPMorgan Cazenove, J.P. Morgan Securities Ltd. and Rothschild by the FSMA, Deutsche Bank, JPMorgan Cazenove, J.P. Morgan Securities Ltd. and Rothschild accept no responsibility whatsoever and make no representation or warranty, express or implied, for the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by them, or on their behalf, in connection with Xstrata, the New Shares, the Nil Paid Rights, the Fully Paid Rights, the Rights Issue or the Proposed Acquisition, and nothing in this Supplementary Prospectus or the Prospectus is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Deutsche Bank, JPMorgan Cazenove, J.P. Morgan Securities Ltd. and Rothschild accordingly disclaim to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of this Supplementary Prospectus or any such statement.

Important Information

Deutsche Bank, JPMorgan Cazenove, J.P. Morgan Securities Ltd. and Rothschild and/or their affiliates provide various investment banking, commercial banking and financial advisory services from time to time to the Xstrata Group. In addition, affiliates of the Banks are lenders under and/or otherwise party to certain of the Xstrata Group's debt facilities agreements. In particular, Deutsche Bank and JPMorgan Chase are lenders under the Club Facility and the Syndicated Facility and Deutsche Bank and J.P. Morgan plc are arrangers and bookrunners of the Club Facility. See paragraph 20 of Part IX — "Additional Information — Summary of the terms of the Underwriting Agreement" of the Prospectus for details of the Underwriting Agreement, and paragraph 21.13 of Part IX — "Additional Information — Material contracts — Debt Facilities Agreements" of the Prospectus for details of the Club Facility and the Syndicated Facility.

The Joint Underwriters may, in accordance with applicable legal and regulatory provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the Ordinary Shares and/or related instruments for their own account for the purpose of hedging their underwriting exposure or otherwise. Except as required by applicable law or regulation, the Joint Underwriters do not propose to make any public disclosure in relation to such transactions.

Holdings of Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

If you hold your Ordinary Shares in certificated form, you should retain this Supplementary Prospectus (together with the Prospectus and the Circular) for reference pending receipt of a Provisional Allotment Letter. Shareholders who hold their Existing Shares in uncertificated form should note that they will receive no further written communication from Xstrata in respect of the Rights Issue. They should accordingly retain this document for, among other things, details of the action they should take in respect of the Rights Issue.

No person has been authorised to give any information or to make any representations other than those contained in this Supplementary Prospectus and the Prospectus and, if given or made, such information or representations must not be relied on as having been authorised by Xstrata, any of the Banks or Rothschild. Subject to the Listing Rules, the Prospectus Rules and the Disclosure and Transparency Rules, neither the delivery of this Supplementary Prospectus, nor any subscription or acquisition made under it shall, in any circumstances, create any implication that there has been no change in the affairs of the Xstrata Group or the Prodeco Business since the date of this Supplementary Prospectus or that the information in it is correct as of any subsequent date. Xstrata will comply with its obligation to publish any additional supplementary prospectus containing further updated information required by law or any regulatory authority but assumes no further obligation to publish additional information.

Expected Timetable of Principal Events

In January 2009 the FSA issued a Consultation Paper on whether the then current 21 day minimum rights issue subscription period should be reduced to either 14 calendar days or 10 business days. In that Consultation Paper the FSA stated that it was consulting with a view to amending the Listing Rules in time for shorter rights issue subscription periods to be in place at the start of February 2009.

On 9 February 2009, the FSA announced that, with effect from 10 February 2009, the minimum rights issue subscription period would be reduced to 10 business days. As a result, the dates set out in the section of the Prospectus headed "Expected Timetable of Principal Events" are, as at the date of this Supplementary Prospectus, correct and are hereby confirmed.

Qualifying Shareholders should however note that, notwithstanding the above, the times and dates set out the section of the Prospectus headed "Expected Timetable of Principal Events" are indicative only and subject to change. If any of the times and/or dates change, the revised times and/or dates will be notified by announcement through a Regulatory Information Service and to the SIX.

Relevant Documentation and Incorporation by Reference

The Annual Report and Accounts for the financial year ended 31 December 2007, which was sent to Shareholders at the relevant time and/or is available as described below, and the Annual Report and Accounts for the financial year ended 31 December 2008 (the “Xstrata Annual Report and Accounts 2008”), which has been published and will be sent to Shareholders at the relevant time and/or is available as described below, contain information which is relevant to the Rights Issues and Proposed Acquisition.

The table below sets out the various sections of the documents referred to above which are incorporated into this Supplementary Prospectus to ensure that Shareholders and others are aware of all information which, according to the particular nature of Xstrata, the Nil Paid Rights, the Fully Paid Rights and of the New Shares, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of Xstrata and of the rights attaching to the New Shares:

<u>Information incorporated by reference into this Supplementary Prospectus</u>	<u>Destination of Incorporation</u>	<u>Page number in this Supplementary Prospectus</u>
Xstrata Annual Report and Accounts 2008 (page 111)	Section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements”	11
Xstrata Annual Report and Accounts 2008 (pages 104 to 107)	Note 10 in section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements”	56
Xstrata Annual Report and Accounts 2008 (pages 91 to 97)	Note 10 in section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements”	57
Xstrata Annual Report and Accounts 2008 (pages 87 to 88)	Note 26 in section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements”	77
Xstrata Annual Report and Accounts 2008 (pages 98 to 107)	Note 35 in section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements”	94
Xstrata Annual Report and Accounts 2008 (pages 98 to 107)	Note 35 in section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements”	95
Xstrata Annual Report and Accounts 2007 (page 126)	Note 35 in section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements”	95
Xstrata Annual Report and Accounts 2008 (pages 98 to 107)	Note 35 in section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements”	95
Xstrata Annual Report and Accounts 2008 (pages 104 to 107)	Note 36 in section A of Part I — “Financial Statements for the Year Ended 31 December 2008 — Group Financial Statements”	107
Xstrata Annual Report and Accounts 2008 (page 200)	Section B of Part I — “Financial Statements for the Year Ended 31 December 2008 — Company Financial Statements”	121
Xstrata Annual Report and Accounts 2008 (pages 85 to 90)	Note 7 in Section B of Part I — “Financial Statements for the Year Ended 31 December 2008 — Company Financial Statements”	126
Xstrata Annual Report and Accounts 2008 (pages 98 to 107)	Note 9 in Section B of Part I — “Financial Statements for the Year Ended 31 December 2008 — Company Financial Statements”	127

Copies of the documents of which part are incorporated herein are available:

(a) on Xstrata’s website (www.xstrata.com); and

(b) as provided in paragraph 3 of Part II - 'Additional Information - Documents available for inspection'.

Except to the extent expressly set out above in this section headed 'Relevant Documentation and Incorporation by Reference', neither the content of Xstrata's website (or any other website) nor the content of any website accessible from hyperlinks on Xstrata's website (or any other website) is incorporated into, or forms part of, this Supplementary Prospectus.

Information that is itself incorporated by reference in the above documents is not incorporated by reference into this Supplementary Prospectus. It should be noted that, except as set forth above, no other part of the above documents is incorporated by reference into this Supplementary Prospectus.

Part I

Financial Statements for the Year Ended 31 December 2008

On 2 March 2009 the Board of Directors approved the Group Financial Statements and the Company Financial Statements. Ernst & Young LLP have audited the Group Financial Statements and the Company Financial Statements and have issued independent audit reports dated 2 March 2009 in relation thereto. These reports are incorporated by reference in this Supplementary Prospectus as described in the section of this Supplementary Prospectus headed “Relevant Documentation and Incorporation by Reference”. The information presented herein is extracted without material amendment from the audited Group Financial Statements. References in this Part I to the “Directors’ Report”, the “Corporate Governance Report” and to the “Directors’ Remuneration Report” are to the Directors’ Report, the Corporate Governance Report and the Directors’ Remuneration Report as set out in the Xstrata Annual Report and Accounts 2008, unless otherwise stated.

The auditors’ reports on those financial statements were unqualified and did not contain a statement under section 237 of the Companies Act 1985. The audited financial statements will be delivered to the Registrar of Companies in due course. The financial information contained in this document does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

A. Group Financial Statements

Consolidated Income Statement

For the year ended 31 December 2008							
Notes	Before exceptional items	Exceptional items†	Total 2008	Before exceptional items	Exceptional items†	Total 2007	
<i>(in US\$ millions)</i>							
Revenue	27,952	—	27,952	28,542	—	28,542	
Cost of sales*	(16,001)	—	(16,001)	(15,544)	—	(15,544)	
Distribution costs	(1,988)	—	(1,988)	(1,439)	—	(1,439)	
Administrative expenses*	(318)	—	(318)	(686)	—	(686)	
Share of results from associates	20	12	(34)	(22)	15	—	15
Income and costs of acquisition-related activities	—	—	—	—	275	275	
Inventory write downs	—	(93)	(93)	—	—	—	
Liability fair value adjustments	—	(194)	(194)	—	(25)	(25)	
Profit on restructure of joint venture	—	213	213	—	—	—	
Restructuring and closure costs	—	(125)	(125)	—	—	—	
Profit before interest, taxation, depreciation and amortisation	10	9,657	(233)	9,424	10,888	250	11,138
Depreciation and amortisation:							
— Cost of sales		(2,372)	—	(2,372)	(2,038)	—	(2,038)
— Administrative expenses		(24)	—	(24)	(58)	—	(58)
Impairment of assets:							
— Cost of sales		—	(974)	(974)	—	—	—
Profit before interest and taxation	10	7,261	(1,207)	6,054	8,792	250	9,042
Finance income	10	192	69	261	142	74	216
Finance costs	10	(852)	(295)	(1,147)	(935)	(196)	(1,131)
Profit before taxation		6,601	(1,433)	5,168	7,999	128	8,127
Income tax (expense)/benefit	11	(1,634)	330	(1,304)	(2,301)	(10)	(2,311)
Profit from continuing operations		4,967	(1,103)	3,864	5,698	118	5,816
Profit after tax from discontinued operations	8	—	—	—	52	1	53
Profit/(loss) for the year		4,967	(1,103)	3,864	5,750	119	5,869
Attributable to:							
Equity holders of the parent		4,698	(1,103)	3,595	5,424	119	5,543
Minority interests		269	—	269	326	—	326
		4,967	(1,103)	3,864	5,750	119	5,869
Earnings per share (US\$)							
— basic (continuing operations)	12	4.90	(1.15)	3.75	5.60	0.12	5.72
— basic	12	4.90	(1.15)	3.75	5.66	0.12	5.78
— diluted (continuing operations)	12	4.82	(1.13)	3.69	5.47	0.12	5.59
— diluted	12	4.82	(1.13)	3.69	5.52	0.12	5.64
Dividends (US\$m)							
— declared and paid	13			499			443
— proposed	13			—			326
Dividend per share (USc)							
— declared and paid	13			52.0			46.0
— proposed	13			—			34.0

Notes:

† 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.

* Before depreciation, amortisation and impairment charges.

Part I
Financial Statements for the Year Ended 31 December 2008

Consolidated Balance Sheet

	As at 31 December 2008		
	Notes	2008	2007*
	<i>(in US\$ millions)</i>		
Assets			
Non-current assets			
Intangible assets	14,15	8,898	9,329
Property, plant and equipment	16	36,141	33,242
Biological assets	17	11	19
Inventories	18	39	17
Trade and other receivables	19	77	85
Investments in associates	20	1,963	186
Available-for-sale financial assets	22	161	203
Derivative financial assets	23	774	210
Other financial assets	24	70	98
Pension asset	35	3	5
Prepayments		22	30
Deferred tax assets	11	3	7
		48,162	43,431
Current assets			
Inventories	18	3,573	4,167
Trade and other receivables	19	2,106	2,967
Derivative financial assets	23	29	89
Other financial assets	24	—	54
Prepayments		288	265
Cash and cash equivalents	25	1,156	1,148
		7,152	8,690
Total assets		55,314	52,121
Equity and liabilities			
Capital and reserves — attributable to equity holders of Xstrata plc			
Issued capital	26	488	485
Share premium	26	10,308	9,899
Own shares	26	(1,332)	(651)
Convertible borrowings — equity component	26,29	56	56
Other reserves	26	1,454	5,055
Retained earnings	26	11,789	8,984
		22,763	23,828
Minority interests	26	1,636	1,386
Total equity		24,399	25,214
Non-current liabilities			
Trade and other payables	27	29	54
Interest-bearing loans and borrowings	28	16,337	11,327
Convertible borrowings	29	331	327
Derivative financial liabilities	30	569	206
Other financial liabilities	31	683	351
Provisions	32	2,237	2,475
Pension deficit	35	320	231
Deferred tax liabilities	11	5,244	5,947
Other liabilities	33	105	78
		25,855	20,996
Current liabilities			
Trade and other payables	27	3,233	3,745
Interest-bearing loans and borrowings	28	794	1,118
Derivative financial liabilities	30	202	205
Provisions	32	497	344
Income taxes payable		299	454
Other liabilities	33	35	45
		5,060	5,911
Total liabilities		30,915	26,907
Total equity and liabilities		55,314	52,121

Notes:

* Restated for revisions to the provisional Austral, Eland and Mangoola acquisition accounting (refer to note 7).

The financial statements on pages 10 to 119 were approved by the Board of Directors on 2 March 2009 and signed on its behalf by:

Trevor Reid
Chief Financial Officer

Consolidated Cash Flow Statement

	For the year ended 31 December 2008		
	Notes	2008	2007
		<i>(in US\$ millions)</i>	
Profit before taxation (continuing operations)		5,168	8,127
Adjustments for:			
Profit before tax from discontinued operations	8	—	89
Finance income	10	(261)	(218)
Finance cost	10	1,147	1,133
Share of (profit)/loss from associates	20	22	(15)
Net (profit)/loss on disposal of property, plant and equipment		(9)	3
Inventory write downs	10	93	—
Liability fair value adjustments	10	194	25
Profit on restructure of joint venture interest	10	(213)	—
Depreciation	10	2,286	2,025
Amortisation	10	110	102
Impairment of assets	10,15	974	—
Share-based compensation plans	10	6	103
Decrease/(increase) in trade and other receivables		868	(348)
Increase in other assets		(299)	(106)
Decrease/(increase) in inventories		167	(652)
(Decrease)/increase in trade and other payables		(913)	552
(Decrease)/increase in provisions		(450)	224
Other non-cash movements		(2)	2
Cash generated from operations		8,888	11,046
Income tax paid		(1,753)	(2,965)
Interest paid		(612)	(803)
Interest received		60	132
Dividends received — other		2	4
Net cash flow from operating activities		6,585	7,414
Purchase of property, plant and equipment		(4,796)	(2,848)
Proceeds from sale of property, plant and equipment		101	86
Purchase of intangible assets		(54)	(14)
Purchase of available-for-sale financial assets		(155)	(41)
Proceeds from the sale of available-for-sale assets	10	43	—
Payments to black empowerment partner		—	(44)
Acquisition of interest in associates		(1,878)	—
Acquisition of subsidiaries, net of cash acquired		(3,654)	(2,130)
Disposal of subsidiaries, net of disposal costs and cash disposed		—	1,120
Net cash flow used in investing activities		(10,393)	(3,871)
Purchase of own shares		(525)	(532)
Disposal of own shares		64	56
Proceeds from interest-bearing loans and borrowings		7,118	6,666
Interest-bearing loans and borrowings issue costs		(89)	(38)
Repayment of interest-bearing loans and borrowings		(2,220)	(9,431)
Payment of finance lease liabilities		(14)	(159)
Dividends paid to equity holders of the parent		(499)	(443)
Dividends paid to minority interests		(221)	(485)
Capital injection from minority interests		301	180
Redemption of minority interests		—	(22)
Net cash flow from/(used in) financing activities		3,915	(4,208)
Net increase/(decrease) in cash and cash equivalents		107	(665)
Net foreign exchange difference		(31)	17
Cash and cash equivalents at 1 January		1,069	1,717
Cash and cash equivalents at 31 December	25	1,145	1,069

Consolidated Statement of Recognised Income and Expense

	For the year ended 31 December 2008	
	2008	2007
	<i>(in US\$ millions)</i>	
Income and expenses recognised directly in equity:		
Actuarial losses on defined benefit pension and medical plans	(112)	(98)
Gains/(losses) on available-for-sale financial assets	(114)	49
Revaluation of property, plant and equipment	—	22
Losses on cash flow hedges	(157)	(261)
Foreign currency translation differences	(3,980)	670
	(4,363)	382
Transfers to the income statement:		
Losses on cash flow hedges	360	121
Recycled foreign currency translation net losses	246	28
	(3,757)	531
Tax on items taken directly to, or transferred from, equity	81	(7)
Net (loss)/income recognised directly in equity	(3,676)	524
Profit for the period	<u>3,864</u>	<u>5,869</u>
Total recognised income and expense for the period	<u>188</u>	<u>6,393</u>
Attributable to:		
Equity holders of the parent	(81)	6,067
Minority interests	269	326
	<u>188</u>	<u>6,393</u>

Notes to the Financial Statements

1. Corporate Information

The consolidated financial statements were authorised for issue in accordance with a directors' resolution on 2 March 2009. 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 2008.

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 judgements and estimates

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 32).

Impairment testing

Note 15 outlines the significant 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.

Defined benefit pension plans and post-retirement medical plans

Note 35 outlines the significant assumptions made when accounting for 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 2007, except for the adoption of the following new standards and interpretations:

- IFRIC 11 'Group and Treasury Share Transactions'
The Group adopted IFRIC 11 which details the requirements of accounting for share based payment arrangements that involve numerous entities within the same Group. The adoption of this interpretation had no impact on Group earnings or equity in the current or prior years.
- IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction'
The Group adopted IFRIC 14 which details the requirements of accounting for post-employment and other long-term defined benefit plans when minimum funding requirements exist and when an entity may regard refunds or reductions in future contributions as available. The adoption of this interpretation had no impact on Group earnings or equity in the current or prior years.
- IAS 23 Revised 'Borrowing Costs'
The Group early adopted IAS 23 (Revised) 'Borrowing Costs' which requires that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset be capitalised as a cost of that asset. The adoption of this standard had no impact on Group earnings or equity in the current or prior years.

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements, consequently, these pronouncements will impact the Group's financial statements in future periods.

	<u>Effective date</u>
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRS 2 (Revised) 'Share-Based Payments'	1 January 2009
IAS 1 (Revised) 'Presentation of Financial Statements'	1 January 2009
IFRS 8 'Operating Segments'	1 January 2009
IAS 27 (Amended) 'Consolidated and Separate Financial Statements'	1 July 2009
IFRS 3 (Revised) 'Business Combinations'	1 July 2009

The Directors do not anticipate that the adoption of these standards and interpretations on their effective dates will have a material impact on the Group's financial statements in the period of initial application, notwithstanding IFRS 3 (Revised) 'Business Combinations' may impact the financial statements should there be an acquisition in the period.

Upon adoption of IFRS 8, the Group will be required to disclose segment information based on the information management uses for internally evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement but the Group will provide an explanation for such differences. There will be no impact on the income, net assets or equity of the Group.

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 minority rights are such that a minority 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

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Financial Statements for the Year Ended 31 December 2008

minority 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 ventures, 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

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Financial Statements for the Year Ended 31 December 2008

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 purchase 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.

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.

Minority 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.

When a subsidiary is acquired in a number of stages, the cost of each stage is compared with the fair value of the identifiable net assets at the date of that purchase. Any excess is treated as goodwill, or any discount is immediately recognised in the income statement. On the date control is obtained, the identifiable net assets are recognised in the Group balance sheet at fair value and the difference between the fair value recognised and the value on the date of the purchase is recognised in the asset revaluation reserve.

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 re-translated 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.

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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 which 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 or on repayment of loans forming part of the net investment in the foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Exchange differences on foreign currency borrowings to finance net investments and tax charges/credits attributable to those exchange differences are also recorded in a separate component of equity to the extent that the hedge is effective. Upon full or partial disposal or repayment of the net investment in the foreign operation (including loans that form part of the net investment), the cumulative amount of the exchange differences is recognised in the income statement when the gain or loss on disposal or the loan repayment is recognised.

The following exchange rates to the US dollar (US\$) have been applied:

	31 December 2008	Average 12 months 2008	31 December 2007	Average 12 months 2007
Argentine pesos (US\$:ARS)	3.4538	3.1631	3.1500	3.1155
Australian dollars (AUD:US\$)	0.7048	0.8522	0.8751	0.8389
Canadian dollars (US\$:CAD)	1.2205	1.0670	0.9984	1.0740
Chilean pesos (US\$:CLP)	637.25	523.87	497.95	522.21
Colombian pesos (US\$:COP)	2,248.70	1,967.83	2,018.00	2,075.16
Euros (EUR:US\$)	1.3974	1.4712	1.4590	1.3708
Great Britain pounds (GBP:US\$)	1.4628	1.8525	1.9849	2.0020
Peruvian nuevo sol (US\$:PEN)	3.1345	2.9237	2.9980	3.1285
South African rand (US\$:ZAR)	9.3212	8.2695	6.8626	7.0506
Swiss francs (US\$:CHF)	1.0695	1.0824	1.1335	1.2000

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.

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Exceptional items

Exceptional items represent significant items of income and expense which 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, impairments, acquisition and integration costs which have not been capitalised, profits and losses on the sale of investments, profits and losses from the sale of operations, recycled gains and losses from the foreign currency translation reserve, foreign currency gains and losses on borrowings, restructuring and closure costs, loan issue costs written off on facility refinancing and the related tax impacts of these items.

Property, plant and equipment

Land and buildings, 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 cost, less estimated residual values of buildings, 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, 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

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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 which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, 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 in 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

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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 (refer below).

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.

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 which the Directors regard as having indefinite useful lives, which 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 units-of-production method based on the reserves that exist in the location that has access to such rights.

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Software and technology patents

Software and technology patents are carried at cost and amortised over a period of 3 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 being 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 (excluding goodwill recognised as a result of the requirement to recognise deferred tax liabilities on acquisitions), or includes intangible assets which are either not available for use or which 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 which 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 which 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.

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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 coordinated 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 for 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 instruments

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.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are measured at amortised cost. 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. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

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

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amortisation process. Trade and other receivables are recognised and carried at their original invoiced value, adjusted for, where appropriate, 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

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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 counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted or it is probable that the counterparty 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 be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Rehabilitation Trust Fund

Investments in the rehabilitation trust funds 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 re-measured 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

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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 and are assessed on an ongoing basis to determine that 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 re-measured 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 a hedge of the 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, including a hedge of a monetary item that is accounted for as part of the net investment, 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.

Convertible borrowings

On issue of a convertible borrowing, the fair value of the liability component is determined by discounting the contractual future cash flows using a market rate for a non-convertible instrument with similar terms. This value is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds are allocated to a separate component of equity, net of issue costs, which remains constant in subsequent periods. Issue costs are apportioned between the liability and equity components based on their respective carrying amounts when the instrument was issued.

On conversion, the liability is reclassified to equity and no gain or loss is recognised in the profit or loss. Where the convertible borrowing is redeemed early or repurchased in a way that does not alter the original conversion privileges, the consideration paid is allocated to the liability and equity components. The consideration relating to the equity component is recognised in equity and the amount of gain or loss relating to the liability element in profit or loss.

The finance costs recognised in respect of the convertible borrowings includes the accretion of the liability component to the amount that will be payable on redemption.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis or 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 which 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 for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in

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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 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

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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.

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 material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured 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, 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.

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 awards 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 awards are treated as if they are 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 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 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 current period figures.

7. Acquisitions

Business Combinations

Current year business combinations

Jubilee Mines NL

On 29 October 2007 the Group made an AUD23 per share cash offer for shares in Jubilee Mines NL (Jubilee). On 31 January 2008, the Group declared the offer free from all conditions, and obtained control of Jubilee, following the receipt of acceptances in respect of 62% of Jubilee's share capital. By 16 February 2008 the Group held 97% of Jubilee and obtained the remaining 3% by 31 March 2008. Under IFRS 3 the acquisition has been accounted for as one transaction occurring on 31 January 2008. The total cost of the acquisition was US\$2,875 million. Jubilee, which was previously listed on the Australian stock exchange, owns and operates the Cosmos Nickel operation and is developing the Sinclair Nickel Project in Western Australia.

The fair values of the identifiable assets and liabilities of Jubilee acquired were:

	IFRS carrying value	Fair value adjustments	Fair value at acquisition
	<i>(in US\$ millions)</i>		
Property, plant and equipment	218	2,560	2,778
Available-for-sale financial assets	8	—	8
Prepayments	1	—	1
Inventories	8	—	8
Income taxes receivable	2	(2)	—
Trade and other receivables	<u>15</u>	<u>—</u>	<u>15</u>
	252	2,558	2,810
Trade and other payables	(44)	—	(44)
Provisions	(11)	—	(11)
Deferred tax liabilities	(39)	(12)	(51)
Income tax payable	<u>—</u>	<u>(7)</u>	<u>(7)</u>
Net assets	158	2,539	2,697
Goodwill arising on acquisition	<u>—</u>	<u>54</u>	<u>54</u>
	<u>158</u>	<u>2,593</u>	<u>2,751</u>
Consideration:			
Net cash acquired with the subsidiary			(124)
Cash paid			2,721
Acquisition costs			<u>154</u>
			<u>2,751</u>

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 Group's share of Jubilee's profit from the date of acquisition to 31 December 2008 amounted to US\$16 million.

Resource Pacific Holdings Limited

On 5 December 2007 the Group announced an unconditional cash offer for shares in Resource Pacific Holdings Limited (Resource Pacific) of AUD2.85 per share and on 8 February 2008 the offer price was increased to AUD3.20 per share. As at 20 February 2008, the Group held 67.5% and as at 23 April 2008, the Group held 89.8% of the total issued shares of Resource Pacific. Under IFRS 3 the acquisition has been accounted for as one transaction occurring on 20 February 2008. The total cost of the acquisition was US\$910 million. Resource Pacific was previously listed on the Australian stock exchange and owns the Newpac underground coal mine located in the Hunter Valley coalfields of New South Wales, Australia.

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The fair values of the identifiable assets and liabilities of Resource Pacific acquired were:

	IFRS carrying value	Fair value adjustments	Fair value at acquisition
	<i>(in US\$ millions)</i>		
Property, plant and equipment	243	979	1,222
Deferred tax assets	111	(111)	—
Other financial assets	—	11	11
Prepayments	1	—	1
Inventories	4	—	4
Trade and other receivables	<u>12</u>	<u>—</u>	<u>12</u>
	371	879	1,250
Trade and other payables	(75)	—	(75)
Interest-bearing loans and borrowings	(14)	—	(14)
Provisions	(7)	(196)	(203)
Deferred tax liabilities	<u>—</u>	<u>(153)</u>	<u>(153)</u>
Net assets	275	530	805
Minority interests	<u>(29)</u>	<u>(51)</u>	<u>(80)</u>
Net attributable assets	246	479	725
Goodwill arising on acquisition	<u>—</u>	<u>178</u>	<u>178</u>
	<u>246</u>	<u>657</u>	<u>903</u>
Consideration:			
Net cash acquired with the subsidiary			(7)
Cash paid			903
Acquisition costs			<u>7</u>
			<u>903</u>

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 Group's share of Resource Pacific profit from the date of acquisition amounted to US\$41 million.

Douglas Tavistock Joint Venture

In March 2008, the Group restructured its Douglas Tavistock Joint Venture ("DTJV") with BHP Billiton Energy Coal South Africa ("BECSA"). Under the terms of the restructuring, the Group acquired and manages the mining of reserves approximately equivalent to its 16% share of the DTJV, in an area contiguous to its 100% owned Arthur Taylor Colliery Open-cast Mine ("ATCOM") operations. The Group acquired approximately 16% of the major mobile equipment and will commence separate mining operations from 1 July 2009. The Group also entered into an interim coal off-take arrangement (export and Eskom) for 18 months with BECSA, effective from 1 January 2008 and a long term supply arrangement for its share of the former DTJVs Duhva LT Eskom Coal Supply Agreement. The Group will receive a final consideration payment of US\$43 million on 1 July 2009.

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Under IFRS this restructure has been accounted for in the period by recognising the net assets obtained at fair value and derecognising the Group's interest in the DTJV. This has resulted in a gain of US\$213 million, calculated as follows:

	Fair value at acquisition
	<i>(in US\$ millions)</i>
Fair value of net assets obtained	
Intangible assets	62
Property, plant and equipment	260
Trade and other receivables	<u>78</u>
	400
Other financial liabilities	(42)
Deferred tax liabilities	<u>(72)</u>
Net assets obtained	<u>286</u>
Book value of net assets derecognised	
Property, plant and equipment	92
Inventories	2
Trade and other receivables	4
Trade and other payables	(17)
Provisions	<u>(8)</u>
Net assets derecognised	<u>73</u>
Gain on transaction	<u>213</u>

If the above combinations had taken place at the beginning of 2008, the Group's results would have been:

	2008
	<i>(in US\$ millions)</i>
Revenue	27,977
Profit before interest, taxation, depreciation and amortisation	9,412
Profit before interest and taxation	6,035
Profit for the year	<u>3,852</u>

Prior year business combinations

Frieda River

In January 2007, the Group exercised an option to obtain a 73.7% interest in the Frieda River copper-gold porphyry in Papua New Guinea for US\$14 million.

Tampakan

Following an announcement in late 2006, in March 2007 the Group completed the exercise of its option to acquire a 62.5% interest in Sagittarius Mines Inc (SMI) for US\$47 million. SMI is the holder of Tampakan copper-gold project. The Group now has management control of the Tampakan project.

Narama

In August 2007, the Group acquired the remaining 50% interest in the Narama thermal coal mine in Australia from Iluka Resources Limited (Iluka) for US\$58 million.

Cumnock Coal Limited

In September 2007, the Group acquired the 16% of Cumnock Coal Limited which it previously did not own for US\$22 million. Cumnock Coal Limited is a coal mining company, which was listed on the Australian Stock Exchange.

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Austral Coal Limited

In October 2007 the Group acquired 85.85% of Austral Coal Limited (Austral) and obtained control of the company. By 21 December 2007, the Group had acquired the remaining 14.15% of the company. The total cost of these purchases was US\$542 million. Austral owns the Tahmoor underground coking coal operation in the southern coalfields of New South Wales, Australia.

The acquisition accounting was provisional at 31 December 2007 due to the timing and complexity of the acquisition. In 2008 the acquisition accounting was finalised as follows:

	Provisional fair value as previously reported	Fair value adjustments^(a)	Fair value at acquisition
	<i>(in US\$ millions)</i>		
Property, plant and equipment	729	(49)	680
Prepayments	6	—	6
Inventories	14	—	14
Trade and other receivables	18	—	18
	<u>767</u>	<u>(49)</u>	<u>718</u>
Trade and other payables	(24)	—	(24)
Interest-bearing loans and borrowings	(167)	—	(167)
Provisions	(39)	(4)	(43)
Deferred tax liabilities	<u>(165)</u>	<u>91</u>	<u>(74)</u>
Net assets	372	38	410
Goodwill arising on acquisition ^(b)	<u>169</u>	<u>(38)</u>	<u>131</u>
	<u>541</u>	<u>—</u>	<u>541</u>
Consideration:			
Net cash acquired with the subsidiary	(1)	—	(1)
Cash paid	512	—	512
Contingent consideration	30	—	30
	<u>541</u>	<u>—</u>	<u>541</u>

Notes:

- (a) These adjustments arose due to the revisions to the valuations of property, plant and equipment, the recognition of tax losses and the resulting impact on minority interests.
- (b) The goodwill balance is a 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 and their tax bases.

The Group's share of Austral's loss from the date of acquisition to 31 December 2007 amounted to US\$4 million.

Mangoola

In October 2007 the Group acquired the Mangoola (formerly Anvil Hill) coal project from Centennial Coal Company Limited for US\$468 million. The Mangoola coal project is located in the Upper Hunter Valley, Australia.

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The acquisition accounting was provisional at 31 December 2007 due to the timing of the acquisition. In 2008 the acquisition accounting was finalised as follows:

	Provisional fair value as previously reported	Fair value adjustments^(a)	Fair value at acquisition
	<i>(in US\$ millions)</i>		
Property, plant and equipment	502	15	517
Deferred tax assets	<u>14</u>	<u>6</u>	<u>20</u>
	516	21	537
Provisions	<u>(48)</u>	<u>(21)</u>	<u>(69)</u>
Net assets	<u>468</u>	<u>—</u>	<u>468</u>
Consideration:			
Cash paid	445	—	445
Contingent consideration	<u>23</u>	<u>—</u>	<u>23</u>
	<u>468</u>	<u>—</u>	<u>468</u>

Notes:

(a) These adjustments arose due to the revisions to the valuations of property, plant and equipment and provisions.

The Group's share of Mangoola's profit from the date of acquisition to 31 December 2007 amounted to US\$nil.

Eland Platinum Holdings Limited

In November 2007, the Group acquired 100% of Eland Platinum Holdings Limited (Eland). Eland was previously listed on the Johannesburg stock exchange and holds an indirect 65% interest in the Elandsfontein platinum project. The Group also acquired an additional 9% interest in the Elandsfontein platinum project increasing the Group's interest in the project to 74%. In addition to the Elandsfontein platinum project, Eland has controlling interests in Madibeng Platinum (Pty) Ltd and Beestkraal Platinum Mines (Pty) Ltd. These companies own the rights to other platinum resources in South Africa. The total cost of the acquisition was US\$1,113 million.

The acquisition accounting was provisional at 31 December 2007 due to the complexity and timing of the acquisition. In 2008 the acquisition accounting was finalised as follows:

	Provisional fair value as previously reported	Fair value adjustments^(a)	Fair value at acquisition
	<i>(in US\$ millions)</i>		
Property, plant and equipment	1,556	(41)	1,515
Inventories	16	—	16
Trade and other receivables	<u>4</u>	<u>—</u>	<u>4</u>
	1,576	(41)	1,535
Trade and other payables	(13)	—	(13)
Interest-bearing loans and borrowings	(86)	—	(86)
Provisions	(5)	—	(5)
Deferred tax liabilities	(400)	12	(388)
Income taxes payable	<u>(1)</u>	<u>—</u>	<u>(1)</u>
Net assets	1,071	(29)	1,042
Minority interests	<u>(406)</u>	<u>44</u>	<u>(362)</u>
Net attributable assets	665	15	680
Goodwill arising on acquisition ^(b)	<u>398</u>	<u>(15)</u>	<u>383</u>
	<u>1,063</u>	<u>—</u>	<u>1,063</u>
Consideration:			
Net cash acquired with the subsidiary	(50)	—	(50)
Cash paid	<u>1,113</u>	<u>—</u>	<u>1,113</u>
	<u>1,063</u>	<u>—</u>	<u>1,063</u>

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- (a) These adjustments arose due to the revisions to the valuations of property, plant and equipment.
- (b) The goodwill balance is a 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 and their tax bases.

The Group's share of Eland's loss from the date of acquisition to 31 December 2007 amounted to US\$4 million.

If the above combinations had taken place at the beginning of 2007, the Group's results would have been:

	<u>2007</u>
	<i>(in US\$ millions)</i>
Revenue	29,256
Profit before interest, taxation, depreciation and amortisation.....	11,314
Profit before interest and taxation	9,141
Profit for the year	5,866

Investment in associates

Current year investment in associates

Lonmin plc

In August 2008, the Group acquired 16,706,481 common shares of Lonmin plc ("Lonmin") representing 10.7% of the common shares for consideration of US\$1,084 million or GBP33 per share. In October 2008, the Group acquired a further 22,232,940 common shares representing 14.2% of the common shares of Lonmin for a consideration of US\$794 million or GBP20 per share, increasing the Group's holding to 24.9% at a cost of US\$1,878 million. This investment has been treated as an associate following the increase of the Group's holding in Lonmin to 24.9% (refer to note 20).

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Consolidated information

The below information provides aggregate amounts of acquired assets and liabilities for all business combinations in 2008 and 2007:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Intangible assets	62	—
Property, plant and equipment	4,260	2,922
Inventories	12	30
Trade and other receivables	105	38
Investments in associates	—	—
Available-for-sale financial assets	8	—
Other financial assets	11	—
Deferred tax assets	—	6
Prepayments	<u>2</u>	<u>6</u>
	4,460	3,002
Trade and other payables	(119)	(46)
Interest-bearing loans and borrowings	(14)	(301)
Derivative financial liabilities	(42)	—
Provisions	(214)	(117)
Deferred tax liabilities	(276)	(469)
Income tax payable	<u>(7)</u>	<u>(1)</u>
Net assets	3,788	2,068
Minority interests	<u>(80)</u>	<u>(385)</u>
Net attributable assets	3,708	1,683
Goodwill	<u>232</u>	<u>536</u>
Net attributable assets including goodwill	3,940	2,219
Consideration:		
Net cash acquired with the subsidiary	(131)	(52)
Acquisition costs	161	3
Cash paid	3,624	2,179
Net assets derecognised	73	—
Gains on restructure of DTJV	213	—
Contingent consideration	<u>—</u>	<u>89</u>
	3,940	2,219

8. Discontinued operations and disposals

Current year disposals

Resource Pacific Holdings Limited

Following the acquisition of 89.8% of Resource Pacific in February 2008, 12% of the shares were sold in October 2008 at cost for US\$122 million (refer to note 7).

Douglas Tavistock Joint Venture

In March 2008, the Group restructured its Douglas Tavistock Joint Venture (“DTJV”) with BHP Billiton Energy Coal South Africa (BECSA) resulting in the disposal of the Group’s interest in the joint venture (refer to note 7).

Prior year disposals

Aluminium

The Aluminium business was sold on 18 May 2007 to Apollo Management LP. The disposal proceeds amounted to US\$1,150 million before disposal costs of US\$24 million, resulting in the Group realising a gain of US\$1 million after tax of US\$12 million.

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The results of the Aluminium business for the periods ended are presented below:

	<u>2007</u>
	<i>(in US\$ millions)</i>
Revenue	542
Cost of sales (before depreciation and amortisation)	(406)
Distribution costs	(9)
Administrative expenses	<u>(7)</u>
Profit before interest, taxation, depreciation and amortisation	120
Depreciation and amortisation — cost of sales	<u>(31)</u>
Profit before interest and taxation	89
Finance income	2
Finance costs	<u>(2)</u>
Profit before taxation	89
Income tax expense	<u>(37)</u>
Profit for the period from discontinued operation	52
Gain on disposal of the discontinued operation	<u>1</u>
Profit after tax for the period from discontinued operations	<u>53</u>

The carrying value of the major classes of assets and liabilities at the date of the sale were:

	<u>at 18.05.07</u>
	<i>(in US\$ millions)</i>
Intangible assets	139
Property, plant and equipment	1,011
Inventories	215
Trade and other receivables	176
Other financial assets	31
Trade and other payables	(92)
Interest-bearing loans and borrowings	(1)
Provisions	(37)
Pension deficit	(19)
Deferred tax liabilities	(298)
Income tax payable	<u>(6)</u>
Net assets	<u>1,119</u>
Cash inflow on disposal:	
Cash disposed of with the subsidiary	(6)
Cash received	1,150
Disposal costs	<u>(24)</u>
Net cash inflow	<u>1,120</u>
Gain on disposal of the discontinued operation	<u>1</u>

Earnings per share from discontinued operations:

	<u>2007</u>
	<i>(in US\$ millions)</i>
Basic earnings per share	0.06
Diluted earnings per share	<u>0.05</u>

The cash flows arising from the Aluminium business unit up to the date of sale were operational in nature and were materially the same as its profits.

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Cumnock Coal Limited

Following the acquisition of 100% of the assets of Cumnock Coal in September 2007 (refer above), in December 2007 10% of the assets were sold for US\$7 million.

Consolidated information

The below information is provided in aggregate for the 2008 and 2007 disposals:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Intangible assets	—	139
Property, plant and equipment	92	1,018
Inventories	2	216
Trade and other receivables	4	176
Financial assets	<u>—</u>	<u>31</u>
	98	1,580
Trade and other payables	(17)	(93)
Interest-bearing loans and borrowings	—	(1)
Provisions	(8)	(37)
Pension deficit	—	(19)
Deferred tax liabilities	34	(298)
Income tax payable	<u>—</u>	<u>(6)</u>
Net assets	107	1,126
Minority interests	94	—
Net attributable assets	<u>201</u>	<u>1,126</u>
Consideration:		
Net cash disposed of with the subsidiary	—	(6)
Cash received	128	1,150
Disposal costs	—	(24)
Net assets obtained	286	—
Contingent consideration	<u>—</u>	<u>7</u>
Total consideration	<u>414</u>	<u>1,127</u>
Gain on disposal of the discontinued operations and restructure of DTJV	213	1

9. Segmental Analysis

The Group's primary reporting format is business segments and its secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of the products produced, with each segment representing a strategic business unit that offers different products and serves different markets. Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. The Group's geographical segments are determined by the location of the Group's assets and operations.

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Business segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's business segments for the years ended 31 December 2008 and 2007.

	For the year ended 31 December					
	Before exceptional items	Exceptional items	2008	Before exceptional items	Exceptional items	2007
	<i>(in US\$ millions)</i>					
Revenue						
External parties:						
Coal — Thermal	6,347	—	6,347	3,614	—	3,614
Coal — Coking	1,597	—	1,597	587	—	587
Coal	7,944	—	7,944	4,201	—	4,201
Ferroalloys	1,733	—	1,733	1,223	—	1,223
Platinum	269	—	269	129	—	129
Copper	11,464	—	11,464	12,794	—	12,794
Nickel	3,105	—	3,105	5,252	—	5,252
Zinc Lead	3,202	—	3,202	4,726	—	4,726
Technology	235	—	235	217	—	217
Revenue (continuing operations)	27,952	—	27,952	28,542	—	28,542
Inter-segmental:						
Coal	9	—	9	3	—	3
Copper	76	—	76	65	—	65
Nickel	152	—	152	131	—	131
Zinc Lead	254	—	254	214	—	214
Technology	15	—	15	—	—	—
Eliminations	(506)	—	(506)	(413)	—	(413)
Group revenues	27,952	—	27,952	28,542	—	28,542
Discontinued operations:						
Aluminium	—	—	—	542	—	542
Total	27,952	—	27,952	29,084	—	29,084

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	Before exceptional items	Exceptional items	2008	Before exceptional items	Exceptional items	2007
	<i>(in US\$ millions)</i>					
Profit before interest, taxation, depreciation and amortisation (EBITDA)						
Coal — Thermal	3,148	11	3,159	977	—	977
Coal — Coking	<u>1,022</u>	<u>—</u>	<u>1,022</u>	<u>214</u>	<u>—</u>	<u>214</u>
Coal	4,170	11	4,181	1,191	—	1,191
Ferroalloys	959	—	959	382	—	382
Platinum	135	8	143	66	(25)	41
Copper	3,160	—	3,160	4,987	—	4,987
Nickel	816	(165)	651	2,577	275	2,852
Zinc Lead	435	(53)	382	1,810	—	1,810
Technology	<u>38</u>	<u>—</u>	<u>38</u>	<u>47</u>	<u>—</u>	<u>47</u>
Segment EBITDA (continuing operations)	9,713	(199)	9,514	11,060	250	11,310
Share of results from associates (net of tax, continuing operations):						
Coal	3	—	3	3	—	3
Platinum	—	(34)	(34)	—	—	—
Zinc Lead	<u>9</u>	<u>—</u>	<u>9</u>	<u>12</u>	<u>—</u>	<u>12</u>
EBITDA (continuing operations)	9,725	(233)	9,492	11,075	250	11,325
Unallocated	<u>(68)</u>	<u>—</u>	<u>(68)</u>	<u>(187)</u>	<u>—</u>	<u>(187)</u>
	9,657	(233)	9,424	10,888	250	11,138
EBITDA (discontinuing operations):						
Aluminium	<u>—</u>	<u>—</u>	<u>—</u>	<u>120</u>	<u>13</u>	<u>133</u>
Total	<u>9,657</u>	<u>(233)</u>	<u>9,424</u>	<u>11,008</u>	<u>263</u>	<u>11,271</u>

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	Before exceptional items	Exceptional items	2008	Before exceptional items	Exceptional items	2007
<i>(in US\$ millions)</i>						
Depreciation and amortisation						
Depreciation:						
Coal	624	—	624	504	—	504
Ferroalloys	52	—	52	52	—	52
Platinum	35	—	35	7	—	7
Copper	863	—	863	824	—	824
Nickel	475	—	475	405	—	405
Zinc Lead	331	—	331	293	—	293
Technology	<u>6</u>	<u>—</u>	<u>6</u>	<u>4</u>	<u>—</u>	<u>4</u>
Depreciation and amortisation						
(continuing operations)	2,386	—	2,386	2,089	—	2,089
Unallocated	<u>10</u>	<u>—</u>	<u>10</u>	<u>7</u>	<u>—</u>	<u>7</u>
	2,396	—	2,396	2,096	—	2,096
Discontinued operations:						
Aluminium	<u>—</u>	<u>—</u>	<u>—</u>	<u>31</u>	<u>—</u>	<u>31</u>
Total	<u>2,396</u>	<u>—</u>	<u>2,396</u>	<u>2,127</u>	<u>—</u>	<u>2,127</u>
Impairment of assets						
Ferroalloys	—	18	18	—	—	—
Copper	—	463	463	—	—	—
Nickel	—	475	475	—	—	—
Zinc Lead	<u>—</u>	<u>18</u>	<u>18</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total impairment of assets (continuing operations)	<u>—</u>	<u>974</u>	<u>974</u>	<u>—</u>	<u>—</u>	<u>—</u>

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	Before exceptional items	Exceptional items	2008	Before exceptional items	Exceptional items	2007
	<i>(in US\$ millions)</i>					
Profit before interest and taxation (EBIT)						
Segment result:						
Coal — Thermal	2,616	11	2,627	544	—	544
Coal — Coking	930	—	930	143	—	143
Coal	3,546	11	3,557	687	—	687
Ferroalloys	907	(18)	889	330	—	330
Platinum	100	8	108	59	(25)	34
Copper	2,297	(463)	1,834	4,163	—	4,163
Nickel	341	(640)	(299)	2,172	275	2,447
Zinc Lead	104	(71)	33	1,517	—	1,517
Technology	32	—	32	43	—	43
Segment EBIT (continuing operations)	7,327	(1,173)	6,154	8,971	250	9,221
Share of results from associates (net of tax, continuing operations):						
Coal	3	—	3	3	—	3
Platinum	—	(34)	(34)	—	—	—
Zinc Lead	9	—	9	12	—	12
EBIT (continuing operations)	7,339	(1,207)	6,132	8,986	250	9,236
Unallocated	(78)	—	(78)	(194)	—	(194)
	7,261	(1,207)	6,054	8,792	250	9,042
Finance income	192	69	261	142	74	216
Finance expense	(852)	(295)	(1,147)	(935)	(196)	(1,131)
Profit before taxation	6,601	(1,433)	5,168	7,999	128	8,127
Income tax expense	(1,634)	330	(1,304)	(2,301)	(10)	(2,311)
Profit from continuing operations	4,967	(1,103)	3,864	5,698	118	5,816
Profit after tax from discontinued operations:						
Aluminium	—	—	—	52	1	53
Total	4,967	(1,103)	3,864	5,750	119	5,869

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	At 31 December 2008	At 31 December 2007
	<i>(in US\$ millions)</i>	
Total assets		
Before deferred tax assets and investments in associates:		
Coal	11,950	11,293
Ferroalloys	1,420	1,449
Platinum	1,642	2,138
Copper	18,050	19,825
Nickel	12,422	9,402
Zinc Lead	6,532	7,015
Technology	124	140
Total segmental assets (continuing operations)	52,140	51,262
Unallocated*	1,208	666
Total	53,348	51,928
Deferred tax assets:		
Coal	2	2
Ferroalloys	1	2
Zinc Lead	—	3
Total deferred tax assets (continuing operations)	3	7
Investment in associates:		
Coal	46	54
Platinum	1,788	—
Zinc Lead	129	132
Total investment in associates (continuing operations)	1,963	186
Total assets		
Coal	11,998	11,349
Ferroalloys	1,421	1,451
Platinum	3,430	2,138
Copper	18,050	19,825
Nickel	12,422	9,402
Zinc Lead	6,661	7,150
Technology	124	140
Total assets (from continuing operations)	54,106	51,455
Unallocated*	1,208	666
Total assets	55,314	52,121

Notes:

* Includes corporate assets not directly attributable to business segments.

Part I
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	At 31 December 2008	At 31 December 2007
	<i>(in US\$ millions)</i>	
Total liabilities		
Before tax liabilities, interest-bearing loans and borrowings:		
Coal	1,807	1,329
Ferrous alloys	211	183
Platinum	39	20
Copper	1,989	2,438
Nickel	1,753	1,354
Zinc Lead	1,106	1,362
Technology	65	108
Total segmental liabilities (continuing operations)	<u>6,970</u>	6,794
Unallocated	1,246	589
Total	<u>8,216</u>	<u>7,383</u>
Tax liabilities, interest-bearing loans and borrowings*:		
Coal	1,943	1,775
Ferrous alloys	248	188
Platinum	274	435
Copper	1,779	3,059
Nickel	1,212	1,476
Zinc Lead	325	710
Technology	—	10
Total tax liabilities, interest-bearing loans and borrowings (continuing operations)	<u>5,781</u>	7,653
Unallocated	16,918	11,871
Total	<u>22,699</u>	<u>19,524</u>
Total liabilities		
Coal	3,750	3,104
Ferrous alloys	459	371
Platinum	313	455
Copper	3,768	5,497
Nickel	2,965	2,830
Zinc Lead	1,431	2,072
Technology	65	118
Total liabilities (from continuing operations)	<u>12,751</u>	14,447
Unallocated	18,164	12,460
Total	<u>30,915</u>	<u>26,907</u>

Notes:

* These liabilities are included in interest-bearing loans and borrowings, convertible borrowings, deferred tax liabilities and income taxes payable line items in the balance sheet.

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	At 31 December 2008	At 31 December 2007
	<i>(in US\$ millions)</i>	
Net assets		
Before deferred tax assets and liabilities, investment in associates, interest-bearing loans and borrowings:		
Coal	10,143	9,964
Ferroalloys	1,209	1,266
Platinum	1,603	2,118
Copper	16,061	17,387
Nickel	10,669	8,048
Zinc Lead	5,426	5,653
Technology	59	32
Total segmental net assets (continuing operations)	45,170	44,468
Unallocated*	(38)	77
Total	45,132	44,545
Deferred tax assets, tax liabilities, interest-bearing loans and borrowings:		
Coal	(1,941)	(1,773)
Ferroalloys	(247)	(186)
Platinum	(274)	(435)
Copper	(1,779)	(3,059)
Nickel	(1,212)	(1,476)
Zinc Lead	(325)	(707)
Technology	—	(10)
Total (continuing operations)	(5,778)	(7,646)
Unallocated*	(16,918)	(11,871)
Total	(22,696)	(19,517)
Investment in associates:		
Coal	46	54
Platinum	1,788	—
Zinc Lead	129	132
Total (continuing operations)	1,963	186
Net assets		
Coal	8,248	8,245
Ferroalloys	962	1,080
Platinum	3,117	1,683
Copper	14,282	14,328
Nickel	9,457	6,572
Zinc Lead	5,230	5,078
Technology	59	22
Net assets (from continuing operations)	41,355	37,008
Unallocated*	(16,956)	(11,794)
Total	24,399	25,214

Notes:

* Includes corporate assets and liabilities not directly attributable to business segments.

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	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Capital expenditure		
Sustaining:		
Coal	459	460
Ferroalloys	95	56
Platinum	6	—
Copper	557	425
Nickel	267	281
Zinc Lead	278	219
Technology	<u>3</u>	<u>3</u>
Total sustaining (continuing operations)	1,665	1,444
Unallocated	<u>9</u>	<u>11</u>
	1,674	1,455
Discontinued operations		
Aluminium	<u>—</u>	<u>12</u>
Total	1,674	1,467
Expansionary:		
Coal	745	347
Ferroalloys	13	47
Platinum	108	17
Copper	558	296
Nickel	1,645	424
Zinc Lead	377	285
Technology	<u>3</u>	<u>1</u>
Total expansionary (continuing operations)	3,449	1,417
Discontinued operations		
Aluminium	<u>—</u>	<u>1</u>
Total	3,449	1,418
Total capital expenditure:		
Coal	1,204	807
Ferroalloys	108	103
Platinum	114	17
Copper	1,115	721
Nickel	1,912	705
Zinc Lead	655	504
Technology	<u>6</u>	<u>4</u>
Total (from continuing operations)	5,114	2,861
Unallocated	<u>9</u>	<u>11</u>
	5,123	2,872
Discontinued operations		
Aluminium	<u>—</u>	<u>13</u>
Total	5,123	2,885

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

	<u>2008</u>	<u>2007</u>
Coal	9,622	9,179
Ferroalloys	8,374	7,525
Platinum	1,102	974
Copper	11,131	10,368
Nickel	4,520	4,738
Zinc Lead	5,029	4,734
Technology	<u>162</u>	<u>137</u>
Total (continuing operations)	39,940	37,655
Unallocated	<u>109</u>	<u>103</u>
	40,049	37,758
Discontinued operations		
Aluminium	<u>—</u>	<u>1,250</u>
Total	40,049	39,008
The average number of contractors during the year was as follows:		
Coal	8,680	6,156
Ferroalloys	4,869	4,261
Platinum	1,398	398
Copper	9,807	8,425
Nickel	2,148	1,332
Zinc Lead	1,316	1,684
Technology	<u>69</u>	<u>65</u>
Total (continuing operations)	28,287	22,321
Unallocated	<u>4</u>	<u>5</u>
	28,291	22,326
Discontinued operations		
Aluminium	<u>—</u>	<u>178</u>
Total	28,291	22,504

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Geographical segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's geographical segments for the years ended 31 December 2008 and 2007.

	For the year ended 31 December					
	Before exceptional items	Exceptional items	2008	Before exceptional items	Exceptional items	2007
	<i>(in US\$ millions)</i>					
Revenue by origin						
External parties:						
Africa	3,109	—	3,109	2,272	—	2,272
Americas North	7,394	—	7,394	10,448	—	10,448
Americas South	6,200	—	6,200	7,673	—	7,673
Australasia	8,512	—	8,512	5,490	—	5,490
Europe	2,737	—	2,737	<u>2,659</u>	—	<u>2,659</u>
Revenue (continuing operations)	27,952	—	27,952	28,542	—	28,542
Discontinued operations:						
Americas North	—	—	—	542	—	542
Total	<u>27,952</u>	—	<u>27,952</u>	<u>29,084</u>	—	<u>29,084</u>
Revenue by destination						
External parties:						
Africa	725	—	725	449	—	449
Americas North	6,516	—	6,516	7,000	—	7,000
Americas South	1,415	—	1,415	1,582	—	1,582
Asia	9,894	—	9,894	8,594	—	8,594
Australasia	1,083	—	1,083	1,176	—	1,176
Europe	8,216	—	8,216	9,662	—	9,662
Middle East	103	—	103	79	—	79
Revenue (continuing operations)	27,952	—	27,952	28,542	—	28,542
Discontinued operations:						
Americas North	—	—	—	542	—	542
Total	<u>27,952</u>	—	<u>27,952</u>	<u>29,084</u>	—	<u>29,084</u>

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	Before exceptional items	Exceptional items	2008	Before exceptional items	Exceptional items	2007
<i>(in US\$ millions)</i>						
EBITDA						
Africa	1,636	19	1,655	683	(25)	658
Americas North	761	(165)	596	2,799	275	3,074
Americas South	2,719	—	2,719	4,614	—	4,614
Australasia	4,229	(53)	4,176	2,475	—	2,475
Europe	368	—	368	489	—	489
Segment EBITDA (continuing operations)	9,713	(199)	9,514	11,060	250	11,310
Share of results from associates (net of tax, continuing operations):						
Americas North	9	—	9	12	—	12
Africa	—	(34)	(34)	—	—	—
Australasia	3	—	3	3	—	3
EBITDA (continuing operations)	9,725	(233)	9,492	11,075	250	11,325
Unallocated	(68)	—	(68)	(187)	—	(187)
	<u>9,657</u>	<u>(233)</u>	<u>9,424</u>	<u>10,888</u>	<u>250</u>	<u>11,138</u>
EBITDA (discontinued operations)						
Americas North	—	—	—	120	13	133
Total	<u>9,657</u>	<u>(233)</u>	<u>9,424</u>	<u>11,008</u>	<u>263</u>	<u>11,271</u>

	Before exceptional items	Exceptional items	2008	Before exceptional items	Exceptional items	2007
<i>(in US\$ millions)</i>						
Depreciation and amortisation						
Africa	219	—	219	185	—	185
Americas North	508	—	508	584	—	584
Americas South	723	—	723	751	—	751
Australasia	789	—	789	526	—	526
Europe	147	—	147	43	—	43
Depreciation and amortisation (from continuing operations)	2,386	—	2,386	2,089	—	2,089
Unallocated	10	—	10	7	—	7
	<u>2,396</u>	<u>—</u>	<u>2,396</u>	<u>2,096</u>	<u>—</u>	<u>2,096</u>
Discontinued operations:						
Americas North	—	—	—	31	—	31
Total	<u>2,396</u>	<u>—</u>	<u>2,396</u>	<u>2,127</u>	<u>—</u>	<u>2,127</u>
Impairment of assets						
Africa	—	18	18	—	—	—
Americas North	—	247	247	—	—	—
Americas South	—	691	691	—	—	—
Australasia	—	18	18	—	—	—
Total impairment of assets (continuing operations)	<u>—</u>	<u>974</u>	<u>974</u>	<u>—</u>	<u>—</u>	<u>—</u>

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	Before exceptional items	Exceptional items	2008	Before exceptional items	Exceptional items	2007
	<i>(in US\$ millions)</i>					
EBIT						
Segment result:						
Africa	1,417	1	1,418	498	(25)	473
Americas North	253	(412)	(159)	2,215	275	2,490
Americas South	1,996	(691)	1,305	3,863	—	3,863
Australasia	3,440	(71)	3,369	1,949	—	1,949
Europe	<u>221</u>	<u>—</u>	<u>221</u>	<u>446</u>	<u>—</u>	<u>446</u>
Segment EBIT (continuing operations)	7,327	(1,173)	6,154	8,971	250	9,221
Share of results from associates (net of tax, continuing operations):						
Americas North	3	—	3	12	—	12
Africa	—	(34)	(34)	—	—	—
Australasia	<u>9</u>	<u>—</u>	<u>9</u>	<u>3</u>	<u>—</u>	<u>3</u>
EBIT (continuing operations)	7,339	(1,207)	6,132	8,986	250	9,236
Unallocated	<u>(78)</u>	<u>—</u>	<u>(78)</u>	<u>(194)</u>	<u>—</u>	<u>(194)</u>
	7,261	(1,207)	6,054	8,792	250	9,042
Finance income	192	69	261	142	74	216
Finance expense	<u>(852)</u>	<u>(295)</u>	<u>(1,147)</u>	<u>(935)</u>	<u>(196)</u>	<u>(1,131)</u>
Profit before taxation	6,601	(1,433)	5,168	7,999	128	8,127
Income tax expense	<u>(1,634)</u>	<u>330</u>	<u>(1,304)</u>	<u>(2,301)</u>	<u>(10)</u>	<u>(2,311)</u>
Profit from continuing operations	4,967	(1,103)	3,864	5,698	118	5,816
Profit after tax from discontinued operations:						
Americas North	<u>—</u>	<u>—</u>	<u>—</u>	<u>52</u>	<u>1</u>	<u>53</u>
Total	<u>4,967</u>	<u>(1,103)</u>	<u>3,864</u>	<u>5,750</u>	<u>119</u>	<u>5,869</u>

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	At 31 December 2008	At 31 December 2007
	<i>(in US\$ millions)</i>	
Total assets		
Africa	7,850	6,330
Americas North	7,344	9,835
Americas South	17,785	18,023
Australasia	15,529	12,398
Europe	<u>2,867</u>	<u>2,138</u>
Total segmental assets (continuing operations)	51,375	48,724
Unallocated*	<u>3,939</u>	<u>3,397</u>
Total	<u>55,314</u>	<u>52,121</u>
Total liabilities		
Africa	2,027	1,891
Americas North	2,670	3,623
Americas South	3,967	4,464
Australasia	3,715	3,945
Europe	<u>372</u>	<u>524</u>
Total (continuing operations)	12,751	14,447
Unallocated*	<u>18,164</u>	<u>12,460</u>
Total	<u>30,915</u>	<u>26,907</u>
Net assets		
Africa	5,823	4,439
Americas North	4,674	6,212
Americas South	13,818	13,559
Australasia	11,814	8,453
Europe	<u>2,495</u>	<u>1,614</u>
Total (continuing operations)	38,624	34,277
Unallocated*	<u>(14,225)</u>	<u>(9,063)</u>
Total	<u>24,399</u>	<u>25,214</u>

Notes:

* Includes corporate assets and liabilities not directly attributable to business segments.

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	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Capital expenditure		
Sustaining:		
Africa	228	184
Americas North	348	371
Americas South	415	264
Australasia	600	588
Europe	<u>74</u>	<u>37</u>
Total sustaining (continuing operations)	1,665	1,444
Unallocated	<u>9</u>	<u>11</u>
	1,674	1,455
Discontinued operations:		
Americas North	<u>—</u>	<u>12</u>
Total	1,674	1,467
Expansionary:		
Africa	392	221
Americas North	568	311
Americas South	460	278
Australasia	1,985	585
Europe	<u>44</u>	<u>22</u>
Total expansionary (continuing operations)	3,449	1,417
Discontinued operations:		
Americas North	<u>—</u>	<u>1</u>
Total	3,449	1,418
Total:		
Africa	620	405
Americas North	916	682
Americas South	875	542
Australasia	2,585	1,173
Europe	<u>118</u>	<u>59</u>
Total (continuing operations)	5,114	2,861
Unallocated	<u>9</u>	<u>11</u>
	5,123	2,872
Discontinued operations:		
Americas North	<u>—</u>	<u>13</u>
Total	5,123	2,885

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

	<u>2008</u>	<u>2007</u>
Africa	14,095	13,372
Americas North	7,635	7,250
Americas South	7,852	8,048
Australasia	8,301	7,462
Europe	2,057	1,523
Total (continuing operations)	39,940	37,655
Unallocated	109	103
	40,049	37,758
Discontinued operations:		
Americas North	—	1,250
Total	40,049	39,008
The average number of contractors during the year was as follows:		
Africa	11,823	7,789
Americas North	1,871	1,847
Americas South	8,790	7,980
Australasia	5,516	4,465
Europe	287	240
Total (continuing operations)	28,287	22,321
Unallocated	4	5
	28,291	22,326
Discontinued operations:		
Americas North	—	178
Total	28,291	22,504

10. Revenue and Expenses

Revenue and expenses

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Revenue and expenses		
Continuing operations:		
Revenue — sales of goods	27,952	28,542
Less cost of sales — after depreciation and amortisation and impairment of assets	(19,347)	(17,582)
Gross profit	8,605	10,960
Administrative expenses — after depreciation and amortisation and impairment of assets	342	744
Inventory recognised as an expense	19,347	17,582
Operating lease rental expense — minimum lease payments	49	27
Royalties paid	724	630
Research and development	6	6
Discontinued operations:		
Revenue — sales of goods	—	542
Less cost of sales — after depreciation and amortisation and impairment of assets	—	(437)
Gross profit	—	105
Inventory recognised as an expense	—	437
Operating lease rental expense — minimum lease payments	—	1
Royalties paid	—	1

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Depreciation and amortisation

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Depreciation and amortisation		
Continuing operations:		
Depreciation of owned assets	2,271	1,980
Depreciation of assets held under finance leases and hire purchase contracts	<u>15</u>	<u>14</u>
Total depreciation from continuing operations	2,286	1,994
Amortisation of intangible assets	<u>110</u>	<u>102</u>
Total depreciation and amortisation from continuing operations	2,396	2,096
Discontinued operations:		
Depreciation of owned assets	<u>—</u>	<u>31</u>
Total depreciation	<u>2,396</u>	<u>2,127</u>

Employee costs including Directors' emoluments (refer to the Directors' Remuneration Report on pages 104 to 107 of the Xstrata Annual Report and Accounts 2008 for details)

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Continuing operations:		
Wages and salaries	2,573	2,164
Pension and other post-retirement benefit costs (refer to note 35)	188	154
Social security and other benefits	150	125
Share-based compensation plans (refer to note 35)	<u>6</u>	<u>106</u>
Employee costs from continuing operations	2,917	2,549
Discontinued operations:		
Wages and salaries	<u>—</u>	<u>54</u>
Pension and other post-retirement benefit costs (refer to note 35)	<u>—</u>	<u>2</u>
Employee costs from discontinued operations	<u>—</u>	<u>56</u>
Total Employee costs	<u>2,917</u>	<u>2,605</u>

Auditors' remuneration

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Auditors' remuneration ^(a) :		
—Group auditors — UK	1	1
—Group auditors — overseas	<u>11</u>	<u>10</u>
	<u>12</u>	<u>11</u>
Amounts paid to auditors for other work:		
Group auditors ^(b)		
—Corporate finance transactions ^(c)	3	10
—Taxation ^(d)	3	3
—Other ^(e)	<u>2</u>	<u>1</u>
	<u>8</u>	<u>14</u>
Other audit firms		
—Internal audit	1	2
—Other ^(f)	<u>4</u>	<u>1</u>
	<u>5</u>	<u>3</u>

Notes:

- (a) The Group audit fee includes US\$45,000 (2007: US\$42,000) in respect of the parent company.
- (b) Included in other fees to auditors is US\$1 million (2007: US\$1 million) relating to the Company and its UK subsidiaries.
- (c) 2008 amounts relate to the 2008 acquisitions, other transactional opportunities reviewed by the Group and the ongoing integration of previous acquisitions.

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- (d) Includes corporate tax compliance and advisory services.
(e) Primarily relates to accounting advice and non-statutory assurance services.
(f) Includes tax advisory services, accounting assistance and acquisition due diligence.

The Corporate Governance Report set out on pages 91 to 97 of the Xstrata Annual Report and Accounts 2008 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.

Finance income

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Continuing operations:		
Bank interest	65	101
Dividends	2	4
Interest — other	<u>125</u>	<u>37</u>
Finance income before exceptional items from continuing operations	<u>192</u>	<u>142</u>
Foreign currency gains on bank loans*	20	—
Recycled gains from the foreign currency translation reserve	<u>49</u>	<u>74</u>
Exceptional finance income from continuing operations	<u>69</u>	<u>74</u>
Total finance income from continuing operations	261	216
Discontinued operations:		
Bank interest	<u>—</u>	<u>2</u>
Total finance income	<u>261</u>	<u>218</u>

Finance costs

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Continuing operations:		
Amortisation of loan issue costs	9	24
Convertible borrowings amortised cost charge	4	3
Discount unwinding	109	90
Finance charges payable under finance leases and hire purchase contracts	6	11
Interest on bank loans and overdrafts	307	394
Interest on convertible borrowings and capital market notes	393	366
Interest on minority interest loans	6	6
Interest on preference shares	15	18
Interest — other	<u>3</u>	<u>23</u>
Finance cost before exceptional items from continuing operations	<u>852</u>	<u>935</u>
Foreign currency losses on bank loans*	—	34
Recycled losses from the foreign currency translation reserve	<u>295</u>	<u>102</u>
Loan issue costs written off on facility refinancing	<u>—</u>	<u>60</u>
Exceptional finance cost from continuing operations	<u>295</u>	<u>196</u>
Total finance cost from continuing operations	1,147	1,131
Discontinued operations:		
Discount unwinding	<u>—</u>	<u>1</u>
Interest on bank loans and overdrafts	<u>—</u>	<u>1</u>
Total finance cost	<u>1,147</u>	<u>1,133</u>

Notes:

* These amounts relate to foreign currency gains and losses on non-US\$ borrowings, predominantly CAD borrowings.

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\$190 million (2007: US\$140 million) and US\$730 million (2007: US\$819 million) respectively.

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Exceptional items

Impairment of assets

The Group completed impairment testing for all its cash-generating units at 31 December 2008 and identified that certain assets were impaired. Ferroalloys minerals reserves were impaired by US\$18 million. The Falcondo ferronickel assets in the Dominican Republic were impaired by US\$455 million, including goodwill of US\$176 million, and the Sudbury nickel assets were impaired by US\$20 million. The impairment charge relating to Falcondo follows the decision to place the operation on prolonged care and maintenance. The Kidd Creek copper operations in Canada were impaired by US\$227 million following a re-evaluation of closure and rehabilitation costs. The Altonorte and Lomas Bayas copper operations in Chile recognised impairment charges against their carrying value of property, plant and equipment assets of US\$92 million and US\$144 million (including goodwill of US\$37 million) respectively. These impairment charges have been mainly caused by weaker domestic demand for sulphuric acid and medium-term environmental capital expenditure requirements. The Lennard Shelf zinc joint venture assets were impaired by US\$18 million. A net impairment charge of US\$34 million was recorded in respect of the Group's investment in Lonmin following the changes in foreign exchange rates and commodity prices that have occurred since the acquisition date (refer to note 15).

Inventory write downs

Nickel inventory net realisable value write downs of US\$93 million were recognised due to reduced prices at year end.

Liability fair value adjustment

An expense of US\$194 million (2007: US\$25 million) has been recognised due to the impact of increasing coal prices on the fair value of the liabilities to African Rainbow Minerals Limited (ARM) and the black economic empowerment disposal to Kagiso of an interest in the Mototolo joint venture (refer note 31).

Profit on restructure of joint venture

A gain of US\$213 million was recognised in relation to the restructure of the Group's interest in the Douglas Tavistock Joint Venture (refer to note 7).

Restructuring and closure costs

Asset write downs and closure costs of US\$125 million were recognised, including the closure of the Lennard Shelf zinc joint venture in Australia (US\$53 million), corporate office downsizing (US\$8 million), the suspension of operations at the Falcondo ferronickel operations in the Dominican Republic (US\$12 million) and the closure of Craig and Thayer-Lindsley nickel mines (US\$52 million) ahead of schedule to be replaced by the new, lower cost Nickel Rim South and Fraser Morgan mines in Canada.

Income and costs of acquisition-related activities

In March 2007 the Group made a cash offer to purchase LionOre Mining International Limited (LionOre), a Canadian listed nickel and gold mining company. In May 2007 OJSC MMC Norilsk Nickel announced a higher cash offer and on 1 June 2007, the Group announced it would not increase its offer price. LionOre terminated the support agreement for the Group's offer and made a termination payment to the Group of CAD305 million (US\$284 million) in June 2007. The Group incurred acquisition costs of US\$9 million in relation to the offer for LionOre.

Income tax benefit

The Group realised an exceptional tax benefit of US\$330 million primarily as a result of the impairment of assets, restructuring and closure costs and inventory write downs.

Profit on sale of operations

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Discontinued operations:		
Aluminium	—	<u>1</u>
	—	<u>1</u>

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The Aluminium business was sold on 18 May 2007 to Apollo Management LP. The disposal proceeds amounted to US\$1,150 million before disposal costs of US\$24 million, realising a gain of US\$1 million after tax (refer to note 8).

11. Income Taxes

Income tax charge

Significant components of income tax expense for the years ended:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Consolidated income statement		
Current tax:		
Based on taxable income of the current year	1,702	2,183
Prior year under/(over) provision	<u>29</u>	<u>(14)</u>
Total current taxation charge for the year	<u>1,731</u>	<u>2,169</u>
Deferred taxation:		
Origination and reversal of temporary differences	(398)	276
Change in tax rates	(37)	(91)
Prior year under provision	<u>8</u>	<u>6</u>
Total deferred taxation charge for the year	<u>(427)</u>	<u>191</u>
Total taxation charge	<u>1,304</u>	<u>2,360</u>
Total taxation attributable to continuing operations	1,304	2,311
Income tax attributable to discontinued operations	<u>—</u>	<u>49</u>
Total taxation charge reported in the consolidated income statement	<u>1,304</u>	<u>2,360</u>
UK taxation included above:		
Current tax	3	10
Deferred tax	<u>3</u>	<u>4</u>
Total taxation charge	<u>6</u>	<u>14</u>
Recognised directly in equity		
Deferred tax:		
Available-for-sale financial assets	(4)	16
Cash flow hedges	25	(15)
Other equity classified items	<u>(102)</u>	<u>6</u>
Total taxation charge/(credit) reported in equity	<u>(81)</u>	<u>7</u>

The amounts above include the tax charge attributable to exceptional items.

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A reconciliation of income tax expense applicable to accounting profit before income tax at the weighted average statutory income tax rate to income tax expense at the Group average effective income tax rate for the years ended is as follows:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Profit before taxation from continuing operations	5,168	8,127
Profit before taxation from discontinued operations	<u>—</u>	<u>102</u>
Profit before taxation	5,168	8,229
At average statutory income tax rate 25.0% (2007: 25.2%)	1,292	2,075
Goodwill impairment	94	—
Mining and other taxes	(59)	214
Foreign currency gains and losses	(143)	156
Non-deductible expenses	88	81
Non-taxable capital gains and losses	48	(53)
Rebatable dividends received	(1)	(3)
Research and development allowances	(20)	(9)
Change in tax rates	(37)	(91)
Prior year under/(over) provision	37	(8)
Other	5	(2)
At average effective income tax rate	1,304	2,360
Total taxation charge reported in consolidated income statement	1,304	2,311
Income tax attributable to discontinued operations	<u>—</u>	<u>49</u>
At average effective income tax rate	1,304	2,360

The above reconciling items are disclosed at the tax rates that apply in the country where they have arisen.

The 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 due to the variation in the weight of subsidiaries' profits, by various changes in the enacted standard income tax rates and due to the acquisition of subsidiaries in countries with different tax rates.

Deferred income taxes

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits 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

The Group has unrecognised deferred tax assets in relation to tax losses that are available indefinitely of US\$14 million (2007: US\$9 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 2008, there was US\$nil recognised deferred tax liability (2007: US\$nil) for taxes that would be payable on the un-remitted earnings of certain of the Group's subsidiaries, associates or joint ventures as:

- the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future;
- the profits 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.

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The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which deferred tax liabilities have not been recognised amount to US\$1,497 million (2007: US\$2,218 million).

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 in the balance sheet is as follows:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Tax losses	273	242
Employee provisions	74	62
Other provisions	201	460
Rehabilitation and closure	152	139
Accelerated depreciation	(5,767)	(6,322)
Coal export rights	(195)	(260)
Other intangibles	(97)	(96)
Government grants	(12)	(14)
Deferred stripping	(95)	(77)
Trade and other payables/receivables	206	36
Available-for-sale financial assets	(25)	(27)
Other equity related items	49	3
Other	(5)	(86)
	<u>(5,241)</u>	<u>(5,940)</u>
Represented on the face of the balance sheet as:		
Deferred tax assets	3	7
Deferred tax liabilities	<u>(5,244)</u>	<u>(5,947)</u>
	<u>(5,241)</u>	<u>(5,940)</u>

Deferred tax assets and liabilities denominated in foreign currencies are retranslated at year end exchange rates.

The deferred tax included in the Group income statement is as follows:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Tax losses	(64)	(185)
Employee provisions	(25)	(11)
Other provisions	323	(17)
Rehabilitation and closure	(37)	(16)
Accelerated depreciation	(385)	360
Deferred stripping	39	27
Trade and other payables/receivables	(201)	(27)
Other	(77)	50
From continuing operations	(427)	181
From discontinued operations	—	10
	<u>(427)</u>	<u>191</u>

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 the tax liability, including related interest charges, in the current tax liability. 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 status of limitation lapses. The final outcome of tax examinations may result in a materially different outcome than assumed in the tax liabilities.

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12. Earnings Per Share

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Continuing operations:		
Profit before exceptional items attributable to ordinary equity holders of the parent from continuing operations	4,698	5,372
Exceptional items from continuing operations	(1,103)	118
Profit attributable to ordinary equity holders of the parent from continuing operations . . .	3,595	5,490
Interest in respect of convertible borrowings	19	16
Profit attributable to ordinary equity holders of the parent for diluted earnings per share from continuing operations	3,614	5,506
Total operations:		
Profit before exceptional items attributable to ordinary equity holders of the parent from continuing operations	4,698	5,372
Exceptional items from continuing operations	(1,103)	118
Profit attributable to ordinary equity holders of the parent from continuing operations . . .	3,595	5,490
Profit attributable to ordinary equity holders of the parent from discontinued operations	—	53
Profit attributable to ordinary equity holders of the parent	3,595	5,543
Interest in respect of convertible borrowings	19	16
Profit attributable to ordinary equity holders of the parent for diluted earnings per share	3,614	5,559
Weighted average number of shares (000) excluding own shares:		
For basic earnings per share	958,667	959,549
Effect of dilution:		
— Free shares and share options (000)	6,224	9,196
— Convertible borrowings	13,571	17,418
For diluted earnings per share	978,462	986,163
Basic earnings per share (US\$)		
Continuing operations:		
— before exceptional items	4.90	5.60
— exceptional items	(1.15)	0.12
	3.75	5.72
Discontinued operations:		
— before exceptional items	—	0.06
— exceptional items	—	—
	—	0.06
Total:		
— before exceptional items	4.90	5.66
— exceptional items	(1.15)	0.12
	3.75	5.78
Diluted earnings per share (US\$)		
Continuing operations:		
— before exceptional items	4.82	5.47
— exceptional items	(1.13)	0.12
	3.69	5.59
Discontinued operations:		
— before exceptional items	—	0.05
— exceptional items	—	—
	—	0.05
Total:		
— before exceptional items	4.82	5.52
— exceptional items	(1.13)	0.12
	3.69	5.64

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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 for continuing and discontinued operations and 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 and the convertible bonds are converted into ordinary shares. An adjustment is also made to net profit for the interest in respect of the convertible borrowings.

13. Dividends Paid and Proposed

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Declared and paid during the year:		
Final dividend for 2007 — 34 cents per ordinary share (2006 — 30 cents per ordinary share) . .	<u>327</u>	<u>290</u>
Interim dividend for 2008 — 18 cents per ordinary share (2007 — 16 cents per ordinary share) . .	<u>172</u>	<u>153</u>
	<u>499</u>	<u>443</u>
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December):	—	—
Final dividend for 2008 — nil cents per ordinary share (2007 — 34 cents per ordinary share) . .	<u>—</u>	<u>326</u>

The 2008 interim dividend was paid on 10 October 2008.

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

	Export rights*	Goodwill*†	Technology patents*	Feed contract*	Hydro electricity rights*	Other	2008
	<i>(in US\$ millions)</i>						
At 1 January 2008	974	7,336	56	359	501	103	9,329
Acquisitions	62	232	—	—	—	—	294
Additions	—	—	—	—	—	54	54
Amortisation charge	(27)	—	(4)	(62)	—	(17)	(110)
Impairment charge	—	(213)	—	—	—	—	(213)
Translation adjustments	(237)	(209)	(10)	—	—	—	(456)
At 31 December 2008	<u>772</u>	<u>7,146</u>	<u>42</u>	<u>297</u>	<u>501</u>	<u>140</u>	<u>8,898</u>
At 1 January 2008:							
Cost	1,007	9,160	72	425	501	131	11,296
Accumulated amortisation	(33)	(1,824)	(16)	(66)	—	(28)	(1,967)
Net carrying amount	<u>974</u>	<u>7,336</u>	<u>56</u>	<u>359</u>	<u>501</u>	<u>103</u>	<u>9,329</u>
At 31 December 2008:							
Cost	822	9,183	58	425	501	180	11,169
Accumulated amortisation	(50)	(2,037)	(16)	(128)	—	(40)	(2,271)
Net carrying amount	<u>772</u>	<u>7,146</u>	<u>42</u>	<u>297</u>	<u>501</u>	<u>140</u>	<u>8,898</u>

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	Export rights*	Goodwill*†	Technology patents*	Feed contract*	Hydro electricity rights*	Other	2007
	<i>(in US\$ millions)</i>						
At 1 January 2007.....	989	6,916	53	413	501	90	8,962
Acquisitions	—	536	—	—	—	—	536
Additions	—	—	—	—	—	32	32
Reclassifications	—	—	—	—	—	(5)	(5)
Amortisation charge	(32)	—	(3)	(54)	—	(13)	(102)
Disposals (refer to note 8)	—	(139)	—	—	—	—	(139)
Translation adjustments	17	23	6	—	—	(1)	45
At 31 December 2007	<u>974</u>	<u>7,336</u>	<u>56</u>	<u>359</u>	<u>501</u>	<u>103</u>	<u>9,329</u>
At 1 January 2007:							
Cost	989	8,740	64	425	501	105	10,824
Accumulated amortisation	—	(1,824)	(11)	(12)	—	(15)	(1,862)
Net carrying amount	<u>989</u>	<u>6,916</u>	<u>53</u>	<u>413</u>	<u>501</u>	<u>90</u>	<u>8,962</u>
At 31 December 2007:							
Cost	1,007	9,160	72	425	501	131	11,296
Accumulated amortisation	(33)	(1,824)	(16)	(66)	—	(28)	(1,967)
Net carrying amount	<u>974</u>	<u>7,336</u>	<u>56</u>	<u>359</u>	<u>501</u>	<u>103</u>	<u>9,329</u>

Notes:

* Purchased as part of business combinations.

† Restated for revisions to the provisional Austral and Eland acquisition accounting (refer to note 7).

The Group has a 20.91% 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 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 acquired hydroelectricity rights will be amortised over the expected life of the operation, currently estimated as being 40 years following the completion of construction.

A long-term feed contract is being amortised over an 8 year period.

Other intangible assets mainly comprise computer software and software development that are being amortised over their useful economic lives of between 3 to 5 years.

15. Impairment Testing

Goodwill

Goodwill has been allocated to a cash-generating unit (“CGU”) or groups of cash-generating units no larger than the reportable segment which are expected to benefit from the related acquisitions. The carrying values of goodwill by cash-generating unit are as follows:

	2008	2007
	<i>(in US\$ millions)</i>	
Chrome — Africa	35	47
Copper — Americas	1,185	1,185
Zinc Lead	1,546	1,546
Zinc Lead — Europe	212	222
	<u>2,978</u>	<u>3,000</u>

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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 have not yet been utilised are treated as part of the relevant CGU or group of CGUs.

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Coal — Australia	233	125
Coal — Americas South	464	464
Copper — Americas South*	1,500	1,537
Copper — Australasia	151	151
Nickel — Americas North	856	856
Nickel — Americas South*	119	295
Nickel — Africa	78	78
Nickel — Australasia	79	34
Platinum — Africa	284	384
Zinc Lead — Americas North	244	244
Zinc Lead — Americas South	160	160
Zinc Lead — Australasia	—	8
	<u>4,168</u>	<u>4,336</u>
	<u>7,146</u>	<u>7,336</u>

Notes:

* Net of 2008 impairment loss 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 December 2008.

In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit or reportable segment is compared with its recoverable amount.

2008 testing

The goodwill impairment expense recognised as an exceptional item in the income statement (refer to note 10), relate to the following:

	<u>Impairment method</u>	<u>2008</u>
	<i>(in US\$ millions)</i>	
Copper — Americas South	FVLCS	37
Nickel — Americas South	FVLCS	176
		<u>213</u>

For the purpose of goodwill impairment testing, recoverable amounts have been determined based on ‘fair value less costs to sell’ (“FVLCS”) calculations, with the exception of Coal — Australia goodwill, Coal — Colombia goodwill, Chrome — Africa goodwill and partially Copper Australasia which have been 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.

VIU is based on the cash flows expected to be generated from mines, smelting and refining operations included within the cash generating units or reportable segments. Cash flows are projected for periods up to the date that mining and refining is 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 32 years.

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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 released on 29 January 2009 is summarised as follows:

	Reserves		Resources		
	Proved	Probable	Measured	Indicated	Inferred
	<i>(Million tonnes)</i>				
Chrome — Africa	51	21	92	112	235
Vanadium — Africa	16	12	39	41	128
Coal — Africa	835	27	2,248	1,008	844
Coal — Australia	1,235	1,213	3,478	4,122	5,754
Coal — Americas South	630	181	185	1,362	1,061
Copper — Americas North	16	4	20	4	7
Copper — Americas South	1,267	2,733	1,583	5,458	3,383
Copper — Australasia	78	47	846	1,174	1,636
Nickel — Americas North	10	16	18	35	43
Nickel — Americas South	34	34	46	127	42
Nickel — Africa	—	—	—	23	28
Nickel — Australasia	17	47	35	83	96
Platinum — Africa	12	16	35	84	107
Zinc Lead — Americas North	12	3	15	3	—
Zinc Lead — Australasia	39	105	247	199	142

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. To this end, whilst prices are expected to remain depressed in the short-term, they are expected to increase as world economic conditions improve in the medium term. The commodity prices used in the impairment review are management estimates and are within the range of the available analyst forecasts at 31 December 2008.

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 processes and time of processing.

Future capital expenditure is based on management's best estimate of required future capital requirements. It has been determined by taking into account all committed and anticipated capital expenditure adjusted for future cost estimates.

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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 cash-generating unit 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 cash-generating unit or reportable segment for which cash flows have not already been adjusted. These rates were calculated with reference to market information from third party advisors.

	<u>Impairment method</u>	<u>Discount rate</u>
Chrome	VIU	10%
Coal	VIU	10%
Copper	VIU	10%
Copper	FVLCS	7% - 11%
Nickel	FVLCS	7% - 10%
Platinum	FVLCS	7% - 8%
Zinc Lead	<u>FVLCS</u>	<u>7%</u>

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 forecasts. 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

Whilst the Directors remain confident of recovery in the market in the medium term, given the current volatility in the market, adverse changes in key assumptions as described below could result in changes to impairment charges specifically in relation to Copper Americas, Zinc Lead and Zinc Lead Europe.

A summary of the mineral resources and ore reserves related to the goodwill balances, released on 29 January 2009, is summarised as follows:

	<u>Reserves</u>		<u>Resources</u>		
	<u>Proved</u>	<u>Probable</u>	<u>Measured</u>	<u>Indicated</u>	<u>Inferred</u>
	<i>(Million tonnes)</i>				
Copper — Americas	1,283	2,737	1,603	5,462	3,390
Zinc Lead	51	108	262	202	142

Commodity prices — the commodity prices were based on external market consensus forecasts. The copper prices ranged from US\$1.50 per pound to US\$2.50 per pound, US\$0.64 per pound to US\$0.86 per pound for zinc and US\$0.43 per pound to US\$0.64 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 value in use calculation for Zinc Lead treatment charges were estimated to be in the range of US\$200 per tonne to US\$231 per tonne for zinc and US\$103 per tonne to US\$124 per tonne for lead refining fees, based on the year of processing. As outlined above, these prices were based on external market consensus forecasts.

Foreign exchange rates — In performing the FVLCS calculations, the foreign exchange rates used were based on external market consensus forecasts. The US\$:ARS rate ranged from 3.4 to 3.5, AUD:US\$ rate ranged from 0.61 to 0.63, the US\$:CAD rate ranged from 1.25 to 1.27, the US\$:CLP rate from 690 to 807, the EUR:US\$ rate ranged from 1.27 to 1.28 and the US\$:PEN from 3.23 to 3.92 varying in accordance with the year the sale was expected to occur.

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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 below table summarises the change required to key assumptions that would result in the carrying value equalling the recoverable values:

	Excess of recoverable amount over carrying value	Change in the key assumption which would result in the recoverable amount equalling the carrying value (%)		
		Commodity prices	Discount rate	Foreign exchange rate
	(in US\$ millions)			
Copper — Americas	993	9%	2%	19%
Zinc Lead	989	8%	2%	12%
Zinc Lead — Europe	1,057	28%	5%	36%

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\$5,325 million and management is of the opinion that no reasonable possible change in the key assumptions would result in an impairment expense being recognised.

2007 Testing

For the purpose of goodwill impairment testing, except for the testing of US\$1,546 million allocated to the Zinc Lead reportable segment, recoverable amounts were determined based on VIU calculations. VIU was based on the cash flows expected to be generated from mines, smelting and refining operations included within the cash-generating units or reportable segments. Cash flows were projected for periods up to the date mining and refining was expected to cease, based on management's expectations at the time of completing the testing. This date depended 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 were projected for a maximum of 26 years.

For the goodwill allocated to the Zinc Lead segment, recoverable amount was determined based on FVLCS. As observable market prices are not available, this was calculated using discounted cash flow methodology taking account of assumptions that would be made by market participants. Where appropriate, this value was cross checked to recent market transactions, after allowing for various factors including changes in the economic environment since the date of the transactions and differences in the location and quality of assets.

Key assumptions

The key assumptions used in the VIU calculations for goodwill were consistent with those outlined above, and used in 2008. Management determined the value of the assumptions in the same manner, specifically, by considering economically recoverable reserves and resources and market consensus prices.

The discount rates that were utilised are outlined below, and represent the real pre-tax rates that reflect the current market assessments of the time value of money and the risks specific to the cash-generating unit or reportable segment for which cash flows had not been adjusted. These rates were based on the weighted average cost of capital specific to each cash-generating unit or reportable segment and the currency of the cash flows generated. These rates were calculated with reference to information from third party advisors.

	Impairment method	Discount rate
Chrome	VIU	9%
Copper — Americas	VIU	11% - 17%
Zinc Lead	FVLCS	7%
Zinc Lead — Europe	VIU	10% - 11%

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Sensitivity to changes in assumptions

There was no impairment expense recognised in 2007 and the directors were of the view that no ‘reasonably possible change’ in any of the key assumptions would have resulted in an impairment expense being recognised.

Other non-current assets

The impairment losses recognised as an exceptional item in the income statement (refer to note 10), excluding the goodwill impairment above, relate to the following:

	<u>2008</u>
	<i>(in US\$ millions)</i>
Chrome — Africa	18
Copper — Americas North	227
Copper — Americas South	199
Nickel — Americas North	20
Nickel — Americas South	<u>279</u>
Zinc Lead — Australasia	<u>18</u>
	<u>761</u>

The most significant contributors to the impairment in Copper — Americas North of \$227 million was the current pricing environment and increasing operating costs associated with increasing environmental costs. In respect of Copper Americas South, an impairment of \$199 million has been recorded due to increases in inputs costs including electricity and sulphuric acid, eroding margins at Lomas Bayas and reduced treatment and refining charges from the shortage of concentrate at Alto Norte.

The most significant contributors to the impairment at Nickel — Americas South Falcondo ferronickel operation was the suspension of production in August 2008 due to the combination of high oil prices and lower nickel prices. Production at this asset was suspended in August 2008.

Impairment charges of US\$18 million were incurred due to the closure of the Lennard Shelf zinc operation in Western Australia in August 2008, US\$20 million due to the early closure of the Craig and Thayer-Lindsley nickel mines in Canada in November 2008 and impairment charges of US\$18 million in relation to chrome mineral reserves. In addition to these impairment charges, a net impairment charge of US\$34 million was recorded in respect of the Group’s investment in Lonmin (refer to note 10 and 20).

16. Property, Plant and Equipment

	Exploration and evaluation	Land and buildings	Mining properties and leases	Plant and equipment	Capital works in progress	2008
<i>(in US\$ millions)</i>						
At 1 January 2008, net of accumulated depreciation	665	2,721	20,534	6,974	2,348	33,242
Acquisitions	310	25	3,056	772	97	4,260
Additions	291	168	548	1,179	3,126	5,312
Disposal of discontinued operations	—	—	(92)	—	—	(92)
Disposals	(14)	—	(7)	(25)	(8)	(54)
Rehabilitation provision adjustments	—	—	195	—	—	195
Reclassifications	(114)	55	614	503	(1,058)	—
Depreciation charge	(15)	(290)	(985)	(982)	(14)	(2,286)
Impairment charge	—	(2)	(427)	(332)	—	(761)
Translation adjustments	(99)	(216)	(2,169)	(1,003)	(188)	(3,675)
At 31 December 2008, net of accumulated depreciation	<u>1,024</u>	<u>2,461</u>	<u>21,267</u>	<u>7,086</u>	<u>4,303</u>	<u>36,141</u>
At 1 January 2008:						
Cost	677	3,160	22,879	9,303	2,349	38,368
Accumulated depreciation	(12)	(439)	(2,345)	(2,329)	(1)	(5,126)
Net carrying amount	<u>665</u>	<u>2,721</u>	<u>20,534</u>	<u>6,974</u>	<u>2,348</u>	<u>33,242</u>
At 31 December 2008:						
Cost	1,046	3,336	24,667	10,245	4,321	43,615
Accumulated depreciation	(22)	(875)	(3,400)	(3,159)	(18)	(7,474)
Net carrying amount	<u>1,024</u>	<u>2,461</u>	<u>21,267</u>	<u>7,086</u>	<u>4,303</u>	<u>36,141</u>
	Exploration and evaluation	Land and buildings	Mining properties and leases	Plant and equipment	Capital works in progress	2007
<i>(in US\$ millions)</i>						
At 1 January 2007, net of accumulated depreciation	245	2,751	18,343	6,285	1,874	29,498
Acquisitions	37	180	2,438	267	—	2,922
Additions	139	227	517	1,306	829	3,018
Disposal of discontinued operations	—	(366)	(7)	(623)	(22)	(1,018)
Disposals	—	(4)	(5)	(26)	(24)	(59)
Rehabilitation provision adjustments	—	—	122	—	—	122
Reclassifications	252	89	(206)	279	(409)	5
Depreciation charge	(7)	(197)	(1,012)	(809)	—	(2,025)
Translation adjustments	(1)	41	344	295	100	779
At 31 December 2007, net of accumulated depreciation	<u>665</u>	<u>2,721</u>	<u>20,534</u>	<u>6,974</u>	<u>2,348</u>	<u>33,242</u>
At 1 January 2007:						
Cost	252	3,030	19,595	7,808	1,875	32,560
Accumulated depreciation	(7)	(279)	(1,252)	(1,523)	(1)	(3,062)
Net carrying amount	<u>245</u>	<u>2,751</u>	<u>18,343</u>	<u>6,285</u>	<u>1,874</u>	<u>29,498</u>
At 31 December 2007:						
Cost	677	3,160	22,879	9,303	2,349	38,368
Accumulated depreciation	(12)	(439)	(2,345)	(2,329)	(1)	(5,126)
Net carrying amount	<u>665</u>	<u>2,721</u>	<u>20,534</u>	<u>6,974</u>	<u>2,348</u>	<u>33,242</u>

Land and buildings include non-depreciating freehold land amounting to US\$397 million (2007: US\$363 million).

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Mining properties and leases at 31 December 2008 include deferred stripping costs of US\$588 million (2007: US\$432 million). US\$243 million (2007: US\$165 million) of deferred stripping costs were capitalised during the year.

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2008 is US\$88 million (2007: US\$125 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\$nil (2007: US\$nil).

US\$20 million (2007: US\$nil) of interest was capitalised during the year and there is US\$19 million (2007: US\$nil) of capitalised interest within property, plant and equipment at 31 December 2008.

The carrying value of property, plant and equipment at 31 December 2008 that is temporarily idle is US\$nil million (2007: US\$nil).

The Group has made commitments to acquire property, plant and equipment totalling US\$346 million at 31 December 2008 (2007: US\$532 million).

17. Biological Assets

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
At 1 January	19	15
Disposals	(3)	—
Net gain/(loss) from fair value less estimated selling cost adjustments	(1)	2
Translation adjustments	<u>(4)</u>	<u>2</u>
At 31 December.	<u>11</u>	<u>19</u>

Biological assets are stated at fair value less estimated selling costs, which has been determined based on independent valuations as at 31 December 2008 and 2007, on the basis of open market value, supported by market evidence. As at 31 December 2008, the Group owned 47,000 (2007: 54,000) cattle.

18. Inventories

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Current:		
Raw materials and consumables	1,353	1,451
Work in progress	1,350	1,763
Finished goods	870	953
	<u>3,573</u>	<u>4,167</u>
Non-current:		
Work in progress	<u>39</u>	<u>17</u>
	<u>39</u>	<u>17</u>

Non-current inventories comprises long-term ore stockpiles that are not planned to be processed within one year.

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19. Trade and Other Receivables

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Current:		
Trade debtors	1,570	2,451
Advances	144	189
Employee entitlement receivables (refer to note 32)	11	6
Recoverable sales tax	298	290
Other debtors	83	31
	<u>2,106</u>	<u>2,967</u>
Non-current:		
Employee entitlement receivables (refer to note 32)	33	38
Recoverable sales tax	—	5
Other debtors	44	42
	<u>77</u>	<u>85</u>

20. Investment in Associates

Lonmin plc

In August 2008, the Group acquired 16,706,481 shares in Lonmin plc for US\$1,084 million. In October 2008 the Group acquired an additional 22,232,940 shares for US\$794 million, resulting in a total acquisition price of US\$1,878 million. At this time the Group held 24.9% of Lonmin plc and determined it was an associate of the Group. Lonmin plc which is listed on the London Stock Exchange is one of the world's largest platinum producers with operations principally in South Africa.

The share price of Lonmin as listed on the London stock exchange at 31 December 2008 was GBP9.11 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 reflected significant uncertainty and volatility in world economic markets as opposed to fundamental long-term value of this investment. However, the Group has determined that this recoverable amount was lower than the carrying amount of the investment. Consequently the carrying value was written down resulting in a net exceptional impairment charge of US\$34 million (refer to notes 10 and 15).

Other associates

The Group's other associates are:

- interests in coal terminals (Newcastle Coal Shippers Pty Ltd, Port Kembla Coal Terminal Limited and Richards Bay Coal Terminal Company Ltd), through which it gains access to export markets (see note 36); and
- a 25% interest in the Noranda Income Fund which owns a zinc refinery in Salaberry-de-Valleyfield, Quebec.

The Group held 12,500,000 (2007: 12,500,000) units in the Noranda Income Fund and the unit price as listed on the Toronto stock exchange at 31 December 2008 was CAD4.15 (2007: CAD9.67). 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 significant uncertainty and volatility in world economic markets in late 2008.

The companies which own the coal terminals are not listed so there is no published quoted price for the value of these investments. The carrying value is equal to fair value.

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The following is a summary of the financial information of the above associates:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Share of associates' balance sheet:		
Non-current assets	2,188	256
Current assets	263	83
Total assets	<u>2,451</u>	<u>339</u>
Non-current liabilities	(367)	(113)
Current liabilities	(121)	(40)
Total liabilities	<u>(488)</u>	<u>(153)</u>
Net assets	<u>1,963</u>	<u>186</u>
Carrying amount of the investment	<u>1,963</u>	<u>186</u>
Share of associates' revenue and profit:		
Revenue	<u>175</u>	<u>265</u>
EBITDA	<u>22</u>	<u>23</u>
EBIT	(23)	15
Net interest paid	2	1
Income tax expense	<u>(1)</u>	<u>(1)</u>
Profit for the year	<u>(22)</u>	<u>15</u>

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 Lonmin's results are included above and have been estimated based on market consensus estimates.

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21. Interests in Joint Venture Entities

The Group has various interests in jointly controlled entities, operations and assets as outlined in note 36. These interests are accounted for in the manner outlined in note 6.

The following is a summary of the financial information of the Group's jointly controlled entities in Africa and South America:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Share of joint ventures' balance sheets:		
Non-current assets	9,916	9,950
Current assets	508	690
Total assets	<u>10,424</u>	<u>10,640</u>
Non-current liabilities	(2,026)	(2,121)
Current liabilities	(331)	(336)
Total liabilities	<u>(2,357)</u>	<u>(2,457)</u>
Net assets	<u>8,067</u>	<u>8,183</u>
Net assets consolidated	<u>8,067</u>	<u>8,183</u>
Share of joint ventures' revenue and profit:		
Revenue	2,447	2,450
Cost of sales (before depreciation and amortisation)	(498)	(310)
Distribution costs	(231)	(129)
Administration expenses (before depreciation and amortisation)	(30)	(54)
EBITDA	1,688	1,957
Depreciation and amortisation	(384)	(370)
EBIT	1,304	1,587
Finance income	7	8
Finance costs	(14)	(22)
Profit before tax	1,297	1,573
Income tax expense	(372)	(431)
Profit for the year	<u>925</u>	<u>1,142</u>

22. Available-for-sale Financial Assets

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
At fair value:		
Shares — listed	68	87
Shares — unlisted	3	26
Royalty contract	90	90
	<u>161</u>	<u>203</u>

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 2008 and 2007, the listed shares related to companies in the mining industry. The listed shares are carried at fair value.

Unlisted shares mainly comprise interests in ports in Australia used to export coal and are carried at fair value.

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23. Derivative Financial Assets

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Current:		
At fair value:		
Foreign currency cash flow hedges	6	1
Fair value interest rate swap hedges	—	4
Other commodity derivatives	8	3
Other foreign currency derivatives	<u>15</u>	<u>81</u>
	<u>29</u>	<u>89</u>
Non-current:		
At fair value:		
Foreign currency cash flow hedges	47	112
Fair value interest rate swap hedges	715	98
Other interest rate derivatives	<u>12</u>	<u>—</u>
	<u>774</u>	<u>210</u>
Total	<u>803</u>	<u>299</u>

24. Other Financial Assets

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Current:		
At amortised cost:		
Loans to joint venture partners	—	<u>54</u>
	<u>—</u>	<u>54</u>
Non-current:		
At fair value:		
Rehabilitation trust fund	42	43
Other	<u>28</u>	<u>34</u>
	<u>70</u>	<u>77</u>
At amortised cost:		
Loans to joint venture partners	—	<u>21</u>
	<u>70</u>	<u>98</u>
Total	<u>70</u>	<u>152</u>

Loans to joint venture partners

A loan to Merafe was made on establishment of the Chrome Pooling and Sharing Venture (“PSV”). At 31 December 2008, US\$nil (2007: US\$21 million) was subject to a floating interest rate based on South African prime rates. This loan is secured by the Group’s ability to acquire Merafe’s PSV assets at fair value in the event of default.

A loan was made to African Rainbow Minerals Limited (“ARM”) on establishment of ARM Coal. At 31 December 2008, US\$nil (2007: US\$54 million) was subject to a floating interest rate based on South African prime rates. This loan is secured by the Group’s ability to acquire ARM Coal assets at fair value in the event of default.

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

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the trust deed and the assets are not available for the general purpose of the Group. The trust fund is carried at fair value.

25. Cash and Cash Equivalents

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Cash at bank and in hand	720	487
Short-term deposits	436	661
	<u>1,156</u>	<u>1,148</u>

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 2008 and 31 December 2007 approximates carrying value.

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Cash at bank and in hand	720	487
Short-term deposits	436	661
Bank overdrafts (refer to note 28)	(11)	(79)
	<u>1,145</u>	<u>1,069</u>

During the year, the Group entered into new finance leases and hire purchase contracts to purchase various items of plant and equipment for US\$30 million (2007: US\$26 million), issued shares from the conversion of the convertible borrowings and issued shares to the ESOP for a market value of US\$412 million (2007: US\$185 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.

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26. Capital and Reserves

(in US\$ millions)

Authorised:	
15,109,948,397 ordinary shares of US\$0.50 each as at 1 January 2007	7,555
13,609,948,397 ordinary shares of US\$0.50 each cancellation	<u>(6,805)</u>
1,500,000,000 ordinary shares of US\$0.50 each as at 31 December 2007 and at 31 December 2008	750
50,000 deferred shares of GBP1.00 each as at 31 December 2007 and at 31 December 2008 . .	—
1 special voting share of US\$0.50 as at 31 December 2007 and as at 31 December 2008	<u>—</u>
	<u>750</u>
Issued, called up and fully paid:	
943,150,383 ordinary shares of US\$0.50 each as at 1 January 2007	471
4,000,000 ordinary shares issued on 31 January 2007 to the ESOP	2
24,516,537 ordinary shares issued on the exercise of convertible bonds to 31 December 2007	<u>12</u>
971,666,920 ordinary shares of US\$0.50 each as at 31 December 2007	485
6,000,000 ordinary shares issued on 16 January 2008 to the ESOP	3
3,620 ordinary shares issued on the exercise of the convertible borrowings to 31 December 2008	<u>—</u>
977,670,540 ordinary shares of US\$0.50 each as at 31 December 2008	<u>488</u>
Share Premium:	
At 1 January 2007	9,522
4,000,000 ordinary shares issued on 31 January 2007 to the ESOP	183
24,516,537 ordinary shares issued on the exercise of convertible bonds to 31 December 2007	<u>194</u>
As at 31 December 2007	9,899
6,000,000 ordinary shares issued on 16 January 2008 to the ESOP	409
3,620 shares issued on the exercise of the convertible borrowings to 31 December 2008	<u>—</u>
As at 31 December 2008	<u>10,308</u>
Own shares:	
6,173,747 ordinary shares of US\$0.50 each as at 1 January 2007	(154)
4,000,000 ordinary shares purchased on 31 January 2007 by the ESOP	(185)
9,310,000 ordinary shares purchased in the ECMP during the year	(518)
291,585 ordinary shares purchased during the year	(14)
6,618,641 ordinary shares disposed during the year	<u>220</u>
13,156,691 ordinary shares of US\$0.50 each as at 31 December 2007	(651)
6,000,000 ordinary shares purchased on 16 January 2008 by the ESOP	(412)
6,920,000 ordinary shares purchased in July 2008 by the ESOP	(508)
4,664,407 ordinary shares disposed during the year	256
242,702 ordinary shares purchased during the year	<u>(17)</u>
21,654,986 ordinary shares of US\$0.50 each as at 31 December 2008	<u>(1,332)</u>

Details in respect of the various classes of shares are outlined in the Directors' Report on pages 87 to 88 of the Xstrata Annual Report and Accounts 2008.

Issue of ordinary shares

On 31 January 2007, 4,000,000 shares were issued to the ESOP at a market price of GBP23.58 per share.

On 16 January 2008, 6,000,000 shares were issued to the ESOP at a market price of GBP34.90 per share.

During 2008, 0.03% of the US\$375 million of convertible borrowings was converted at the option of the holders into 3,620 ordinary shares in Xstrata plc (refer to note 29).

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Own shares

Own shares comprise shares of Xstrata plc held in the Employee Share Option Plan (“ESOP”) and shares held by Batiss Investments (“Batiss”) for the Equity Capital Management Program (“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 manage 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 2008, 5,424,986 (2007: 3,846,691) shares, equivalent to 0.5% (2007: 0.4%) of the total issued share capital, were held by the trust with a cost of US\$306 million (2007: US\$133 million) and market value of US\$51 million (2007: US\$271 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 Capital Corporation A.V.V. (“Xstrata Capital”), a wholly-owned subsidiary within the Xstrata Group, whereby Batiss has granted to Xstrata Capital 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 Capital, at an exercise price of 1p per share. Under the option agreement, Xstrata Capital 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 Capital 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 Capital. Xstrata Capital 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 2008 or 2007.

Batiss has waived its right to receive dividends on the shares which it holds. At 31 December 2008, 16,230,000 (2007: 9,310,000) shares, equivalent to 1.7% (2007: 1.0%) of the total issued share capital, were held by the trust with a cost of US\$1,026 million (2007: US\$518 million) and market value of US\$152 million (2007: US\$656 million). Costs relating to the administration of the trust are expensed in the period in which they are incurred.

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Consolidated changes in equity

	Attributable to equity holders of the parent								Total equity
	Issued capital	Share premium	Own shares	Convertible borrowings - equity component	Other reserves	Retained earnings	Total	Minority interests	
	<i>(in US\$ millions)</i>								
At 1 January 2007	471	9,522	(154)	78	4,472	4,057	18,446	1,146	19,592
Recognised income and expenses	—	—	—	—	595	5,472	6,067	326	6,393
Issue of share capital	14	377	(185)	(22)	—	—	184	—	184
Own share purchases	—	—	(532)	—	—	—	(532)	—	(532)
Own share disposals	—	—	220	—	—	(164)	56	—	56
Cost of IFRS 2 equity settled share-based compensation plans	—	—	—	—	—	62	62	—	62
Acquisition of subsidiaries	—	—	—	—	—	—	—	385	385
Capital injection	—	—	—	—	—	—	—	180	180
Redemption of minority interests	—	—	—	—	(12)	—	(12)	(10)	(22)
Dividends paid	—	—	—	—	—	(443)	(443)	(485)	(928)
Loan reclassification	—	—	—	—	—	—	—	(156)	(156)
At 31 December 2007	485	9,899	(651)	56	5,055	8,984	23,828	1,386	25,214
Recognised income and expenses	—	—	—	—	(3,601)	3,520	(81)	269	188
Issue of share capital	3	409	(412)	—	—	—	—	—	—
Own share purchases	—	—	(525)	—	—	—	(525)	—	(525)
Own share disposals	—	—	256	—	—	(192)	64	—	64
Cost of IFRS 2 equity settled share-based compensation plans	—	—	—	—	—	245	245	—	245
Modification of share based awards	—	—	—	—	—	(269)	(269)	—	(269)
Acquisition of subsidiaries	—	—	—	—	—	—	—	80	80
Capital injection	—	—	—	—	—	—	—	122	122
Dividends paid	—	—	—	—	—	(499)	(499)	(221)	(720)
At 31 December 2008	<u>488</u>	<u>10,308</u>	<u>(1,332)</u>	<u>56</u>	<u>1,454</u>	<u>11,789</u>	<u>22,763</u>	<u>1,636</u>	<u>24,399</u>

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Other reserves

	Revaluation reserves	Other reserves	Net unrealised gains/ (losses)	Foreign currency translation	Total
<i>(in US\$ millions)</i>					
At 1 January 2007	1,418	1,241	(81)	1,894	4,472
Revaluation of property, plant and equipment	22	—	—	—	22
Available-for-sale financial assets	—	—	49	—	49
Losses on cash flow hedges	—	—	(261)	—	(261)
Realised losses on cash flow hedges*	—	—	121	—	121
Recycled foreign currency translation net losses	—	—	—	28	28
Redemption of minority interests	—	(12)	—	—	(12)
Foreign currency translation differences	—	—	(2)	672	670
Deferred tax	—	—	(1)	(33)	(34)
At 31 December 2007	<u>1,440</u>	<u>1,229</u>	<u>(175)</u>	<u>2,561</u>	<u>5,055</u>
Available-for-sale financial assets	—	—	(114)	—	(114)
Losses on cash flow hedges	—	—	(157)	—	(157)
Realised losses on cash flow hedges*	—	—	360	—	360
Recycled foreign currency translation net losses	—	—	—	246	246
Foreign currency translation differences	—	—	—	(3,980)	(3,980)
Deferred tax	—	—	(21)	65	44
At 31 December 2008	<u>1,440</u>	<u>1,229</u>	<u>(107)</u>	<u>(1,108)</u>	<u>1,454</u>

* Realised losses of US\$360 million (2007: US\$121 million) are included in Revenue in the income statement

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 Enx 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 note 23, 30 and 37). Deferred tax is provided on the re-measurement at tax rates enacted or substantively enacted.

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 or repayment of a quasi equity loan, the deferred accumulated amount recognised in this reserve is transferred to the income statement.

Minority Interest

Minority interest movements in 2008 relate to the acquisition of Resource Pacific (refer to note 7) and the subsequent disposal of a 12% interest in the company (refer to note 8).

Minority interest movements in 2007 relate to the acquisition of Eland and the finalisation of the provisional Eland acquisition accounting in 2008 (refer to note 7), a capital injection to Koniambo Nickel SAS, and the reclassification of a portion of the Koniambo Nickel SAS minority interest to liabilities in accordance with IFRS.

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Capital Management

The capital of Xstrata plc is the total equity and long-term borrowings (refer note 28), including capital market notes and convertible borrowings (refer note 29) 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

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Current:		
Trade payables	1667	2,429
Sundry payables	530	426
Interest payable	145	69
Accruals and other payables	<u>891</u>	<u>821</u>
	<u>3,233</u>	<u>3,745</u>
Non-current:		
Accruals and other payables	<u>29</u>	<u>54</u>
	<u>29</u>	<u>54</u>
Total	<u>3,262</u>	<u>3,799</u>

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 12 years (2007: 13 years).

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28. Interest-bearing Loans and Borrowings

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Current:		
At amortised cost:		
Bank overdrafts	11	79
Syndicated bank loans — unsecured	—	481
Bank loans — other unsecured	84	41
Capital market notes	593	350
Minority interest loans	17	—
Preference shares	64	149
Obligations under finance leases and hire purchase contracts	25	18
	<u>794</u>	<u>1,118</u>
Non-current:		
At amortised cost:		
Syndicated bank loans — unsecured	6,974	4,265
Bank loans — other unsecured	221	264
Capital market notes	8,913	6,338
Minority interest loans	81	81
Obligations under finance leases and hire purchase contracts	85	114
Preference shares	—	199
Other loans	63	66
	<u>16,337</u>	<u>11,327</u>
Non-current:		
At amortised cost:		
Convertible borrowings	331	327
Total	17,462	12,772
Less cash and cash equivalents (refer note 25)	<u>(1,156)</u>	<u>(1,148)</u>
Net Debt*	<u>16,306</u>	<u>11,624</u>

Notes:

* Net debt is defined as loans and borrowings net of cash and cash equivalents.

(i) Secured over specific items of plant and equipment (refer to note 16).

Existing facilities in 2008

The Xstrata Group has entered into the bank loans as described below:

Syndicated bank loans

On 25 July 2007, the Group entered into a guaranteed US\$4,680 million multicurrency revolving syndicated loan facility (the “Syndicated Facilities Agreement”). Interest is payable on drawn down amounts at a rate which is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which is 27.5 basis points per annum. The facility matures on 31 July 2012. As of 31 December 2008, US\$195 million was available to be drawn under this facility.

On 6 October 2008, the Group entered into a US\$5,000 million multi-currency revolving syndicated loan facility (the “Club Facility”). Interest is payable on drawn down amounts at a rate which 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 matures on 30 September 2011. As at 31 December 2008, US\$2,452 million was available to be draw under this facility. The Club Facility was amended on 30 December 2008 to increase the facility amount to US\$5,459 million.

Repaid Facilities in 2008

On 25 February 2008, the Group entered into a guaranteed US\$500 million revolving loan facility that matured on 31 December 2008. Interest was payable on the loans at LIBOR plus 50.0 basis points per annum.

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On 8 October 2007, the Group entered into a guaranteed US\$2,000 million 364-day Revolving Loan Facility. Draw downs had been made to partly fund the acquisitions of Anvil Hill, Austral Coal Limited and Eland Platinum Holdings Limited. Interest was payable on the loans at a rate which was the aggregate of LIBOR and the relevant margin, which was 27.5 basis points per annum. This facility was re financed during 2008.

On 6 December 2007, the Group entered into a guaranteed US\$1,500 million 364-day Revolving Loan Facility. Interest was payable on the loans at a rate which was the aggregate of LIBOR and the relevant margin, which was 27.5 basis points per annum. This facility was re financed during 2008.

Repaid facilities in 2007

In connection with the Falconbridge acquisition in August 2006, Xstrata plc and certain subsidiaries of the Group entered into the Acquisition Facilities Agreement, the Debt Bridge Facility Agreement and the Equity Bridge Facility Agreement. The purpose of these agreements was to meet the financing requirements of the Falconbridge Offer and to subsequently act as the Group's principal bank facilities following the Falconbridge acquisition.

- The Acquisition Facilities Agreement was a US\$9,500 million committed multi-currency syndicated loan with facilities which consisted of: (i) a 36-month term loan facility for US\$3,353 million; (ii) a 60-month-and-one-day term loan facility for US\$1,117 million; (iii) a 60-month revolving loan facility for US\$3,353 million; and (iv) a 364-day term loan facility for US\$1,677 million with the ability to extend by 364 days. Interest was payable on the loans at a rate which was based on LIBOR plus the relevant margins, which were initially between 50 and 70 basis points per annum. The Group was liable to pay a commitment fee on the un drawn portion of the syndicated loan facility at a rate per annum equal to 35% of the applicable margin payable on the three and five year tranches and 30% of the applicable margin on the 364-day tranche. This facility was fully repaid in July 2007 using the US\$4,680 million Syndicated Loan described and defined above.

Capital market notes

As at 31 December 2008, other unsecured private placements included:

Facility	Denomination	At 31 Dec 08 <i>(in US\$ millions)</i>	Fixed or floating interest rate	Effective interest rate % in 2008	Maturity	At 31 Dec 07 <i>(in US\$ millions)</i>	
						Effective interest rate % in 2007	
Series A senior unsecured notes ^(a)	US\$	—	Fixed	5.90	Jun 08	152	5.90
Series B senior unsecured notes ^(a)	US\$	39	Fixed	6.75	Jun 11	53	6.75
Series B senior unsecured notes ^(a)	US\$	52	Fixed	7.00	Jun 11	53	7.00
Unsecured notes ^(b)	US\$	499	Floating	3.41	Nov 09	499	5.75
Unsecured notes ^(b)	US\$	810	Fixed	5.50	Nov 11	771	5.50
Unsecured notes ^(b)	US\$	1,187	Fixed	5.80	Nov 16	1,024	5.80
Unsecured notes ^(c)	EUR	754	Fixed	4.88	Jun 12	741	4.88
Unsecured notes ^(c)	EUR	774	Fixed	5.25	Jun 17	738	5.25
Unsecured notes ^(d)	US\$	494	Fixed	6.90	Nov 37	495	6.90
Unsecured notes ^(e)	EUR	1,096	Fixed	5.88	May 11	—	—
Unsecured notes ^(e)	EUR	881	Fixed	6.25	May 15	—	—
Unsecured notes ^(e)	GBP	774	Fixed	7.38	May 20	—	—
Senior debentures ^{(f)(h)}	CAD	—	Fixed	4.89	Dec 08	184	4.89
Senior debentures ^(f)	US\$	337	Fixed	6.03	Feb 11	329	6.03
Senior debentures ^(f)	US\$	277	Fixed	5.88	Jun 12	270	5.88
Senior debentures ^(f)	US\$	311	Fixed	6.06	Jul 12	314	6.06
Senior debentures ^(f)	US\$	406	Fixed	6.34	Oct 15	348	6.34
Senior debentures ^(f)	US\$	265	Fixed	6.16	Jun 15	248	6.16
Senior debentures ^(f)	US\$	237	Fixed	6.39	Jun 17	236	6.39
Senior debentures ^(f)	US\$	233	Fixed	6.77	Jun 35	233	6.77
Commercial paper ^(g)	US\$	80	Fixed	2.75	April 13	—	—
		<u>9,506</u>				<u>6,688</u>	

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Notes:

- (a) An Australian subsidiary has designated the series A and B senior unsecured notes as a fair value hedge of an investment in South America (refer to note 37). The hedge is being used to reduce exposure to foreign currency risk.
- (b) In November 2006, the Group issued US\$2,250 million of guaranteed capital market notes to refinance existing debt facilities. The notes are comprised of three tranches, a US\$1,000 million 10-year note at a fixed interest rate of 5.8%, a US\$750 million five year note at a fixed interest rate of 5.5% and a US\$500 million three year note that bears interest at a rate based on LIBOR plus 35 basis points.
- (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 gain of US\$47 million (2007: US\$112 million) at 31 December 2008 (refer to note 37).
- (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\$482 million at 31 December 2008 (refer to note 37).
- (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 Incorporated to such holders under the terms of the senior debentures.
- (g) 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 which is based on LIBOR.
- (h) Repaid with proceeds of a drawing from the Syndicated Facility.

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\$671 million (2007: US\$102 million gain) at 31 December 2008 (refer to note 37). Hedging ineffectiveness during 2008 resulted in other financial income of US\$45 million. There has been no significant impact on income in 2007 as a result of hedge ineffectiveness.

Preference shares

As at 31 December 2008, unsecured preference shares included:

Facility	Denomination	At 31 Dec 08	Fixed or floating interest rate	Interest rate %	Maturity	Effective interest rate %	
						At 31 Dec 07	in 2007
		(in US\$ millions)			(in US\$ millions)		
Preference shares series 2* . . .	CAD	—	Floating		Jun 12	120	5.88
Preference shares series 3 . . .	CAD	64	Fixed	4.58	Mar 09	79	4.58
Preference shares series H . . .	CAD	—	Fixed	6.50	Mar 08	149	6.50
		<u>64</u>				<u>348</u>	

Notes:

* Holders of Preference shares series 2 had the right to convert their shares into Preference shares series 3 in March 2009, subject to certain conditions.

The preference shares were assumed by the Group through the acquisition of Falconbridge in 2006. The Group completed the redemption of all of the outstanding preferred shares, series H for a cash consideration of CAD150 million (US\$148 million) in June 2008. The Group completed the redemption of all of the outstanding preferred shares, series 2 for a cash consideration of CAD122 million (US\$120 million) in July 2008. Pursuant to the terms of a guarantee indenture, Xstrata plc has fully and unconditionally guaranteed in favour of the holders of the preference shares the payment, within 15 days of when due, of all financial liabilities and obligations of Xstrata Canada Incorporated to such holders under the terms of the preference shares. The preference shares are classified within interest-bearing loans and borrowings because in the majority of cases the cumulative dividends must be paid for an indefinite period and/or the shares are transferable into a variable number of equity instruments.

Bank Loans — other unsecured

Other bank loans includes:

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- Debts of proportionally consolidated joint ventures of US\$139 million (2007: US\$139 million) which bear interest at a rate based on LIBOR plus 175 basis points, repayable in September 2012 and US\$122 million (2007: US\$163 million) which bear interest at a rate based on LIBOR plus 31 basis points, repayable by December 2011;
- US\$ denominated borrowings of US\$43 million (2007: US\$nil) that are subject to floating interest rates based on Canadian Deposit Offering Rate (“CDOR”) plus 110 basis points, repayable by January 2009; and
- ZAR denominated borrowings of US\$1 million (2007: US\$3 million) that are subject to floating interest rates based on Johannesburg inter bank acceptance rate (“JIBAR”), repayable by December 2010.

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 United States dollars.

Minority interest loans

Minority interest loans include US\$81 million (2007: US\$81 million) advanced to Minera Alumbrera Limited to fund operations that are subject to a fixed rate of 7.2% per annum (2007: 7.2% per annum), repayable by May 2012.

Minority interest loan of US\$17 million advanced to Resource Pacific that is subject to a floating rate based on the Reserve Bank of Australia cash rate plus 2.0% per annum, no fixed repayment date but expected to be repaid within the next 12 months.

Other loans

Other loans include:

- AUD denominated loans of US\$57 million (2007: US\$54 million) payable to Western Mining Corporation Resources International Limited and Indophil Resources Limited for the Tampakan copper project (refer note 7). 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; and
- Loan of US\$6 million from Cantabria Government and Spanish Ministry of Industry & Energy, unsecured and interest free

29. Convertible Borrowings

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Convertible bond	<u>331</u>	<u>327</u>
	<u>331</u>	<u>327</u>

Convertible bonds

On 15 August 2003, Xstrata Capital Corporation AVV issued US\$600 million of Convertible bonds due 15 August 2010 convertible at the option of the holder into fully paid Xstrata plc ordinary shares. The Convertible bonds were guaranteed by the Company and were issued at par and bore a coupon of 3.95% per annum. On issue, they were convertible at any time after 26 September 2003 at the option of the holder into 61,180,977 ordinary shares in Xstrata plc based on a conversion price of GBP6.10 (US\$9.81 converted into GBP at a fixed exchange rate) per ordinary share, a 39.6% premium to the closing price of Xstrata plc’s ordinary shares on 1 August 2003. During 2006, 64.3% of the US\$600 million of convertible bonds was converted by the holders. Following the conversions that occurred during 2006 and rights issue in October 2006, the remaining number of ordinary shares that could be issued under the bond at 31 December 2006 was 24,516,537 and as a result of the rights issue the conversion price was adjusted to GBP5.44 (US\$8.75 converted into GBP at a fixed exchange rate).

During 2007 the remainder of the bond was converted at the option of the holder. As a result of this conversion 100% of the bond had been converted.

On 6 September 2005, Xstrata Capital Corporation AVV issued a US\$375 million Convertible Debenture to Brookfield, due 14 August 2017, convertible at the option of the holder into fully paid Xstrata plc ordinary shares.

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The Convertible Debenture was guaranteed by the Company and was issued at par, with a coupon of 4.0% per annum. On issue it was convertible at any time on or after 14 August 2006 at the option of the holder into 12,100,332 ordinary shares in Xstrata plc based on a conversion price of GBP17.13 (US\$30.99 converted into GBP at a fixed exchange rate) per ordinary share, representing a 35% premium to the closing price of Xstrata plc's ordinary shares on 11 August 2005. Following the rights issue in October 2006, the total number of ordinary shares that could have been converted was increased to 13,575,432 and the conversion price was adjusted to GBP15.27 (US\$27.62 converted into GBP at a fixed exchange rate). On the giving of not less than 30 days notice, the Convertible Debenture could have been called by the Group at par plus accrued interest, at any time after 14 August 2010. Unless previously converted, redeemed or cancelled, the 2017 Convertible Debenture was redeemable on 14 August 2017 at its principal amount plus unpaid accrued interest. On 13 October 2006, the Convertible Debenture was cancelled and a 2017 Convertible Bond was issued to the holder of the Convertible Debenture. The terms of the Convertible Bond are consistent with those of the cancelled Convertible Debenture. On 16 October 2006, the Financial Services Authority approved the admission to the Official List by way of block listing of 13,575,432 ordinary shares of US\$0.50 each to be issued upon conversion of the 2017 Convertible Bond. The 2017 Convertible Bond is listed on the Professional Securities Market of the London Stock Exchange.

The liability component of the Convertible Bonds is carried at amortised cost based on an effective interest rate of 5.74% per annum.

During 2008, 0.03% of the US\$375 million of convertible bonds was converted by the holders (refer to note 26). Following the conversions that occurred during 2008, the remaining number of ordinary shares that could be issued under the bond at 31 December 2008 was 13,571,812.

There were no conversions during 2007.

30. Derivative Financial Liabilities

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Current:		
At fair value:		
Commodity cash flow hedges	65	192
Foreign currency cash flow hedges	8	—
Other commodity derivatives	9	13
Other foreign currency derivatives	<u>120</u>	<u>—</u>
	<u>202</u>	<u>205</u>
Non-current:		
At fair value:		
Commodity cash flow hedges	—	58
Foreign currency cash flow hedges	482	—
Fair value interest rate swap hedge	—	6
Other foreign currency derivatives	79	142
Other interest rate swaps	<u>8</u>	<u>—</u>
	<u>569</u>	<u>206</u>
Total	<u>771</u>	<u>411</u>

31. Other Financial Liabilities

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Non-current:		
At fair value:		
Loans to joint venture partners	334	195
At amortised cost:		
Loans to development project partners	<u>349</u>	<u>156</u>
Total	<u>683</u>	<u>351</u>

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Loans to joint venture partners

ZAR denominated loans of US\$334 million (2007: US\$152 million) 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.

ZAR denominated loans of US\$nil (2007: US\$43 million) payable to Kagiso Trust Investments for the Mototolo project in South Africa. The loan is subject to a floating rate of interest based on a dividend calculation with no fixed repayment date.

Loans to development project partners

US\$ denominated loans of US\$349 million (2007: US\$156 million) 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 payable within 12 months.

32. Provisions

	Employee entitlements	Share-based compensation plans	Post-retirement medical plans	Rehabilitation costs	Onerous contracts	Other	2008
	<i>(in US\$ millions)</i>						
At 1 January	414	102	481	1,533	120	169	2,819
Acquisitions	7	—	—	12	195	—	214
Arising during the year	222	163	36	28	50	208	707
Discount unwinding	10	—	—	91	8	—	109
PPE asset adjustment	—	—	—	195	—	—	195
Discontinued operations and disposals	—	—	—	(8)	—	—	(8)
Utilised	(158)	(10)	(154)	(165)	(119)	(179)	(785)
Unused amounts reversed	(6)	(239)	(15)	(15)	—	—	(275)
Translation adjustments	(59)	—	(3)	(120)	(56)	(4)	(242)
At 31 December	<u>430</u>	<u>16</u>	<u>345</u>	<u>1,551</u>	<u>198</u>	<u>194</u>	<u>2,734</u>
Current	282	—	—	36	54	125	497
Non-current	148	16	345	1,515	144	69	2,237
	<u>430</u>	<u>16</u>	<u>345</u>	<u>1,551</u>	<u>198</u>	<u>194</u>	<u>2,734</u>

	Employee entitlements	Share-based compensation plans	Post-retirement medical plans	Rehabilitation costs	Onerous contracts	Other	2007
	<i>(in US\$ millions)</i>						
At 1 January	352	58	413	1,240	42	238	2,343
Acquisitions	15	—	—	8	90	—	113
Arising during the year	228	44	32	123	—	61	488
Discount unwinding	6	—	—	83	—	2	91
PPE asset adjustment	—	—	—	122	—	—	122
Discontinued operations and disposals	(6)	—	(12)	—	—	(19)	(37)
Utilised	(190)	—	(27)	(75)	(12)	(86)	(390)
Unused amounts reversed	—	—	—	—	—	(30)	(30)
Translation adjustments	9	—	75	32	—	3	119
At 31 December	<u>414</u>	<u>102</u>	<u>481</u>	<u>1,533</u>	<u>120</u>	<u>169</u>	<u>2,819</u>
Current	244	—	—	4	—	96	344
Non-current	170	102	481	1,529	120	73	2,475
	<u>414</u>	<u>102</u>	<u>481</u>	<u>1,533</u>	<u>120</u>	<u>169</u>	<u>2,819</u>

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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 includes 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 which 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 are expected to be utilised in the next 12 months and the non-current portion of these costs are expected to be utilised over a weighted average life of 12 years (2007: 8 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 35). The intrinsic value of the cash settled share based compensation plans that had vested at 31 December 2008 was US\$6 million (2007: US\$86 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 are expected to be utilised in the next 12 months and the non-current portion of these costs are expected to be utilised over a weighted average life of 12 years (2007: 13 years) (refer to note 35).

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 are expected to be utilised in the next 12 months and the non-current portion of these costs are expected to be utilised over a weighted average life of 26 years (2007: 25 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 10 years (2007: 7 years).

Other

Other includes provisions for litigation of US\$60 million (2007: US\$79 million) and restructuring of US\$28 million (2007: US\$13 million). The current portion of these costs are expected to be utilised in the next 12 months and the non-current portion of these costs are expected to be utilised over a weighted average life of 2 years (2007: 3 years).

33. Other Liabilities

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Current:		
Deferred income	<u>35</u>	<u>45</u>
	<u>35</u>	<u>45</u>
Non-current:		
Deferred income	<u>105</u>	<u>78</u>
	<u>105</u>	<u>78</u>

34. 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 4 years (2007: 7 years) with renewal terms at the option of the lessee at lease payments based on

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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:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Within one year	46	42
After one year but not more than five years	102	95
More than five years	<u>28</u>	<u>26</u>
	<u>176</u>	<u>163</u>

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:

	Un-discounted minimum payments 2008	Present value of minimum payments 2008	Un-discounted minimum payments 2007	Present value of minimum payments 2007
	<i>(in US\$ millions)</i>			
Within one year	31	25	27	18
After one year but not more than five years	65	49	100	74
More than five years	<u>54</u>	<u>36</u>	<u>56</u>	<u>40</u>
Total minimum lease payments	<u>150</u>	<u>110</u>	<u>183</u>	<u>132</u>
Less amounts representing finance lease charges	<u>(40)</u>	<u>—</u>	<u>(51)</u>	<u>—</u>
Present value of minimum lease payments	<u>110</u>	<u>110</u>	<u>132</u>	<u>132</u>

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to US\$1,701 million (2007: US\$1,455 million), including:

- Xstrata Coal US\$52 million for longwall equipment at Oaky, US\$34 million for 5 electric shovels at Cerrejon, US\$1 million (2007: US\$170 million) for the development of the Goedgevonden open cut coal mine, US\$6 million (2007: US\$53 million) for a dragline at the Wondoan project, US\$nil (2007: US\$53 million) for the Wollombi development and US\$nil (2007: US\$51 million) for a coal handling preparation plant upgrade at Liddell;
- Xstrata Nickel US\$839 million (2007: US\$320 million) for the Koniambo project and US\$5 million (2007: US\$78 million) for the Nickel Rim South project; and
- Xstrata Zinc US\$27 million (2007: US\$109 million) for the development of an open cut mine at Mt Isa.

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\$195 million (2007: US\$350 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 2008 amounted to US\$nil (2007: US\$nil).

Guarantees

Xstrata Coal Australia has contracted US\$492 million (2007: US\$588 million) for rail take or pay commitments, US\$341 million (2007: US\$450 million) for port take or pay commitments, performance guarantees to customers and suppliers under contracts for supply of coal and services for US\$34 million (2007: US\$24 million) and guarantees to the New South Wales and Queensland Departments for Mineral Resources in respect of various mining leases and the performance thereof US\$203 million (2007: US\$215 million).

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Xstrata Coal South Africa has issued guarantees to the Department of Minerals and Energy to obtain certain prospecting permits of US\$52 million (2007: US\$70 million) and performance guarantees to suppliers of US\$6 million (2007: US\$8 million).

Xstrata Alloys has issued guarantees to Eskom for power usage and early termination of power usage of US\$18 million (2007: US\$17 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\$21 million (2007: US\$19 million).

Xstrata Copper, Xstrata Zinc and Xstrata Technology Australia have issued performance guarantees to customers for US\$27 million (2007: US\$53 million) 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 US\$161 million (2007: US\$105 million).

Xstrata Nickel has issued guarantees for energy contracts of US\$95 million (2007: US\$153 million).

Xstrata Zinc has issued performance guarantees to the Northern Territory government for an electricity supply and pipeline agreement of US\$22 million (2007: US\$32 million), and to suppliers of US\$17 million (2007: US\$nil). It has provided bank guarantees to the Northern Territory government for rehabilitation costs of US\$54 million (2007: US\$49 million).

Xstrata Zinc has issued bank guarantees in Spain of US\$54 million (2007: US\$107 million).

Northfleet has issued bank guarantees to H M Customs and Excise in respect of the transport of Lead Slag for US\$1 million (2007: US\$nil).

A letter of credit of US\$166 million (2007: US\$205 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\$40 million (2007: US\$38 million).

Included in the above is US\$1,097 million (2007: US\$1,730 million) representing the Group's share of guarantees that have been incurred jointly with other venturers.

35. Employee Benefits

Share-based Payments

The expense recognised for share based payments during the year is shown in the following table:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Expense arising from equity settled transactions	245	62
Expense arising from cash settled transactions	(239)	44
Total expense arising from share-based payment transactions	<u>6</u>	<u>106</u>

The Group operates a number of share-based payment plans which are outlined below. With the exception of the AVP that was modified in May 2008 and discussed following, there have been no cancellations or modifications to any of the plans during 2008 or 2007.

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.

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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. The allocation of performance criteria pertaining to the options and free share awards granted in 2006, 2007 and 2008 is summarised in the following table:

<u>Award</u>	<u>Employees</u>	<u>Number</u>	<u>% TSR</u>	<u>% cost savings</u>	<u>TSR</u>	<u>Cost savings</u>
2008:						
Options	Corporate	986,035	50%	50%	493,017	493,018
	Business units	<u>2,154,539</u>	<u>25%</u>	<u>75%</u>	<u>538,635</u>	<u>1,615,904</u>
		<u>3,140,574</u>			<u>1,031,652</u>	<u>2,108,922</u>
Free shares	Corporate	295,810	50%	50%	147,905	147,905
	Business units	<u>646,367</u>	<u>25%</u>	<u>75%</u>	<u>161,592</u>	<u>484,775</u>
		<u>942,177</u>			<u>309,497</u>	<u>632,680</u>
2007:						
Options	Corporate	1,140,952	50%	50%	570,476	570,476
	Business units	<u>2,117,638</u>	<u>25%</u>	<u>75%</u>	<u>529,410</u>	<u>1,588,228</u>
		<u>3,258,590</u>			<u>1,099,886</u>	<u>2,158,704</u>
Free shares	Corporate	342,286	50%	50%	171,143	171,143
	Business units	<u>635,287</u>	<u>25%</u>	<u>75%</u>	<u>158,822</u>	<u>476,465</u>
		<u>977,573</u>			<u>329,965</u>	<u>647,608</u>
2006:						
Options	Corporate	1,048,144	50%	50%	524,072	524,072
	Business units	<u>1,764,060</u>	<u>25%</u>	<u>75%</u>	<u>441,015</u>	<u>1,323,045</u>
		<u>2,812,204</u>			<u>965,087</u>	<u>1,847,117</u>
Free shares	Corporate	314,444	50%	50%	157,222	157,222
	Business units	<u>538,092</u>	<u>25%</u>	<u>75%</u>	<u>134,523</u>	<u>403,569</u>
		<u>852,536</u>			<u>291,745</u>	<u>560,791</u>

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 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: 2.0 million) are accounted for as cash-settled share-based awards whilst the remainder of the LTIP awards are equity-settled (refer to note 32).

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

Free Shares

	2008 No	2008 WAEP	2007 No	2007 WAEP
Outstanding as at 1 January	3,247,747 ⁽¹⁾	N/A	4,129,365 ⁽¹⁾	N/A
Granted during the year	942,177	N/A	977,573	N/A
Forfeited during the year	(48,835)	N/A	(54,491)	N/A
Exercised during the year	<u>(1,375,891)⁽³⁾</u>	<u>N/A</u>	<u>(1,804,700)⁽²⁾</u>	<u>N/A</u>
Outstanding as at 31 December	<u>2,765,198</u>	<u>N/A</u>	<u>3,247,747</u>	<u>N/A</u>
Exercisable at 31 December	<u>—</u>	<u>N/A</u>	<u>—</u>	<u>N/A</u>

Notes:

- (1) All shares included in this balance have been accounted for in accordance with IFRS 2 Share-based Payments.
- (2) The weighted average share price at the date of exercise of these awards was GBP23.63.
- (3) The weighted average share price at the date of exercise of these awards was GBP36.98.

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 US\$60.46 (2007: US\$38.23).

Share options

	2008 No	2008 WAEP	2007 No	2007 WAEP
Outstanding as at 1 January	13,194,997	GBP13.73	14,450,730	GBP9.26
Granted during the year	3,140,574	GBP35.36	3,258,590	GBP24.00
Forfeited during the year	(129,724)	GBP24.52	(182,323)	GBP13.21
Exercised during the year	<u>(2,877,142)⁽²⁾</u>	<u>GBP9.18</u>	<u>(4,332,000)⁽¹⁾</u>	<u>GBP6.49</u>
Outstanding as at 31 December	<u>13,328,705⁽³⁾</u>	<u>GBP19.70</u>	<u>13,194,997⁽³⁾</u>	<u>GBP13.73</u>
Exercisable at 31 December	<u>4,069,712</u>	<u>GBP7.58</u>	<u>2,402,460</u>	<u>GBP5.89</u>

Notes:

- (1) The weighted average share price at the date of exercise of these options was GBP25.58.
- (2) The weighted average share price at the date of exercise of these options was GBP39.67.
- (3) All the share options included in this balance have been accounted for in accordance with IFRS 2 Share-based payments, except for 65,708 options issued in 2002.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2008: 7.4 years (2007: 7.7 years).

The weighted average fair value of options granted during the year was US\$21.39 (2007: US\$13.93).

The range of exercise prices for options outstanding at the end of the year was GBP3.22 to GBP35.36 (2007: GBP3.22 to GBP24.00).

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

	Date of grant 2008	Date of grant 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 (GBP)	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 binomial models, taking into account the terms and conditions of the award.

Xstrata AG incentive plan

With the merger of Xstrata AG into Xstrata plc, Xstrata plc assumed the obligations of Xstrata AG under the scheme with the number of options and exercise price adjusted accordingly. The share options had a two-year vesting period followed by a three year exercise period. The exercise price was the share price at the date of granting of the share options. There were no other conditions attaching to these options and they could be cash-settled by the holder. No further options were granted under this incentive plan. All of the options below were accounted for as cash-settled share-based awards. The movement in the number of share options are as follows:

	2008 No	2008 WAEP	2007 No	2007 WAEP
Outstanding as at 1 January	—	—	14,320 ⁽¹⁾	CHF13.41
Exercised during the year	—	—	(14,320) ⁽²⁾	CHF13.41
Outstanding as at 31 December	—	—	—	—
Exercisable at 31 December	—	—	—	—

Notes:

(1) All shares included in this balance have been accounted for in accordance with IFRS 2 Share-based Payments.

(2) The weighted average share price at the date of exercise of these options was CHF56.96.

The weighted average remaining contractual life for the share options outstanding as at 1 January 2007 was 0.1 years.

No new shares were granted during the year.

Directors' Service contracts

Options were granted to two executive Directors pursuant to the terms of on which they were recruited. The options are to be equity-settled. The exercise price is 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 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

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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 other cases, they will remain exercisable for a period of six months.

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

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

Notes:

(1) The weighted average share price at the date of exercise of these options was GBP41.57.

(2) The weighted average share price at the date of exercise of these options was GBP27.62.

The above share options have not been accounted for in accordance with IFRS 2 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 shares were granted during the year.

The range of exercise prices for options outstanding at the end of the year was GBP3.84 to GBP4.22 (2007: GBP3.84 to GBP5.68).

Deferred Bonus

As detailed within the Directors' Remuneration Report on pages [98] to [107] of the Xstrata Annual Report and Accounts 2008 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 the bonus payment is determined. The deferred elements have been treated as an equity-settled share-based payment in accordance with IFRS 2.

In 2005 the Xstrata 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:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Market value of deferred bonus award (US\$m)	10	16	13
Number of shares purchased	<u>—*</u>	<u>242,702</u>	<u>291,585</u>

Notes:

* At the date of signing the financial statements, the shares were yet to be purchased in the market.

Directors' Added Value Plan (the "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 Directors' Remuneration Report on pages 98 to 107 of the Xstrata Annual Report and Accounts 2008. 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 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. On 6 May 2008 amendments to the rules of the AVP, as outlined in the Directors' Remuneration Report in the 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 Directors' Remuneration Report on pages 98 to 107 of the Xstrata Annual Report and Accounts 2008. 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 US\$13 million.

Under IFRS 2, at the grant date of 9 May 2005, the fair value of any potential award for the 2005 plan was US\$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 US\$7 million; at the grant date of 15 March 2007, the fair value of any potential award for the 2007 plan was US\$19 million; and the fair value of any potential award of the 2008 share-based payment was US\$120 million, estimated at the grant date of 26 March 2008, using a Monte Carlo simulation model. At current performance, no payment would be made under the 2006, 2007 or 2008 AVP plans. 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 US\$14 million and the total provision held at 31 December 2008 for the AVP was US\$10 million (refer to note 32).

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

	2008		2007	
	Xstrata plc	Xstrata Share Indices ⁽¹⁾	Xstrata plc	Xstrata Share Indices ⁽¹⁾
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

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Notes:

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

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

	<u>Xstrata plc</u>	<u>Xstrata Share Indices⁽¹⁾</u>
Dividend yield (%)	N/A	N/A ⁽²⁾
Expected volatility to interim vesting (%)	42 - 49	31
Expected volatility to final vesting (%)	38 - 44	28
Risk-free interest rate to interim vesting (%)	4.4 - 4.5	4.1
Risk-free interest rate to final vesting (%)	4.4 - 4.5	4.2

Notes:

- (1) There are two Xstrata Share Indices used within the valuation model; one is a market capitalisation weighted TSR index comprising relevant global mining firms who are considered to be Xstrata's key competitors for both financial and human capital at the commencement of each cycle. 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 1.9% has been used. For the simulation of Xstrata'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.

Pensions and Other Post-employment Benefit Plans

The net expense recognised in the income statement for the year ended 31 December:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Defined benefit pension plans	39	14
Defined contribution pension plans	109	110
Post-retirement medical plans	40	32
	188	<u>156</u>

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 2008.

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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 2008. 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 2008	Post- retirement medical plans 2008	Pension plans 2007	Post- retirement medical plans 2007
Rate of salary increases	3.1%	—	3.8%	—
Rate of pension increases	2.7%	—	3.2%	—
Expected rate of return on plan assets:				
Equities	9.1%	—	9.1%	—
Bonds	5.2%	—	4.6%	—
Total	6.5%	—	6.9%	—
Discount rate	7.3%	7.4%	5.6%	5.7%
Inflation rate	2.6%	2.6%	2.5%	2.6%
Rate of medical cost increases	—	8.0%	—	9.0%

A one percentage point change in the assumed rate of increase in healthcare costs would have the following impact:

	Increase 2008	Decrease 2008	Increase 2007	Decrease 2007
	<i>(in US\$ millions)</i>			
Effect on the current service cost and interest cost	5	4	6	5
Effect on the defined benefit obligation	38	31	57	47

The pension plan mortality rate used at 31 December 2008 and 31 December 2007 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 (2007: 85 years) and in the medical plans was 82 years (2007: 82 years) as at 31 December 2008.

The assets and liabilities of the schemes and the amounts recognised in the Group balance sheet at 31 December are as follows:

	Pension plans 2008	Post- retirement medical plans 2008	Pension plans 2007	Post- retirement medical plans 2007
	<i>(in US\$ millions)</i>			
Present value of benefit obligations	1,994	345	2,721	481
Assets at fair value	<u>(1,677)</u>	—	<u>(2,495)</u>	—
Net liability	<u>317</u>	<u>345</u>	<u>226</u>	<u>481</u>
Net liability as at 31 December represented by:				
Pension deficits/provisions	320	345	231	481
Pension assets	<u>(3)</u>	—	<u>(5)</u>	—
Net liability	<u>317</u>	<u>345</u>	<u>226</u>	<u>481</u>

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Historical adjustments are as follows:

	2008	2007	2006	2005	2004
	<i>(in US\$ millions)</i>				
Defined benefit obligation	1,994	2,721	2,604	106	110
Plan assets	(1,677)	(2,495)	(2,393)	(85)	(85)
Net deficit	317	226	211	21	25
Experience (gain)/loss adjustments on plan liabilities	74	69	(4)	(8)	(1)
Experience (gain)/loss adjustments on plan assets	480	126	(96)	(4)	1

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) are as follows:

	Pension plans 2008	Post- retirement medical plans 2008	Pension plans 2007	Post- retirement medical plans 2007
	<i>(in US\$ millions)</i>			
Net liability as at 1 January	226	481	211	413
Discontinued operations and disposals	—	—	(19)	(12)
Total benefit expense	39	40	14	32
Actuarial (gains)/losses	188	(76)	104	(6)
Employer contributions	(75)	(22)	(116)	(21)
Translation adjustments	(61)	(78)	32	75
Net liability as at 31 December	317	345	226	481

Contributions of US\$52 million in 2009, US\$58 million in 2010, US\$52 million in 2011 and US\$50 million in 2012 and US\$38 million in 2013 are being made in order to eliminate the deficiency in the North America plans. The total contributions to the defined benefit pension plans in 2009 including these further contributions are US\$74 million.

The components of benefit (income)/expense recognised in the income statement during the year are as follows:

	Pension plans 2008	Post- retirement medical plans 2008	Pension plans 2007	Post- retirement medical plans 2007
	<i>(in US\$ millions)</i>			
Service cost	53	14	43	9
Interest cost	139	26	133	23
Expected return on plan assets (net of expected expenses) . . .	(153)	—	(162)	—
	39	40	14	32

The components of actuarial (gains)/losses recognised in the Consolidated Statement of Recognised Income and Expenses during the year are as follows:

	Pension plans 2008	Post- retirement medical plans 2008	Pension plans 2007	Post- retirement medical plans 2007
	<i>(in US\$ millions)</i>			
Expected return on plan assets (net of expected expenses) . . .	153	—	162	—
Actual return on plan assets	327	—	(36)	—
Actual return less expected return on plan assets	480	—	126	—
Actuarial (gain)/loss on obligations	74	—	69	(12)
Change of assumptions	(366)	(76)	(91)	6
	188	(76)	104	(6)

The cumulative amount of net actuarial losses recognised in the statement of recognised income and expenses is US\$150 million (2007: loss US\$38 million).

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The reconciliation of the present value of benefit obligations and fair value of plan asset movements during the year are as follows:

	Pension plans 2008	Post- retirement medical plans 2008	Pension plans 2007	Post- retirement medical plans 2007
<i>(in US\$ millions)</i>				
Benefit obligation present value as at 1 January	2,721	481	2,604	413
Discontinued operations and disposals	—	—	(255)	(12)
Current service cost	53	14	43	9
Interest cost	139	26	133	23
Employee contributions	1	—	1	—
Actuarial (gains)/losses	74	—	69	(12)
Actual benefit payments	(162)	(22)	(165)	(21)
Change of assumptions	(366)	(76)	(91)	6
Translation adjustments	(466)	(78)	382	75
Benefit obligation present value as at 31 December	<u>1,994</u>	<u>345</u>	<u>2,721</u>	<u>481</u>
Plan assets fair value as at 1 January	2,495	—	2,393	—
Discontinued operations and disposals	—	—	(236)	—
Actual return on plan assets	(327)	—	36	—
Company contributions	75	—	116	—
Employee contributions	1	—	1	—
Benefits paid from fund	(162)	—	(165)	—
Translation adjustments	(405)	—	350	—
Plan assets fair value as at 31 December	<u>1,677</u>	<u>—</u>	<u>2,495</u>	<u>—</u>
Net liability as at 31 December	<u>317</u>	<u>345</u>	<u>226</u>	<u>481</u>
Net liability as at 1 January	<u>226</u>	<u>481</u>	<u>211</u>	<u>413</u>

The defined benefit obligation present value included above for unfunded pension plans at 31 December 2008 was US\$6 million (2007: US\$5 million).

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Pension plans 2008	Pension plans 2007
	(%)	(%)
Equities	35	49
Bonds	62	49
Other	3	2

Included in equities is US\$nil (2007: 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.

36. Related Parties

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>% of ordinary shares held & voting rights</u>
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

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<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>% of ordinary shares held & voting rights</u>
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 Pty Limited	Australia	Holding company	100
Xstrata Coal Corporate Pty Limited	Australia	Management company	100
Xstrata Coal Holdings Pty Limited	Australia	Holding company	100
Xstrata Coal Investments Australia Pty Limited	Australia	Holding company	100
Xstrata Coal Queensland Pty Limited	Australia	Coal operations	100
Xstrata Mangoola Pty Limited	Australia	Coal Project	100
Xstrata Newpac Pty Limited	Australia	Investment company	100
Xstrata Coal Canada Limited	Canada	Holding company	100
Xstrata Coal Donkin Limited	Canada	Coal project	100
Xstrata Cerrejón Limited	Bermuda	Coal operations	100
Xstrata Coal South America Limited	Bermuda	Holding company	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	Holding company, Coal, Chrome, Platinum & Vanadium operations	100
Eland Platinum Holdings Limited	South Africa	Platinum operation	74
Char Technology (Pty) Limited	South Africa	Char operation	100
African Fine Carbon (Pty) Limited	South Africa	Char operation	100
African Carbon Producers (Pty) Limited	South Africa	Char operation	100
Xstrata Copper			
Ernest Henry Mining Pty Limited	Australia	Copper operation	100
Minera Alumbrera Limited*	Antigua	Copper operation	50
Mount Isa Mines Limited	Australia	Copper, Lead and Zinc operations	100
Xstrata South America Limited	Cayman	Holding company	100
Xstrata Tintaya S.A.	Peru	Holding company	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

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<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>% of ordinary shares held & voting rights</u>
Xstrata Nickel			
Xstrata International (Investments) Limited	Bermuda	Holding company	100
Xstrata Nickel International Limited	Barbados	Nickel feeds acquisition	100
Falconbridge Dominicana C por A	Dom. Republic	Ferronickel operation	85
Xstrata Nickel Marketing S.A.	Belgium	Nickel marketing	100
Xstrata Nikkelverk Aktieselskap AS	Norway	Nickel refinery	100
Xstrata Nickel International S.A.	Belgium	Nickel procurement agent	100
Xstrata Nickel Australasia Pty Ltd	Australia	Nickel operation	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
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 Finance (Canada) Limited	Canada	Finance company	100
Noranda Finance Inc.	USA	Finance company	100
Xstrata Canada Inc.	Canada	Holding company	100
Alberta Limited	Canada	Holding Company	100

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<u>Name</u>	<u>Principal place of operations/country of incorporation</u>	<u>Principal activities</u>	<u>Effective interest held</u>
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			55%
Newpac Coal Joint Venture	Australia	Coal operations	70%
Oaky Creek Coal Joint Venture	Australia	Coal operations	55%
Rolleston Pentland Wandoan Joint Venture	Australia	Coal operations	75%
Togara North Joint Venture	Australia	Coal project	33.3%
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%
Ngazana Consortium Pooling and Sharing Venture	South Africa	Platinum operations	74%
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%
Principal Associates			
Xstrata Alloys			
Lonmin plc	UK	Platinum operations	24.9%
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	35.6%
Richards Bay Coal Terminal Company Limited	South Africa	Coal terminal	20.9%
Xstrata Zinc			
Noranda Income Fund	Canada	Zinc refinery	25%

Notes:

* This investment is treated as a subsidiary as the Group is entitled to 2 of the 4 Board positions of Minera Alumbreira Limited, including the Chairman as it is the manager of the copper operation. The Chairman has the casting vote where any vote is split equally between the 4 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.

† 40% held by the parent company.

†† 90% held by the parent company.

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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.

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

	Sales**	Purchases	Treatment & refining charges	Treatment & refining revenue	Agency & other charges	Interest & other revenue	Amounts payable	Amounts receivable
<i>(in US\$ millions)</i>								
Glencore International AG*								
2008	9,282	809	218	1	99	—	147	247
2007	8,713	1,217	90	26	79	2	240	467
Joint venture entities								
2008	—	334	—	—	—	6	125	—
2007	—	427	—	—	—	8	360	329
Associates								
2008	436	—	201	—	11	3	1	23
2007	792	—	202	—	12	3	2	20

Notes:

* 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 AG (Glencore) are US\$1,136 million (2007: US\$484 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 payable and receivable, 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 AG — Substantial shareholder

As at 31 December 2008, Glencore owned 34.4% (2007: 34.7%) of the issued share capital of the Company representing 336,801,333 ordinary shares (2007: 336,801,333 ordinary shares).

Chrome

Xstrata Alloys entered into a ferrochrome marketing agreement with Glencore on 21 April 1995, appointing Glencore as its exclusive world-wide marketing agent for the sale of Xstrata Alloys entire production of ferrochrome other than ferrochrome sold into the US, Canada and certain Asian countries. The agreement continues for as long as Xstrata Alloys produces 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 prior to effecting 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 revenues and an additional fee of 0.75% on FOB sales revenues 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 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.

Ferrochrome sold into the US and Canada is distributed by Glencore Ltd and Glencore Canada Inc respectively, under two distribution agreements. These agreements continue indefinitely, with both parties having the right to terminate the agreement at 12 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.

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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 done with the consent of Glencore.

Vanadium

In December 1997, the Group, entered into a 20-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 US and Canada.

Glencore is obliged to use its best endeavours to arrange sales of vanadium pentoxide and ferrovandium to customers at prevailing market rates subject to initial agreement and approval by Xstrata Alloys prior to affecting the sale. Xstrata Alloys is obliged to pay to Glencore an agency fee of 3.5% on FOB sales revenues and an additional fee of 1.5% on FOB sales revenues for assuming the risk of non-payment by customers on this material. Glencore assumes 100% of the risk of non-payment by customers in relation to vanadium sales.

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.

Vanadium pentoxide and ferrovandium sold into the US and Canada is distributed by Glencore Ltd and Glencore Canada Inc respectively, under two distribution agreements. The distribution agreements have the same term as the marketing agreement and consequently, the percentage of distribution fees payable by the Group in respect of vanadium pentoxide and ferrovandium is substantially the same as the commission paid in respect of vanadium pentoxide and ferrovandium 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 advisor with respect to its export production of coal (other than for Xstrata Coal's share of production from the Cerrejón 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. The first 5 year fee review has not yet been finalised and both parties are currently operating under the original terms of the agreement. In January 1995, Cumnock entered into a sales and marketing agreement with Glencore, for a commission of US\$0.75 per tonne for all coal sold by Cumnock. Pursuant to this agreement, Glencore provides sales and marketing services to Cumnock and Cumnock appoints Glencore as its agent to market coal. On 7 May 2008 Cumnock gave 6 months notice that it wished to terminate this agreement. Cumnock export tonnes now fall within the MAA for the remainder of the coal Group.

In 2008, the Group entered into market standard forward commodity price derivatives for 1,965,000 tonnes (2007: 60,000 tonnes) with Glencore as counterparty. During the year ended 31 December 2008, 105,000 tonnes at an average FOB price of US\$64.59 per tonne were delivered (2007: nil). At 31 December 2008, 1,920,000 tonnes (2007: 60,000 tonnes) were contracted with Glencore for delivery in 2009. These derivatives are on arm's length terms and conditions and are included within derivative financial assets and liabilities (refer to notes 23, 30 and 37).

During the year ended 31 December 2008, 142,414 tonnes were borrowed from Glencore (2007: 256,733 tonnes) and 342,620 tonnes were transferred back to Glencore (2007: 281,328 tonnes) with nil tonnes owed to Glencore at 31 December 2008 (2007: 200,206 tonnes) on arm's length terms and conditions.

In 2006, the Group entered into a 3-year fuel supply agreement with Glencore to supply diesel fuels to coal mines in New South Wales and Queensland. Under this supply agreement US\$116 million (2007: US\$69 million) worth of fuel was delivered during the year ended 31 December 2008. The supply agreement is on arm's length terms and prices change monthly according to the world market price per barrel (US\$/BBL). The contract expires March 2009 and Xstrata Coal is in current negotiations with Glencore to determine if the contract will be re-negotiated or put forward for tender.

In 2005, Cerrejón entered into a 5-year fuel supply agreement which expires in February 2010 with Glencore to supply diesel fuels. The Group's share of the fuel purchases for the year ended 31 December 2008 was US\$92 million (2007: US\$48 million). The supply agreement is on arms length terms and prices change for each shipment according to the world market price per barrel (US\$/BBL).

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All coal purchases and sales with Glencore are on arm's length terms and conditions.

Zinc

On 1 January 2007, Xstrata Zinc renewed a service agreement for a period of 3 years 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 optimisation of internal flows of raw materials. The fees to be paid by Asturiana under the Asturiana Service Agreement are US\$2 million per annum.

Xstrata Zinc entered into an 'evergreen' agreement with Glencore in 2004 to purchase 380,000 dmt (2007: 380,000 dmt) per annum of zinc concentrate. Treatment charges in respect of such purchases are negotiated annually on arm's length terms and conditions. This agreement has been terminated in 2008.

In 2008, Xstrata Zinc (San Juan de Nieva and Nordenham) agreed to supply Glencore with 210,000 tonnes (2007: 217,500 tonnes) of SHG zinc slabs or CGG ingots based on market FOB/CPT prices plus the respective market premium.

In 2008 Xstrata Zinc (McArthur River) supplied Glencore with 281,600 wmt of zinc concentrate and has an agreement to supply this amount each year until 31 December 2009, after which it will become 'evergreen' in nature. Treatment charges are negotiated annually on arm's length terms and conditions.

In 2008 Xstrata Zinc (Mt Isa) had three agreements with Glencore for the supply of zinc concentrate. Two agreements have an initial term until 31 December 2008 after which they will become 'evergreen' in nature. The first agreement is to supply 90,000 wmt per annum. The second agreement is to supply 80,000 wmt to 100,000 wmt per annum for the purpose of swapping Mt Isa concentrate in exchange for the same volume to be delivered to Xstrata's European smelters at equivalent terms. Treatment charges are negotiated annually on arm's length terms and conditions. A third agreement was established to supply an additional 30,000 wmt in 2008 only for the purpose of swapping Mt Isa concentrate in exchange for the same volume to be delivered to Xstrata's European smelters at equivalent terms. Further to the aforementioned 3 agreements, an additional 64,000 wmt have been sold to Glencore on a spot basis at terms ruling in the market.

Xstrata Zinc Canada has agreements to supply Glencore with 12,510 tonnes of SHG zinc slabs. In addition to this, Xstrata Zinc Canada has agreements to supply Glencore with 14,000 tonnes of SHG zinc slabs and Jumbos. All agreements are based on market delivery duty paid plus the respective market premium during 2008. During 2008, there have been spot sales of SHG and HG zinc slabs, and Jumbos for 28,635 tonnes (2007: 12,159 tonnes).

Xstrata Zinc has a frame contract to sell Glencore surplus Brunswick lead concentrate amounting 14,000 wmt for 2008. Xstrata Zinc Canada has also sold to Glencore on a spot basis 200,000 wmt of zinc concentrates of its various sources at terms prevailing in the market.

All purchase and sales transactions with Glencore are on arm's length terms and conditions.

Copper

Xstrata Copper has entered into a service agreement with Glencore for a three year period effective from 1 January 2007 and "evergreen" thereafter with a 12-month cancellation notice for the supply of advice, support and assistance with regard to its marketing and hedging activities.

Xstrata Copper North Queensland has entered into a sales agreement with Glencore in respect of the total available export allocation of copper cathode. The sales terms for the copper cathode are the LME price plus a range of premiums based on Codelco North Asian CIF Liner Terms plus applicable freight parity by destination. This agreement was terminated effective 31 December 2008.

Copper cathode sales agreements 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 2008. All sales are based on either spot or benchmark terms in accordance with prevailing market conditions.

Xstrata Copper (Minera Alumbrera Limited) has entered into a five-year frame contract 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 purchase and sales agreements were entered into between Xstrata Copper Canada and Glencore for the period 1 January to 31 December 2008, at prevailing market terms.

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Copper concentrate purchase agreements were entered into between Xstrata Copper North Chile and Glencore for a four-year frame contract commencing 1 January 2007. All purchases are based on benchmark terms in accordance with prevailing market conditions.

Copper concentrate sales agreements were entered into between Xstrata Copper Tintaya and Glencore for the period 1 January to 31 December 2008. All sales are based on either spot or benchmark terms in accordance with prevailing market conditions.

Sales agreements were also entered into between Xstrata Commodities Middle East and Glencore on copper concentrates, for a three-year frame contract starting 1 January 2007 based on either spot or benchmark terms in accordance with prevailing market conditions.

Xstrata Copper North Queensland has entered into a sales agreement with Glencore for copper concentrate for a three year period effective from 1 June 2008 and “evergreen” thereafter. The sales terms for the copper concentrate are based on market prices less agreed metal content deductions, treatment and refining charges. The treatment and refining charges comprise both an annual benchmark and spot component.

All sales transactions with Glencore are on arm’s length terms and conditions.

Nickel

In 2004, Xstrata Nickel entered into two agreements with Glencore for the treatment of approximately 2,000 tonnes per annum of white alloy raw material feed to the Nikkelverk refinery in Norway and the Sudbury smelter in Canada. The contracts include both a metal purchase and a metal return component. The term of the contracts is to the end of 2009, continuing indefinitely thereafter unless terminated by either party with six months notice given not earlier than 1 July 2009. Treatment and refining charges to Glencore are subject to price participation adjustments based on prevailing market prices.

Xstrata Nickel has a purchase agreement with Glencore for a one-time delivery in early 2009 of approximately 200 wmt of nickel cobalt mixed sulphide feed to the Nikkelverk refinery. Pricing terms are based on prevailing market rates.

In March 2007, Xstrata Nickel entered into sole distributorship agreements with Glencore, for its nickel, cobalt and ferronickel production. These agreements continue 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 shall 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 set on an arm’s length basis. For nickel and cobalt sales, the price basis is the month following the month of delivery. For ferronickel sales, the price basis is the quotational period provided for in customer contracts. Accordingly, provisionally priced nickel, cobalt and ferronickel revenues are subject to final price adjustments due to future price changes. During 2008, Xstrata Nickel sold to Glencore 89,567 tonnes of nickel (2007: 71,150 tonnes), 3,137 tonnes of cobalt (2007: 2,708 tonnes) and 19,847 tonnes of ferronickel (2007: 24,212 tonnes). Included in 2007 was a one-off sale of approximately 5,300 tonnes of nickel, 400 tonnes of cobalt and 1,300 tonnes of ferronickel to Glencore at the inception of the agreement, resulting in a contribution to revenue of US\$354 million. In addition, Glencore prepays monthly to Xstrata Nickel in two equal instalments 100% of the value of the month’s planned production. The prepayment balance as at 31 December 2008 amounted to US\$54 million (2007: US\$166 million).

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 is due to be commissioned by December 2009. This transaction with Kazzinc is on arm’s length terms and conditions.

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Associates

Platinum

The Group acquired 24.9% of Lonmin PLC shares on 6 Oct 2008 and equity accounts this investment as an associate. During 2008, a net impairment of US\$34 million was taken on this investment directly to the income statement.

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 20.9% (2007: 20.9%) 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 35.6% (2007: 35.6%) interest in Port Kembla Coal Terminal Limited and a 31% (2007: 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\$0.35205 per pound (2007: US\$0.3446 per pound) of such payable zinc metal at 31 December 2008.

Joint Venture Entities

Coal

Xstrata Coal has a 33⅓% interest in the Cerrejón 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 160,000 dmt per year expiring in 2009 and for 120,000 dmt per year expiring in 2014. The treatment and refining charges are based on benchmark terms in accordance with the prevailing market.

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 dmt per year expiring in 2013. The treatment and refining charges are based on benchmark terms in accordance with the prevailing market.

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

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Wages and salaries*	10	24
Pension and other post-retirement benefit costs*	7	6
Share-based compensation plans**	<u>41</u>	<u>68</u>
	<u>(31)</u>	<u>98</u>

Notes:

* Includes amounts paid to Directors disclosed in the Directors’ Remuneration Report on pages 104 to 107 of the Xstrata Annual Report and Accounts 2008.

** Amounts are based on the income statement expense/(credit) for the year calculated in accordance with IFRS 2.

37. 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 and monitors key banking loan covenants to ensure continued compliance. The Treasury Committee and Executive Committee reviews 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, convertible borrowings, 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 hedge 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 and similar assets are with approved counter party banks and other financial institutions. Counter-parties are assessed both 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.

	Neither impaired nor past the due date	Less than 30 days	Past the due date but not impaired				Total
			Between 30 and 90 days	Between 91 and 180 days	Between 181 and 365 days	More than 1 year	

(in US\$ millions)

Trade debtors:							
2008	1,204	147	125	87	7	—	1,570
2007	1,303	898	105	92	51	2	2,451

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 2008 or 2007. 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 34.

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 are generated from sales to Glencore, a

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related party. These sales are governed by various sales, marketing and distribution agreements as outlined in note 36. In general, Glencore act 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\$4,373 million (2007: US\$4,854 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 utilise 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 2008, the Group had long-term credit ratings of BBB (negative outlook) from Standard & Poor's (2007: BBB+ stable outlook) and Baa2 (negative outlook) from Moody's (2007: Baa2 stable outlook) and A (low) from DBRS (stable outlook). 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.

The Group has various borrowing facilities available to it. This ensures flexibility to minimise liquidity risk and ensure the ongoing solvency of the Group. The undrawn committed facilities available at 31 December 2008 in respect of which all conditions precedent had been met at that date are as follows:

Available undrawn borrowing facilities and maturity:

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Expiring in:		
Less than 1 year	280	3,415
Between 3 to 4 years	2,647	—
Between 4 to 5 years	<u>—</u>	<u>410</u>
	<u>2,927</u>	<u>3,825</u>

The following tables show the Group's contractually agreed undiscounted forecast cash flows from interest payments and the repayments of financial liabilities, including derivative financial liabilities.

	<u>Due within</u>	<u>Due between</u>	<u>Due between</u>	<u>Due between</u>	<u>Due between</u>	<u>Due after</u>	<u>Total</u>
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	5 years	
	<i>(in US\$ millions)</i>						
At 31 December 2008							
Non-derivative financial liabilities:							
Interest-bearing loans and borrowings	794	69	4,169	6,747	4	5,679	17,462
Convertible borrowings	—	—	—	—	—	331	331
Interest payments on loans and borrowings	975	946	928	493	334	2,098	5,774
Other non-interest-bearing liabilities	3,233	—	—	—	—	712	3,945
Derivative financial liabilities:							
Derivatives contracts — net payments	202	—	213	24	—	332	771

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	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
<i>(in US\$ millions)</i>							
At 31 December 2007							
Non-derivative financial liabilities:							
Interest-bearing loans and borrowings . . .	1,118	781	68	1,378	5,701	3,750	12,796
Convertible borrowings	—	—	—	—	—	375	375
Interest payments on loans and borrowings	644	569	498	458	319	2,219	4,707
Other non-interest-bearing liabilities . . .	3,745	—	—	—	—	54	3,799
Derivative financial liabilities:							
Derivatives contracts — net payments . .	205	58	—	142	6	—	411

All instruments held at 31 December 2008 and 31 December 2007 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 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 2008 and 2007:

	Principal amount 2008	Average rate % 2008	Fair Value 2008	Principal amount 2007	Average Rate % 2007	Fair value 2007
<i>(in US\$ millions)</i>						
At fair value:						
Interest rate swap from US\$ fixed rates:						
Maturing in less than 1 year*	—	—	—	111	8.09	4
Maturing between 1 to 2 years*	—	—	—	—	—	—
Maturing between 2 to 3 years*	2,224	2.80	147	—	—	—
Maturing between 3 to 4 years*	925	3.04	85	1,050	5.17	29
Maturing between 4 to 5 years*	—	—	—	925	5.60	32
Maturing greater than 5 years*	4,099	3.66	495	2,175	5.64	37
Interest rate swap to US\$ fixed rates:						
Maturing in less than 1 year	—	—	—	25	5.00	—
Maturing between 1 to 2 years	—	—	—	—	—	—
Maturing between 2 to 3 years	100	4.54	(8)	—	—	—
Maturing between 4 to 5 years	—	—	—	100	4.54	(6)
Maturing greater than 5 years	—	—	—	—	—	—
	<u>7,348</u>	<u>3.33</u>	<u>719</u>	<u>4,386</u>	<u>5.55</u>	<u>96</u>

Notes:

* Relates to the Unsecured notes and Senior debentures (refer to note 28).

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The interest rate risk profile of the Group as at 31 December 2008 was as follows:

	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	2008
<i>(in US\$ millions)</i>							
Fixed rate by balance sheet category							
Cash and cash equivalents . . .	222	—	—	—	—	—	222
Capital market notes*	(14)	(14)	(2,305)	(1,342)	—	(5,253)	(8,928)
Equity minority interest							
loans	—	—	—	(81)	—	—	(81)
Convertible borrowings	—	—	—	—	—	(331)	(331)
Finance leases/hire purchase							
contracts	(26)	(14)	(29)	(2)	(3)	(36)	(110)
Preference shares	(64)	—	—	—	—	—	(64)
Other loans	—	—	—	—	—	(58)	(58)
	<u>118</u>	<u>(28)</u>	<u>(2,334)</u>	<u>(1,425)</u>	<u>(3)</u>	<u>(5,678)</u>	<u>(9,350)</u>
Fixed rate by currency:							
AUD	(9)	(9)	(26)	(1)	(1)	(75)	(121)
CAD	(65)	—	(1)	(1)	(1)	(4)	(72)
EUR	—	—	(1,096)	(755)	—	(1,656)	(3,507)
US\$	192	(18)	(1,210)	(668)	(1)	(3,161)	(4,866)
GBP	—	—	—	—	—	(774)	(774)
ZAR	—	(1)	(1)	—	—	(8)	(10)
	<u>118</u>	<u>(28)</u>	<u>(2,334)</u>	<u>(1,425)</u>	<u>(3)</u>	<u>(5,678)</u>	<u>(9,350)</u>
Floating rate by balance sheet category:							
Cash and cash equivalents . . .	885	—	—	—	—	—	885
Capital market notes	(579)	—	—	—	—	—	(579)
Syndicated bank loans							
unsecured	—	—	(1,791)	(5,182)	—	—	(6,973)
Bank loans — other							
unsecured	(83)	(41)	(42)	(139)	—	—	(305)
Bank overdrafts	(11)	—	—	—	—	—	(11)
Equity minority interest							
loans	(17)	—	—	—	—	—	(17)
	<u>195</u>	<u>(41)</u>	<u>(1,833)</u>	<u>(5,321)</u>	<u>—</u>	<u>—</u>	<u>(7,000)</u>
Floating rate by currency:							
AUD	32	—	—	—	—	—	32
CAD	(12)	—	—	—	—	—	(12)
EUR	13	—	—	—	—	—	13
US\$	89	(41)	(1,833)	(5,321)	—	—	(7,106)
ZAR	46	—	—	—	—	—	46
GBP	3	—	—	—	—	—	3
PEN	1	—	—	—	—	—	1
CLP	11	—	—	—	—	—	11
NOK	8	—	—	—	—	—	8
JPY	1	—	—	—	—	—	1
Other	3	—	—	—	—	—	3
	<u>195</u>	<u>(41)</u>	<u>(1,833)</u>	<u>(5,321)</u>	<u>—</u>	<u>—</u>	<u>(7,000)</u>

Notes:

* These borrowings are subject to interest rate swaps.

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The interest rate risk profile of the Group as at 31 December 2007 was as follows:

	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	2007
<i>(in US\$ millions)</i>							
Fixed rate by balance sheet category							
Cash and cash equivalents . . .	220	—	—	—	—	—	220
Capital market notes*	(350)	(14)	(14)	(1,165)	(1,335)	(3,338)	(6,216)
Equity minority interest							
loans	—	—	—	—	(81)	—	(81)
Convertible borrowings	—	—	—	—	—	(327)	(327)
Finance leases/hire purchase contracts							
Preference shares	(18)	(21)	(13)	(29)	(4)	(47)	(132)
Other loans	(149)	(79)	—	—	—	—	(228)
	—	—	—	—	—	(54)	(54)
	<u>(297)</u>	<u>(114)</u>	<u>(27)</u>	<u>(1,194)</u>	<u>(1,420)</u>	<u>(3,766)</u>	<u>(6,818)</u>
Fixed rate by currency:							
AUD	37	(11)	(9)	(27)	(1)	(73)	(84)
CAD	(347)	(81)	(1)	(2)	(2)	(14)	(447)
EUR	—	—	—	—	(675)	(675)	(1,350)
US\$	8	(22)	(15)	(1,165)	(742)	(2,993)	(4,929)
GBP	8	—	—	—	—	—	8
ZAR	(3)	—	(2)	—	—	(11)	(16)
	<u>(297)</u>	<u>(114)</u>	<u>(27)</u>	<u>(1,194)</u>	<u>(1,420)</u>	<u>(3,766)</u>	<u>(6,818)</u>
Floating rate by balance sheet category:							
Cash and cash equivalents . . .	903	—	—	—	—	—	903
Other financial assets	54	—	—	—	—	21	75
Capital market notes	—	(500)	—	—	—	—	(500)
Syndicated bank loans —							
unsecured	(481)	—	—	—	(4,270)	—	(4,751)
Bank loans — other							
unsecured	(41)	(41)	(41)	(180)	(2)	—	(305)
Bank overdrafts	(79)	—	—	—	—	—	(79)
Preference shares	—	—	—	—	(120)	—	(120)
Other loans	—	—	—	(8)	(15)	(328)	(351)
	<u>356</u>	<u>(541)</u>	<u>(41)</u>	<u>(188)</u>	<u>(4,407)</u>	<u>(307)</u>	<u>(5,128)</u>
Floating rate by currency:							
AUD	57	—	—	—	—	—	57
CAD	39	—	—	—	(120)	—	(81)
EUR	10	—	—	—	—	—	10
US\$	20	(540)	(40)	(188)	(4,287)	(133)	(5,168)
ZAR	209	(1)	(1)	—	—	(174)	33
GBP	1	—	—	—	—	—	1
ARS	14	—	—	—	—	—	14
CLP	1	—	—	—	—	—	1
Other	5	—	—	—	—	—	5
	<u>356</u>	<u>(541)</u>	<u>(41)</u>	<u>(188)</u>	<u>(4,407)</u>	<u>(307)</u>	<u>(5,128)</u>

Notes:

* 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

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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 analyses are 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 refer below);
- 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 2008 income would have been US\$140 million (2007: US\$71 million) lower (higher). 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\$.

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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 2008 are as follows:

*Classified as Cash flow hedges**:*

	Contract amount 2008	Average forward rate 2008	Fair value 2008	Contract amount 2007	Average forward rate 2007	Fair value 2007
<i>(in US\$ millions)</i>						
Forward contracts — sell US\$/buy AUD:						
Maturing in less than 1 year	<u>123</u>	<u>0.7351</u>	<u>(2)</u>	<u>125</u>	<u>0.8544</u>	<u>1</u>
	<u>123</u>	<u>0.7351</u>	<u>(2)</u>	<u>125</u>	<u>0.8544</u>	<u>1</u>
Forward contracts — sell US\$/buy EUR:						
Maturing between 2 to 3 years	<u>1,174</u>	<u>1.5650</u>	<u>(126)</u>	—	—	—
Maturing between 3 to 4 years	<u>675</u>	<u>1.3500</u>	<u>24</u>	—	—	—
Maturing between 4 to 5 years*	—	—	—	675	1.35	56
Maturing after 5 years*	<u>2,599</u>	<u>1.6578</u>	<u>(333)</u>	<u>675</u>	<u>1.35</u>	<u>56</u>
	<u>4,448</u>	<u>1.5866</u>	<u>(435)</u>	<u>1,350</u>	<u>1.35</u>	<u>112</u>
Forward contracts — sell US\$/buy JPY:						
Maturing in less than 1 year	—	—	—	2	103.85	—
	—	—	—	2	103.85	—

Notes:

* 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.

An Australian subsidiary has designated its US\$ denominated capital market notes as a fair value hedge of an investment in a US\$ denominated South American operation (refer to note 28). The hedge is being used to reduce exposure to foreign currency risk.

Classified as other derivatives:

	Contract amount 2008	Average forward rate 2008	Fair value 2008	Contract Amount 2007	Average forward rate 2007	Fair value 2007
<i>(in US\$ millions)</i>						
Forward contracts — sell US\$/buy AUD:						
Maturing in less than 1 year	—	—	—	931	0.8664	15
	—	—	—	931	0.8664	15
Forward contracts — sell CAD/buy US\$:						
Maturing in less than 1 year	—	—	—	18	0.983	—
Maturing between 2 to 3 years	<u>300</u>	<u>1.5350</u>	<u>(79)</u>	—	—	—
Maturing between 3 to 4 years	—	—	—	300	1.535	(142)
	<u>300</u>	<u>1.5350</u>	<u>(79)</u>	<u>318</u>	<u>1.504</u>	<u>(142)</u>

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	Contract amount 2008	Average forward rate 2008	Fair value 2008	Contract Amount 2007	Average forward rate 2007	Fair value 2007
<i>(in US\$ millions)</i>						
Forward contracts — sell US\$/buy CAD:						
Maturing in less than 1 year	1,291	1.0387	(113)	1,330	1.0452	65
Maturing between 1 to 2 years	—	—	—	—	—	—
	<u>1,291</u>	<u>1.0387</u>	<u>(113)</u>	<u>1,330</u>	<u>1.0452</u>	<u>65</u>
Forward contracts — sell US\$/buy EUR:						
Maturing in less than 1 year	—	—	—	12	1.3429	1
	<u>—</u>	<u>—</u>	<u>—</u>	<u>12</u>	<u>1.3429</u>	<u>1</u>
Forward contracts — sell US\$/buy ZAR:						
Maturing in less than 1 year	116	10.50	8	—	—	—
Maturing between 1 to 2 years	11	10.80	—	—	—	—
	<u>127</u>	<u>10.53</u>	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>

For the purpose of IFRS 7 sensitivity analysis currency risks arises 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 payable 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 2008. 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.

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If the US\$ had gained (lost) 5% against all currencies significant to the Group the impact would have been:

Functional currency	Closing exchange rate 2008	Effect on net earnings of a 5% change 2008	Effect on equity of a 5% change 2008	Closing exchange rate 2007	Effect on net earnings of a 5% change 2007	Effect on equity of a 5% change 2007
Argentinean Peso	3.4538	(3)	—	3.1500	(2)	—
Australian Dollar	0.7048	(25)	6	0.8751	(15)	5
Canadian Dollar	1.2205	22	—	0.9984	(32)	—
Chilean Peso	637.25	(3)	—	497.95	10	—
Columbian Peso	2,248.70	—	—	2,018.00	1	—
Euro	1.3974	6	—	1.4590	—	—
Peruvian Neuvo	3.1345	1	—	2.9980	—	—
South African Rand	9.3212	(45)	—	6.8626	9	—
Total		(47)	6		(29)	5

Commodity price risk

The Group is exposed to fluctuations in commodity prices, with the commodity mix spread between those which 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 Americas operations have gold forwards and collars to hedge prices of future sales. 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 2008 are as follows:

Classified as Cash flow hedges:

	Ounces 2008	Average price US\$ 2008	Fair value US\$m 2008	Ounces 2007	Average price US\$ 2007	Fair value US\$m 2007
Cash flow hedges:						
Gold forwards — AUD denominated contracts:						
Maturing in less than 1 year	76,600	743.53	(27)	61,700	740.12	(13)
Maturing between 1 to 2 years	—	—	—	87,800	747.47	(22)
	<u>76,600</u>	<u>743.53</u>	<u>(27)</u>	<u>149,500</u>	<u>744.44</u>	<u>(35)</u>
Gold collars — US\$ denominated contracts:						
Maturing in less than 1 year	125,000	495-640	(32)	94,500	475-594	(24)
Maturing between 1 to 2 years	—	—	—	150,000	495-640	(36)
	<u>125,000</u>	<u>495-640</u>	<u>(32)</u>	<u>244,500</u>	<u>475-640</u>	<u>(60)</u>

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	Tonnes 2008	Average price US\$ 2008	Fair value US\$m 2008	Tonnes 2007	Average price US\$ 2007	Fair value US\$m 2007
Coal forwards — US\$ denominated contracts:						
FOB						
Maturing in less than 1 year	<u>2,200,000</u>	<u>74.62</u>	<u>(6)</u>	<u>4,040,000</u>	<u>58.30</u>	<u>(128)</u>
	<u>2,220,000</u>	<u>74.62</u>	<u>(6)</u>	<u>4,040,000</u>	<u>58.30</u>	<u>(128)</u>
CIF						
Maturing in less than 1 year	<u>—</u>	<u>—</u>	<u>—</u>	<u>600,000</u>	<u>68.72</u>	<u>(27)</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>600,000</u>	<u>68.72</u>	<u>(27)</u>

The maturities of these hedges reflect the expected timing of cash flows related to these instruments.

Classified as other commodity derivatives:

	Tonnes 2008	Average price US\$ 2008	Fair value US\$m 2008	Tonnes 2007	Average price US\$ 2007	Fair value US\$m 2007
Copper forwards — US\$ denominated contracts:						
Maturing in less than 1 year	<u>21,775</u>	<u>3,397.31</u>	<u>8</u>	<u>4,914</u>	<u>6,671.28</u>	<u>3</u>
	<u>21,775</u>	<u>3,397.31</u>	<u>8</u>	<u>4,914</u>	<u>6,671.28</u>	<u>3</u>

	Ounces 2008	Average price US\$ 2008	Fair value US\$m 2008	Ounces 2007	Average price US\$ 2007	Fair value US\$m 2007
Gold forwards — AUD denominated contracts:						
Maturing in less than 1 year	<u>11,200</u>	<u>774.42</u>	<u>(3)</u>	<u>22,500</u>	<u>721.00</u>	<u>(5)</u>
	<u>11,200</u>	<u>774.42</u>	<u>(3)</u>	<u>22,500</u>	<u>721.00</u>	<u>(5)</u>
Gold options — US\$ denominated contracts:						
Maturing in less than 1 year	<u>25,000</u>	<u>495-640</u>	<u>(6)</u>	<u>31,500</u>	<u>475-594</u>	<u>(8)</u>
	<u>25,000</u>	<u>495-640</u>	<u>(6)</u>	<u>31,500</u>	<u>475-594</u>	<u>(8)</u>

	Ounces 2008	Average forward rate % 2008	Fair value US\$m 2008	Ounces 2007	Average forward rate % 2007	Fair value US\$m 2007
Gold swaps — AUD denominated contracts:						
Maturing in less than 1 year	<u>10,600</u>	<u>1.5</u>	<u>—</u>	<u>40,600</u>	<u>1.5</u>	<u>—</u>
Maturing between 1 to 2 years	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,600</u>	<u>1.5</u>	<u>—</u>
	<u>10,600</u>	<u>1.5</u>	<u>—</u>	<u>51,200</u>	<u>1.5</u>	<u>—</u>

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.

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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 2008. 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 2008, income would have been US\$89 million higher (lower) (2007: US\$105 million higher (lower)) and equity reserves would have been US\$26 million lower (higher) (2007: US\$77 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 2008 or 2007 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:

	Carrying value 2008	Fair value 2008	Carrying value 2007	Fair value 2007
	<i>(in US\$ millions)</i>			
Financial liabilities:				
Capital market notes	9,426	9,439	6,216	6,001
Convertible borrowings	331	327	327	305
Equity minority interest loans	98	99	81	83
Finance leases	110	110	132	132
Preference shares	64	64	348	348
Other loans	63	63	54	54

Market rates at 31 December 2008 have been used to determine the fair value of fixed interest loans. The fair value of the liability portion of the convertible bonds are estimated using an equivalent market interest rate of a similar liability that does not have a conversion option as at the origination of the bond (refer note 28).

The following table shows the carrying amounts as at 31 December for each category of financial assets and liabilities as required by IFRS 7:

	2008	2007
	<i>(in US\$ millions)</i>	
Financial assets:		
Cash and cash equivalents	1,156	1,148
Financial assets designated at fair value through profit and loss	42	54
Loans and receivables	2,211	3,150
Available-for-sale financial assets	161	203
Derivative financial assets	803	299
Financial Liabilities:		
Financial liabilities measured at amortised cost	21,073	16,922
Financial liabilities designated at fair value through profit and loss	334	—
Derivative financial liabilities	771	411

The following table shows the gains/(losses) for each category of financial assets and liabilities as required by IFRS 7:

	2008	2007
	<i>(in US\$ millions)</i>	
Financial assets:		
Available-for-sale financial assets gain/(loss) recognised in equity	(114)	49
Available-for-sale financial assets loss recognised in the income statement	(1)	—
Derivative financial instruments loss recognised in equity	(157)	(261)
Derivative financial instruments loss recognised in the income statement	(321)	(115)

Interest revenues and expenses are not included in the calculation of the gains/(losses) of financial assets and liabilities.

38. Events After Balance Sheet Date

Rights issue

On 29 January 2009, the Company announced a proposed 2 for 1 rights issue to raise approximately US\$5.9 billion. The proceeds of the rights issue will be used to repay existing debt and to acquire Glencore International AG's coal operations in Colombia for a total consideration of US\$2 billion. No further information is presented on this acquisition due to the short time period between the acquisition and the approval of these financial statements.

Restructure of Sudbury nickel operations

On 9 February 2009, the Group announced plans to restructure its Sudbury nickel operations in response to ongoing challenging market conditions. As a result of the restructuring, the Fraser Mine Complex will be placed on care and maintenance and associated support and administrative functions will be reorganised.

B. Company Financial Statements

Balance Sheet

	<u>As at 31 December 2008</u>		
	<u>Notes</u>	<u>2008</u>	<u>2007</u>
		<i>(in US\$ millions)</i>	
Fixed assets			
Investments	2	15,090	12,498
		15,090	12,498
Current assets			
Debtors: amounts falling due within one year	3	162	115
Creditors: amounts falling due within one year	4	(3)	(13)
Net current assets		159	102
Total assets less current liabilities		15,249	12,600
Creditors: amounts falling due after more than one year	5	(2,020)	—
Attributable net assets		13,229	12,600
Capital and reserves			
Called up share capital	7, 8	488	485
Share premium account	7, 8	10,308	9,899
Other reserves	8	949	949
Own shares	8	(299)	(126)
Profit and loss account	8	1,783	1,393
Equity and shareholders' funds		13,229	12,600

The financial statements on pages 120 to 127 were approved by the Board of Directors on 2 March 2009 and signed on its behalf by:

Trevor Reid
Chief Financial Officer

No profit and loss account is presented for Xstrata plc as permitted by section 230 of the Companies Act 1985. The profit of Xstrata plc for the year ended 31 December 2008 is US\$836 million (2007 restated: US\$1,486 million).

There are no recognised gains and losses attributable to the shareholders of the company other than the profit of US\$836 million for the year ended 31 December 2008 (2007 restated: profit of US\$1,486 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 except for the current year adoption of UITF Abstract 44 (IFRIC 11) 'Group and Treasury Share Transactions'. The Company has granted share-based payments to employees of its subsidiaries and as a result of the adoption of the UITF it has allocated the share-based payment expenses to relevant Group companies. Comparative amounts have been restated.

The effect of this change in accounting policy has resulted in an increase in the share-based payment expense in the current year of US\$65 million (2007 US\$53 million decrease), representing amounts allocated to Group companies. Consequently, Xstrata plc has recorded an expense in relation to share-based payments of US\$1 million (2007 restated US\$13 million).

Xstrata plc's accounting policy in respect of share-based payments is discussed in more detail below.

Xstrata plc 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 or 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 profit or 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 income-generating units.

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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 of 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 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 35 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 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

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profit and loss account. The fair value is recalculated using an option pricing model (refer to note 35 of the Group consolidated financial statements).

Refer to the accounting policies and note 35 of the Group consolidated financial statements for a full explanation of the valuation of and accounting for the share-based accounts.

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, when 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, and have been adjusted for the adoption of UITF Abstract 44 (IFRIC 11) "Group and Treasury Share Transactions."

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

	Investment in subsidiaries	Loans to subsidiaries	Total
	<i>(in US\$ millions)</i>		
Cost:			
At 1 January 2008	12,035	463	12,498
Additions — existing investments	2,639	—	2,639
Reductions — existing investments	<u>(39)</u>	<u>(8)</u>	<u>(47)</u>
At 31 December 2008	<u>14,635</u>	<u>455</u>	<u>15,090</u>

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The subsidiary undertakings of the Company as at 31 December and the percentage holding of ordinary share capital are set out below:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>% of ordinary shares held & voting rights</u>
Principal Subsidiaries			
Xstrata (Schweiz) AG	Switzerland	Holding company	100%
Xstrata Finance (Dubai) LLC	UAE	Finance company	90%
Xstrata Commodities Middle East DMCC	UAE	Marketing company	90%
Xstrata Capital Corporation AVV*	Aruba	Finance company	<u>40%</u>
Xstrata Zinc BV	Holland	Finance Company	<u>75%</u>

Notes:

* 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 consolidated financial statements for a list of significant subsidiaries, associates and joint ventures.

3. Debtors — amounts falling due within one year

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Receivables — subsidiaries	161	112
Other debtors	<u>1</u>	<u>3</u>
	<u>162</u>	<u>115</u>

4. Creditors — amounts falling due within one year

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Loans from subsidiaries	—	7
Other creditors	<u>3</u>	<u>6</u>
	<u>3</u>	<u>13</u>

5. Creditors — amounts falling due after more than one year

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Loans from subsidiaries	<u>2,020</u>	—
	<u>2,020</u>	—

6. Dividends paid and proposed

	<u>2008</u>	<u>2007</u>
	<i>(in US\$ millions)</i>	
Declared and paid during the year:		
Final dividend for 2007 — 34 cents per ordinary share (2006: 30 cents per ordinary share)	327	290
Interim dividend for 2008 — 18 cents per ordinary share (2007: 16 cents per ordinary share)	<u>172</u>	<u>153</u>
	<u>499</u>	<u>443</u>
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December):		
Final dividend for 2008 — Nil cents per ordinary share (2007: 34 cents per ordinary share)	—	<u>326</u>

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7. Capital

(in US\$ millions)

Authorised:	
15,109,948,397 ordinary shares of US\$0.50 each as at 1 January 2007	7,555
13,609,948,397 ordinary shares of US\$0.50 each cancellation	<u>(6,805)</u>
1,500,000,000 ordinary shares of US\$0.50 each as at 31 December 2007 and at 31 December 2008	750
50,000 deferred shares of GBP1.00 each as at 31 December 2007 and at 31 December 2008	—
1 special voting share of US\$0.50 as at 31 December 2007 and as at 31 December 2008	<u>—</u>
	<u>750</u>
Issued, called up and fully paid:	
943,150,383 ordinary shares of US\$0.50 each as at 1 January 2007	471
4,000,000 ordinary shares issued on 31 January 2007 to the ESOP	2
24,516,537 ordinary shares issued on the exercise of convertible bonds to 31 December 2007	<u>12</u>
971,666,920 ordinary shares of US\$0.50 each as at 31 December 2007	485
6,000,000 ordinary shares issued on 16 January 2008 to the ESOP	3
3,620 ordinary shares issued on the exercise of the convertible borrowings to 31 December 2008	<u>—</u>
977,670,540 ordinary shares of US\$0.50 each as at 31 December 2008	<u>488</u>
Share Premium:	
As at 1 January 2007	9,522
4,000,000 ordinary shares issued on 31 January 2007 to the ESOP	183
24,516,537 ordinary shares issued on the exercise of convertible bonds to 31 December 2007	<u>194</u>
As at 31 December 2007	9,899
6,000,000 ordinary shares issued on 16 January 2008 to the ESOP	409
3,620 shares issued on the exercise of the convertible borrowings to 31 December 2008	<u>—</u>
As at 31 December 2008	<u>10,308</u>

Issue of ordinary shares

On 31 January 2007, 4,000,000 shares were issued to the ESOP at a market price of GBP23.58 per share. On 16 January 2008 6,000,000 shares were issued to the ESOP at a market price of GBP34.90 per share.

During 2007, the remainder of the US\$600 million convertible bonds issued by Xstrata Capital Corporation AVV were converted at the option of the holders into 24,516,537 ordinary shares in Xstrata plc. As a result of this conversion 100% of the bond has been now converted. During 2008, 0.03% of the US\$375 million of convertible borrowings was converted at the option of the holders into 3,620 ordinary shares in Xstrata plc.

Details in respect of the various classes of shares are outlined in the Directors' Report on pages 85 to 90 of the Xstrata Annual Report and Accounts 2008.

8. Capital and reserves

	Share Capital	Share premium account	Other reserves	Own Shares	Profit and loss Account	2008
	(in US\$ millions)					
Capital and reserves						
At 1 January 2008	485	9,899	949	(126)	1,393	12,600
Attributable profit for the year	—	—	—	—	836	836
Issue of share capital	3	409	—	(412)	—	—
Own shares purchased	—	—	—	(17)	—	(17)
Own shares sold	—	—	—	256	(192)	64
Equity settled share-based payments	—	—	—	—	245	245
Dividends	—	—	—	—	(499)	(499)
At 31 December 2008	<u>488</u>	<u>10,308</u>	<u>949</u>	<u>(299)</u>	<u>1,783</u>	<u>13,229</u>

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	Share Capital	Share premium account	Other reserves	Own Shares	Profit and loss Account	2007
<i>(in US\$ millions)</i>						
Capital and reserves						
At 1 January 2007	471	9,522	949	(147)	452	11,247
Attributable profit for the year	—	—	—	—	1,486	1,486
Issue of share capital	14	377	—	(185)	—	206
Own shares purchased	—	—	—	(14)	—	(14)
Own shares sold	—	—	—	220	(164)	56
Equity settled share-based payments	—	—	—	—	62	62
Dividends	—	—	—	—	(443)	(443)
At 31 December 2007	<u>485</u>	<u>9,899</u>	<u>949</u>	<u>(126)</u>	<u>1,393</u>	<u>12,600</u>

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 from share issues from the Company. The ESOP is used to co-ordinate the funding and manage 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 2008, 5,424,986 (2007: 3,846,691) shares, equivalent to 0.5% (2007: 0.4%) of the total issued share capital, were held by the trust with a cost of US\$299 million (2007: US\$126 million) and market value of US\$51 million (2007: US\$271 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\$45,000 (2007: US\$42,000) in respect of the Company. Refer to note 10 of the consolidated financial statements for further information of Auditors' remuneration.

Refer to the Directors' Remuneration Report on pages 98 to 107 of the Xstrata Annual Report and Accounts 2008 for the remuneration of Directors.

10. Guarantees

The Company has provided guarantees to a number of Group companies.

Specifically, the Company has provided:

To Xstrata Capital Corporation AVV in respect of the convertible bonds it has issued:

- unconditional and irrevocable guarantees to the holders of the convertible bond in respect of the payment of all amounts due and payable under the convertible bond. The amount due and payable under the convertible bonds at 31 December 2008 is US\$391 million (2007: US\$390 million); and
- guarantees to provide, in exchange for 374,900 (2007: 375,000) preference shares of Xstrata Capital Corporation AVV, ordinary share capital in the Company on the conversion of the bonds. The number of shares to be issued under these guarantees at 31 December 2008 totals 13,571,812 (2007: 13,575,432). These shares will be issued to the holder of the bonds in exchange for the preference shares in Xstrata Capital Corporation AVV they receive on conversion of the bonds;

Refer to note 29 of the consolidated financial statements for further details.

In November 2006, the Group issued US\$2,250 million of capital market notes to refinance existing debt facilities. The notes are comprised of three tranches, 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 that bears interest 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)

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Limited. The Xstrata Finance (Canada) Limited issues were guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited.

The Group assumed a number of senior debentures on the acquisition of Falconbridge Limited (refer to note 28 of the 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.

The Group assumed preference shares on the acquisition of Falconbridge Limited (refer to note 28 of the consolidated financial statements). Pursuant to the terms of a guarantee indenture, the Company has fully and unconditionally guaranteed in favour of the holders of the preference shares 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 preference shares.

In June 2007, the Group completed the pricing of two EUR500 million note issues by Xstrata Finance (Canada) Limited under its Euro Medium Term Note Programme. These comprised 500,000,000 guaranteed 4.875% notes due 14 June 2012 and 500,000,000 guaranteed 5.250% notes due 13 June 2017. The notes 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 July 2007, the Group entered into a US\$4,680 million revolving Syndicated Loan. Interest is payable on the loans at a rate which is based on LIBOR and the relevant margin, which is 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. In October 2007, the Group entered into a US\$2,000 million 364-day Revolving Loan Facility. Interest was payable on the loans at a rate which was the aggregate of LIBOR and the relevant margin, which 27.5 basis points per annum. The loan was entered into by Xstrata (Schweiz) AG and was guaranteed by the Company, Xstrata Finance (Canada) Limited and Xstrata Finance (Dubai) Limited. This facility was re financed during 2008.

In November 2007 Xstrata Finance (Canada) Limited completed a US\$500 million 30-year bond issue bearing interest at 6.90% per annum. The bond 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 December 2007, the Group entered into a guaranteed US\$1,500 million 364-day Revolving Loan Facility. Interest was payable on the loans at a rate which was the aggregate of LIBOR and the relevant margin, which was 27.5 basis points per annum. The loan was entered into by Xstrata (Schweiz) AG and was guaranteed by the Company, Xstrata Finance (Canada) Limited and Xstrata Finance (Dubai) Limited. This facility was re financed during 2008.

On 25 February 2008, the Group entered into a guaranteed US\$500 million revolving loan facility that matured on 31 December 2008. Interest was payable on the loans at LIBOR plus 50.0 basis points per annum. The loan was entered into by Xstrata (Schweiz) AG and was guaranteed by the Company, Xstrata Finance (Canada) Limited and Xstrata Finance (Dubai) Limited.

On 6 October 2008, the Group entered into US\$5,000 million multi-currency revolving syndicated loan facility ("Club Facility"), Interest is payable on drawn down amounts at a rate which 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 matures on 30 September 2011. As at 31 December 2008, US\$2,452 million was available to be drawn under this facility. 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.

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. The notes were issued by Xstrata Canada Financial Corporation and were guaranteed by the Company, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited.

Part II

Additional Information

1 Responsibility

The Company and the Directors, whose names appear in Part VI — “Directors and Senior Management of Xstrata” of the Prospectus, accept responsibility for the information contained in this Supplementary Prospectus. Having taken all reasonable care to ensure that such is the case, the information contained in this Supplementary Prospectus is, to the best of the knowledge of the Company and the Directors, in accordance with the facts and contains no omission likely to affect its import.

2 Consent

Deutsche Bank has given and not withdrawn its written consent to the inclusion herein of the references to its name in the form and context in which they appear.

JPMorgan Cazenove has given and not withdrawn its written consent to the inclusion herein of the references to its name in the form and context in which they appear.

Rothschild has given and not withdrawn its written consent to the inclusion herein of the references to its name in the form and context in which they appear.

3 Documents available for inspection

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for so long as the Rights Issue remains open for acceptance and for a period of 12 months following the date of Admission at the registered office of the Company and at the offices of Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HS:

- (a) the audited Group Financial Statements;
- (b) the audited Company Financial Statements;
- (c) the consent letters referred to in paragraph 2 of this Part II;
- (d) a copy of this Supplementary Prospectus; and
- (e) a copy of the documents incorporated by reference into this Supplementary Prospectus as described in the section of this Supplementary Prospectus headed “Relevant Documentation and Incorporation by Reference”.

