Financial Review

Key Financial Results

Consolidated pro forma results $m	**Year ended** **31.12.06**	**31.12.05**	% Change
Revenue	26,877	17,199	56%
EBITDA*	10,441	5,843	79%
EBIT*	8,340	3,932	112%
Attributable profit	4,885	2,232	119%
Earnings per share (basic, pre-exceptionals)***	$5.13	$2.52	104%
Cash generated from operations	9,370	4,667	101%
Net debt to net debt plus equity (%)**	41%	24%	71%
Net assets**	19,722	8,137	142%
Net assets per share**	20.82	13.57	53%
Dividends per share:			
- interim dividend (paid)	11.6¢†	8.1¢‡	43%
- final dividend (proposed)	30.0¢	22.4¢‡	34%

* Excludes exceptional items
** Assets and debt relate to the statutory balance sheets at year end
***Pro forma weighted average number of shares of 864.15 million and 925.41 million have been calculated as if the share issues in 2006 had been made on 1 January 2005 and 1 January 2006 respectively
† 2006 interim dividend paid was 13¢ per share: adjusted to 11.6¢ for rights issue impact
‡ 2005 dividends have been adjusted for rights issue impact

Highlights

- Three major acquisitions completed in 2006, Cerrejón coal, Tintaya copper and Falconbridge Limited, transforming Xstrata and creating an exceptional range of organic growth options
- Investment grade credit rating maintained following cash acquisitions of $19.6 billion. Gearing ratio of 41% at year end and pro forma operating cash flow of $9.4 billion
- Falconbridge integration successfully completed at year end, with annual synergies of $545 million confirmed. Work continues to unlock further synergies from the Sudbury basin, in partnership with CVRD
- Prices for key mining inputs continued to climb in 2006, in particular for labour, mining consumables and equipment
- Real cost savings of $56 million achieved by former Xstrata businesses, in a challenging environment
- Increased resources confirmed at Wandoan (thermal coal), Mount Isa, Alumbrera, Antapaccay, Las Bambas and Tampakan (copper), Raglan, Kabanga and Araguaia (nickel)
- New projects commissioned on time and on budget at Rolleston thermal coal, Lion ferrochrome, Wollombi coking coal, Mototolo PGM and Lennard Shelf zinc-lead

Chief Executive's Report

On the fifth anniversary of the listing in March 2002 of Xstrata plc on the London Stock Exchange, the Group is unrecognisable from its beginnings as a small, growth-constrained and narrowly-diversified company operating in only three commodities and three countries. Today, as one of the largest diversified mining companies, Xstrata comprises operations and projects across 18 countries, with top four industry positions in each of its major commodity markets and an extensive pipeline of value-creating growth projects.

We have reached this position by relentlessly pursuing shareholder value on three fronts:

- first, executing a strategy of growth and diversification whenever we identify value enhancing opportunities consistent with our metrics of value and risk ;
- second, a continuous programme of productivity and efficiency improvement at all operations; and
- third, a consistent search for ways to enhance the net present value (NPV) of the existing asset base through resource to reserve conversion and process innovation.

In summary, growth has been achieved and value created through:

- the successful completion and integration of three company transforming acquisitions;
- a series of valuable bolt-on additions to our core businesses;
- the on-going extension of mine lives at a number of our key assets;
- the delivery of significant internal growth projects in our alloys, coal and zinc businesses; and
- an industry-leading performance in containing operating costs across the group.

In 2006 alone, three major acquisitions with a combined value of $19.5 billion – Falconbridge Limited, one-third of Cerrejón Coal and Tintaya Copper – were successfully completed, contributing to the Group's progress and transforming the breadth, range and scale of its businesses.

Three major acquisitions

The acquisition in March of a one-third interest in the Cerrejón coal operation in Colombia, one of the world's premier coal mining assets, provided Xstrata with additional exposure to high quality, premium thermal coal with access to the growing North American, South American and European markets. Cerrejón has already outperformed the assumptions made at the time of the acquisition and the mine's exceptional resource base, the expansion currently under way and the potential for future growth – together with the recent resurgence in thermal coal prices – all give me great confidence that this transaction will secure significant additional value for our shareholders over the long-term.

The acquisition of the Tintaya copper operation from BHP Billiton in June provided Xstrata Copper with an additional 120,000 tonnes of annual copper production and a significant strategic position in southern Peru. We also recognised the potential for further growth at Tintaya from the associated satellite deposits and I am delighted that in the eight months since acquiring the assets, the Xstrata Copper team has already confirmed resources of some 470 million tonnes at 0.7% copper at the Antapaccay deposit, just 9 kilometres from Tintaya. A drilling programme will now commence with the intention of upgrading this resource base further as part of a pre-feasibility study into the development of the project. Subsequent to the acquisition, synergies have been identified with a value of $110 million and these are being progressively realised. In addition, a further $50 million of value has already been realised through ongoing operational management initiatives, with a range of other significant initiatives being actively pursued in 2007.

Finally, the most significant step of all came with the successful acquisition of Falconbridge Limited. The acquisition was launched in May and completed in October, but in truth commenced over one year earlier, with the opportunistic purchase of a 20% stake in that company. Securing this stake gave Xstrata an essential advantage in the contested acquisition, enabling us to offer the remaining Falconbridge shareholders the certainty of cash at a substantial premium, while containing the average price paid per share to gain 100% of the company.

As a result of these acquisitions, Xstrata is now a one million tonne per annum copper producer with an unrivalled suite of growth options, exposure to all major copper metallurgical technologies and an excellent position in South America. The Group also maintains a significant position in the nickel market with excellent potential to grow, has gained exposure to North America and is the world's largest zinc producer, with a profitable, integrated aluminium business.

Growth in earnings

The acquisitions completed in 2006 contributed $4.6 billion to Xstrata's pro forma 2006 EBIT of $8.3 billion, demonstrating the very significant earnings accretion achieved through adding cash generative operations to the portfolio at a time of sustained high commodity prices.

On a pro forma basis, stronger commodity prices contributed to an increase of over 140% in attributable profit to $4.9 billion. EBITDA rose to $10.4 billion, with Xstrata's operations generating $9.4 billion of cash.

In 2006, for the third consecutive year, prices for every commodity produced by the Group, (with the single exception of vanadium), were higher at the end of the year than at the beginning. While average prices for coking and thermal coal were marginally lower, average prices for base metals were substantially higher than in the previous year. Base metals prices remain highly volatile, as evidenced in the first few months of 2007, but they remain significantly above long-run averages and comfortably ahead of any of the assumptions that underpinned our acquisitions in 2006.

The high cost inflation associated with inputs into the mining industry, to which I referred in my interim report, continued to impact our operations in the second half of the year. In particular, demand for contract labour, fuel, explosives and construction materials continued to outstrip supply, resulting in increased lead times for equipment delivery and rapidly escalating prices. Mining sector inflation, together with the impact of CPI inflation, impacted EBIT at the former Xstrata operations by a total of $294 million, which is very significant. However, there is some evidence that the rate of price increases may have slowed somewhat in the second half of the year, although it is too early to see if this will continue in 2007.

Value creation from the portfolio

Efficiency gains
The full impact of the rising prices of inputs was mitigated by a highly creditable performance in containing real costs by our commodity businesses. The operating cost base of the legacy Xstrata operations was reduced by $56 million in 2006 – a fifth consecutive year of real operating cost savings, with a particularly strong performance in the second half.

These cost savings clearly demonstrate the benefit of new, lower cost production coming on stream from the range of brownfield growth projects that Xstrata has commissioned in the past two years. In particular, increased lower-cost production of thermal coal from Rolleston and longwalls in New South Wales and of coking coal from the Wollombi deposit, the commissioning of the highly efficient Lion ferrochrome smelter and increased production from the lower-cost Black Star zinc-lead open pit mine and McArthur River open test pit all contributed to this exceptional result. In addition, the outstanding cost performance of our zinc business benefited from further efficiency gains in our European smelters, with a $23 million gain from San Juan associated with improved recoveries, particularly of silver.

Extensions of mine lives and resources
Further extensions to mine reserves and resources have been confirmed at a number of Xstrata's operations and exploration projects, prolonging the life of our operations and providing significant increases to the net present value of these assets. In particular, it is very pleasing that the Xstrata Copper team has been able to adapt the mine plan at Alumbrera to access additional mineralization in the bottom of the open pit, extending the life of this operation by a further year, for the third year running. Similarly, at Mount Isa, additional underground reserves of some 7 million tonnes have been established to extend the mine life by a further year. We are also progressing into pre-feasibility stage exciting possibilities to exploit lower grade underground resources at Mount Isa through bulk mining methods.

Additional resource extensions have been confirmed at the Wandoan thermal coal project, the Raglan nickel mine, the Kabanga and Araguaia nickel projects, and the Las Bambas copper project. At Las Bambas, indicated and inferred resources have increased by 69% from 300 million tonnes at 1.1% copper to 508 million tonnes at a grade of 1.14% copper using a 0.5% cut-off grade. The presence of substantial volumes of high grade skarn-style copper mineralization, with notable grades of molybdenum and gold, supplemented with large, lower grade copper porphyry mineralization confirm the potential scale and quality of this mineral district.

I have already noted the confirmation of the substantial Mineral Resource at the Antapaccay deposit. Given its proximity to the existing Tintaya infrastructure, this resource has significant potential both to increase production and to extend the life of Tintaya – substantially increasing the NPV of this acquisition, as well as to leverage the development of the Las Bambas mineral district, some 100 kilometres away.

The acquisition of Falconbridge has dramatically extended average mine life within our copper business. Based on current production rates and proven and probable reserves, the average mine life of Xstrata's copper assets has been extended from approximately 13 years to over 20 years, whilst further conversion of the currently known resource base would extend this beyond 30 years.

Internal growth projects
Xstrata now has an extensive pipeline of major growth projects across our commodity businesses that can be brought on in line to feed market demand. In 2007 our nickel business will continue to progress the Araguaia, Koniambo and Kabanga greenfield projects, while the Nickel Rim South project remains on track for first production in 2009.

The Falconbridge acquisition has completely transformed the scale and range of internal growth options available to our copper business, which now holds a portfolio of five major, greenfield projects that have the potential to more than double the Group's current one million tonnes of annual copper production. In addition to increasing the resource base at four of these projects, Xstrata Copper has taken up its 62.5% option and will assume management control of the Tampakan project from our partners Indophil Resources at the end of March 2007.

Our coal business continues to benefit from a wealth of brownfield expansion projects at Cerrejón Coal, Rolleston and across our New South Wales operations, as well as greenfield opportunities such as the 7 million tonnes per annum Goedgevonden Project in South Africa , the massive Wandoan coal project in Queensland and the Glendell project in New South Wales. In Xstrata Alloys, our chrome business is already benefiting from the new low-cost production from the Lion ferrochrome operation, which has significant brownfield expansion potential.

In our zinc business, expansions of the McArthur River open-cast mine (to 320,000 tonnes per annum) and the concentrator at Mount Isa are already under way, increasing annual production and lowering the cost base of these businesses. The low capital cost 60% expansion to 8 million tonnes per annum of the zinc-lead concentrator will have the additional benefit of doubling the supply of our own concentrate to our European smelters.

Xstrata's executive and business unit management have recognised the challenge of delivering this scale of growth on time and on budget in the current industry environment of high inflation and equipment and skills shortages. I am confident that our past successes, the robust risk management process and devolved accountability that underpin our business approach and the impressive project management expertise that we have gained in the Falconbridge acquisition, will all contribute to the successful realisation of our industry-leading growth options.

Integration of Falconbridge and Synergy Benefits

The formal integration of Falconbridge into Xstrata was completed at the end of December 2006, just four months after we gained management control in August 2006. The smooth and efficient integration of an acquisition of this magnitude and complexity bears testimony to Xstrata's integration methodology and to the expertise of a network of integration team members drawn from across our business units, both of which have now been refined and tested on a number of large transactions.

Nickel
A new commodity business, Xstrata Nickel, led by Ian Pearce former COO of Falconbridge, has been established with its head office in Toronto. Their inclusion expands the breadth and depth of Xstrata's technical capabilities, and provides real impetus to our strategic aim to grow the nickel business rapidly. One of the new team's pressing objectives is to work closely with CVRD Inco to optimise efficiencies across the operations of both companies in the Sudbury basin. Tremendous potential exists to unlock value, extend the lives of the Sudbury operations and to bring on additional growth through this process. Teams from Xstrata Nickel and CVRD Inco are now actively engaged in negotiating a commercial structure to deliver these benefits. I expect that we will be able to confirm later this year how we intend to work together and, in the process, the extent of the synergy value that each company will create for its shareholders. I am confident that our revised estimate of Xstrata's share of Sudbury synergies of $120 million per annum (previously $80 million) remains conservative.

Copper
Falconbridge's copper assets have been fully integrated into Xstrata Copper. The resulting portfolio of copper operations and growth projects is arguably the most exciting and prospective in the sector. Xstrata Copper has been structured into five operating divisions across Argentina, Canada, North Chile, Southern Peru and North Queensland, designed to maximise the potential of the regions in which they operate. Xstrata Copper has identified approximately $60 million of annual operating synergy benefits arising from the integration of the former Falconbridge copper assets. The progressive implementation of integration plans will see these benefits fully realised during 2007. In addition, a once-off finance re-structuring benefit of $58 million was achieved as a result of the copper asset integration.

Zinc
Similarly, Xstrata Zinc has absorbed the Falconbridge zinc assets, creating a new operating division, Xstrata Zinc Canada, and further improving Xstrata's integration across zinc concentrate mining and smelting. The combination of Falconbridge's zinc business with Xstrata's existing assets has propelled Xstrata to become the world's largest zinc producer and annual synergies of $11 million have been identified through the integration process.

Aluminium
The Falconbridge acquisition also provided entry to aluminium, another new commodity. Xstrata Aluminum is an integrated aluminium producer, predominantly based in the US and active across the entire value chain from bauxite through to downstream products. As signalled at the time of the acquisition, we are conducting a strategic review of this business, to assess its potential as a platform for future growth in this new commodity, compared to the prospects for a profitable sale, and I expect a final decision to be made during the first half of this year.

Technology and research
The world-class former Falconbridge technology and research activities have been consolidated into a single activity as Xstrata Process Services, to provide mineral processing expertise and support to all of Xstrata's businesses worldwide. Falconbridge's commercial processing technologies, including the widely-used Kidd Process for copper refining, have been absorbed into Xstrata Technology, which specialises in marketing world-class processing technologies to clients worldwide.

Exploration
Falconbridge's exploration function has been restructured in line with Xstrata's approach to exploration. We continue to believe that greenfield exploration is best achieved through partnerships with juniors, who are better equipped to identify new resources successfully, and from within business units where existing assets can be leveraged to maximise the returns from exploration. This restructuring has resulted in the devolution of exploration activities to the relevant business units, a rationalisation of non-essential activities, reduction in headcount and an ongoing programme of exiting non-core exploration properties and tenements, often retaining an option to participate in the most promising. To date, the total consideration value of these divestments is just over $60 million, whilst the divestment of equity investments yielded $7 million.

Corporate and head office costs
In keeping with our entrepreneurial management structure, authority and responsibility has been devolved wherever possible to the copper, zinc, nickel and aluminium business units. This has resulted in headcount reductions and downsizing of corporate facilities. One-off costs associated with the integration totalled $60 million and comprise primarily redundancy and facilities closure costs – more than offset by the one-off $67 million proceeds from exploration disposals discussed above. Resulting from the successful integration process, I am pleased to report that our estimate of head office and exploration synergies has increased by 88% to $75 million per annum.

Annual synergy gains
As a consequence of these successful steps, the original estimate of synergies in our investment case for the acquisition of Falconbridge has been significantly surpassed. At the time of the transaction, we estimated around $120 million of annual cost savings ($40 million associated with the head office costs at Falconbridge and $80 million in potential synergy gains in the Sudbury basin). Our estimate of operational synergy benefits (including the revised $120 million estimate of attributable Sudbury synergies already highlighted) has risen to some $265 million per annum.

In addition to these annual pre-tax cost savings, a further $280 million of annual synergies are expected to result from the inclusion of the former Falconbridge assets within our financial structure from 2007.

As a consequence, the acquisitions of Falconbridge and Tintaya have secured over $4 billion of sustainable value creation for shareholders.

I am proud of our team who, once more, have executed the integration in an exemplary fashion, reinforcing my view that post-acquisition integration is one of Xstrata's distinctive capabilities. Through the Falconbridge acquisition, we have gained an outstanding pipeline of organic growth projects, an entry into nickel and aluminium, geographic diversification into North America and exceptional people with the talent and skills to help Xstrata continue to grow and unlock value from our portfolio. I also commend the professionalism with which the former Falconbridge employees participated in the integration, a factor which contributed substantially to its success.

Compliance with the South African Mining Charter

During the course of the year, Xstrata plc concluded a ZAR2.4 billion ($387 million) agreement with African Rainbow Minerals Limited ("ARM"), which established a new black controlled company, ARM Coal, and introduced meaningful and sustainable black economic participation in Xstrata's South African coal business. The newly established ARM Coal (51% owned by ARM and 49% by Xstrata) owns a 20% participation share in Xstrata's existing South African coal business. ARM subsequently took up a further direct 10% stake, at a cost of ZAR400 million, which, together with ARM's 51% share of the Goedgevonden project, resulted in 36% of Xstrata's South African coal business being owned by historically disadvantaged South Africans. ARM Coal provides both Xstrata and ARM with an alliance through which existing and future growth opportunities in Africa can be pursued.

In addition, in February 2007, Xstrata Alloys concluded a ZAR575 million ($...) agreement with the Bakwena Ba Mogopa community in respect of Xstrata's fully integrated Rhovan vanadium facility in South Africa. The Community is the surface owner of the property on which the facility is located. Through the transaction, the Community will have an effective 26% participation in the Xstrata Alloys vanadium business through a Pooling and Sharing Venture, similar to the Xstrata-Merafe Chrome Venture.

As a result, all of our South African businesses have now met the ownership provisions of the Mineral and Petroleum Resources Development Act of 2002 ("MPRDA") and Xstrata is the first major international mining company to have been acknowledged by the Department of Minerals and Energy as being in full compliance with the Act and the Mining Charter.

Balance sheet, dividend, capital management

Xstrata spent a total of $19.5 billion and assumed debt of $3.8 billion to fund acquisitions in 2006. Despite this significant outlay of cash, the Group has maintained its investment grade credit rating, through successful equity issues to raise a total of $8 billion and an over-subscribed $2.25 billion debut US bond offering.

These capital raisings, together with continued very strong cash generation from Xstrata's operations, have enabled the repayment in full of both equity and debt bridge facilities associated with the acquisition representing a total of $9.5 billion. This, together with the exceptional cash generation of its assets, position Xstrata to fund capital expenditure in 2007, while still rapidly repaying corporate debt. While gearing of 41% at year end is currently above our target range, further bank debt has been paid down in early 2007 and gearing is expected to decline significantly in the current year.

With no material debt falling due within the next 18 months and an excellent spread of maturities within the Group's bond and bank debt facilities, Xstrata is well positioned to fund its capital expenditure in the current year, currently expected to be around $1.4 billion. Additional initiatives to diversify funding and expand the debt portfolio maturity further may be considered opportunistically during the current year.

The acquisition of 20% of Falconbridge for $28 per share in August 2005 gave Xstrata an important strategic advantage in the acquisition of Falconbridge. The fact that we had acquired 20% of the company at this price allowed us the flexibility to compete for the remainder of the Equity and, as a result, the average purchase price of C$56.44 per share was comfortably within our valuation range.

However, under International Financial Reporting Standards (IFRS) goodwill is calculated separately for each acquisition stage, regardless of the average price paid per share to acquire the entire interest. This creates an obvious gap between the average price per share actually paid by Xstrata for the 100% interest and the price paid for the remaining 80% equity (C$62.50per share), resulting in the creation of additional goodwill of some $1.5 billion. In view of the above, the usual impairment tests unsurprisingly result in an impairment charge of $1,378 million in the statutory income statement.

The proposed final dividend of 30¢ represents an increase of 34% compared to the previous year, and has been rebased at this higher level to reflect the cash generated by the enlarged Xstrata, together with our continued confidence in the outlook for the current year and beyond.

Pleasingly, the rapid earnings growth and transformation achieved by Xstrata has translated into record value creation for shareholders. In 2006, Xstrata delivered a total annual shareholder return of 112%, far outstripping its industry peers. One pound invested in Xstrata at the time of our initial public offering in 2002, would have increased in value by some 430% to nearly £5.30 at the end of 2006, demonstrating the significant wealth Xstrata has created for its shareholders over the last five years. Value creation remains the core tenet of our activities and the measure by which all of our growth initiatives are judged.

Outlook

Commodity prices have again performed very strongly in 2006. While it is unlikely that average prices for base metals will continue to rise at a similar rate in 2007, the fundamental outlook for the industry remains positive. The rapidly industrialising economies of China and India and the satisfactorily performing economies of the older 'Asian tigers' and Europe will continue to drive demand growth for metals and energy, despite an underperforming US economy. On the supply side, the tight availability of major projects, skilled resources and cheap power and the challenges of difficult geographies, inadequate infrastructure, significant cost inflation and the depleting nature of reserves across the industry will continue to moderate growth in production.

As a consequence, there is no sign that commodity prices are rapidly returning to long-run averages, and the price environment remains very favourable, particularly in our traded thermal coal and ferrochrome businesses, where contract prices have been negotiated above last year's levels. We therefore move into the next stage of Xstrata's development, delivering the benefits of our recent acquisitions and the immense growth optionality inherent within the portfolio, with a following wind.

This positive outlook often appears to need reiteration in the face of the increased volatility that is now such a feature of the equity and commodity markets. This challenging environment also creates opportunities for those companies that are well positioned and that have the global intelligence, management momentum and shareholder support that enable them to capitalise from the two major trends that continue to characterise our industry: a robust price environment and on-going consolidation. Critical to any such success is also one's confidence in the price assumptions that underpin valuations – particularly the short-term price assumptions at times of exceptionally high prices. For this reason, Xstrata is engaged in a continual review of its short- and long-run commodity price assumptions.

Xstrata is well positioned to maintain its track record of success based on:

- a focused and consistent strategy of delivering growth as well as NPV enhancement;
- a clear view on how focusing on the price of assets and how to operate them in the most effective way– not just some elusive search for "quality" – creates real value;
- a culture that is not comfortable with standing still; and
- a devolved management structure that builds a sense of empowered ownership across our teams.

It is therefore to the men and women in Xstrata to whom I first address my thanks. Xstrata's success over the past five years has been delivered by your dedication, your commitment to safety and to the values that underpin our Mission Statement, and your hard work. We will continue to build on our success to date in creating a positive, safe work environment and the mutually beneficial partnerships with our stakeholders that are an essential element of future success.

Xstrata has a small but talented team at the centre. They are due much credit for the role which they have played since our IPO in 2002. I also thank my fellow directors and my executive colleagues for their courage, support and wisdom. The willingness of the non-executive directors to back this management has allowed Xstrata to emerge as a major force in the mining and metals industry.

2007 has launched itself with volatility and debate. I am, however, steadfast in my belief that Xstrata's drive for growth and value creation can be realised by a management who are alive to the opportunities and who can manage the challenges.

Financial Review

Basis of presentation of financial information

Financial information is presented in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. The reporting currency of Xstrata plc is US dollars. Financial statements of subsidiaries are maintained in their functional currencies and converted to US dollars on consolidation of Group results.

Unless indicated to the contrary, revenue, earnings before interest, taxation, depreciation and amortisation (EBITDA) and earnings before interest and taxation (EBIT) are reported in the Chief Executive's Report and the Operating and Financial Review before exceptional items. All commentary in the Business Review, except where otherwise stated, refers to pro forma results for 2005 and for 2006, including the acquisitions of Falconbridge Limited, the Tintaya operation and a one-third interest in the Cerrejón coal operation from 1 January 2005 and 2006 respectively. This provides a more meaningful illustration of the scale and performance of the enlarged group after the acquisitions. A reconciliation of the pro forma to statutory results is set out in the supplementary information. A summary of statutory results and commentary relating to these results is provided below. Exceptional items are significant items of income and expense which, due to their nature or expected infrequency, are presented separately in the income statement. All dollar and cent figures provided refer to US dollars and cents.

Consolidated Statutory Operational Results

SUMMARY: CONSOLIDATED STATUTORY OPERATIONAL RESULTS

	Year ended	
$m	**31.12.06**	**31.12.05**
Alloys	959	1,116
Aluminium	530	-
Coal	3,617	3,400
Copper	7,007	2,008
Nickel	1,678	-
Zinc	3,721	1,449
Technology	120	77
Total Group revenue	17,632	8,050

Attributable total Group revenue	*16,680*	*7,228*
Alloys	263	350
Aluminium	123	-
Coal	1,249	1,346
Copper	3,349	1,131
Nickel	788	-
Zinc	1,479	303
Technology	26	14
Share of earnings from Falconbridge	-	21
Corporate and unallocated	(170)	(62)
Total Group EBITDA	7,107	3,103
Attributable total Group EBITDA	*6,480*	*2,715*
Alloys	234	317
Aluminium	98	-
Coal	892	1,079
Copper	2,850	920
Nickel	614	-
Zinc	1,329	239
Technology	22	10
Share of earnings from Falconbridge	-	21
Corporate and unallocated	(176)	(66)
Total Group EBIT	5,863	2,520
Attributable total Group EBIT	*5,298*	*2,200*

The acquisitions completed in 2006 have been consolidated in the IFRS statutory income statement from their respective dates of acquisition, as below:

Cerrejón coal (one-third interest)	20 April 2006
Tintaya copper operation	21 June 2006
Falconbridge Limited	15 August 2006

Statutory Group turnover for the year ended 31 December 2006 increased from $8,050 million to $17,632 million, as average commodity prices continued to rise year-on-year across Xstrata's portfolio, in particular for base metals and as a consequence of the acquisitions made.

Statutory Group EBITDA for the year ended 31 December 2006 increased by 129% to $7,107 million. The positive impact of the acquisitions and higher LME metals prices more than offset the cost pressures being experienced across the mining industry.

Statutory Group EBIT for the year ended 31 December 2006 increased from $2,520 million to $5,863 million, or by 133%.

The acquisition of Falconbridge was completed through two transactions. Xstrata acquired 20% of Falconbridge at C$28 per share in August 2005, before acquiring the remaining 80% in 2006 at a price of C$62.50 per share. The average price paid per share was C$56.44. Xstrata's ability to average the purchase price paid for the second tranche of shares over the full purchase provided Xstrata with a compelling competitive advantage and was a significant factor in the success of the transaction.

Under IFRS, this advantage cannot be recognised, as goodwill is calculated separately for each transaction, regardless of the average price paid per share to acquire the 100% interest. This accounting treatment has resulted in the creation of significant additional goodwill of $1.5 billion. Xstrata has completed a detailed fair value evaluation of the assets acquired and, in accordance with IFRS, tested the goodwill for impairment. As a result, the company has determined that an impairment charge of $1,378 million to the 2006 statutory income statement is appropriate in the light of the IFRS valuation of the assets. The impairment has no impact on the 2006 pro forma accounts.

Pro forma operational results

Consolidated pro forma operational results	**Year ended**	
$m	**31.12.06**	**31.12.05**
Alloys	959	1,116
Aluminium	1,395	1,080
Coal	3,757	3,841
Copper	12,508	6,927
Nickel	3,364	2,161
Zinc	4,774	1,997
Technology	120	77
Total Group revenue	26,877	17,199
Attributable total Group revenue	*25,924*	*16,377*
Alloys	263	350
Aluminium	286	158
Coal	1,320	1,588
Copper	5,399	2,697
Nickel	1,386	721
Zinc	1,946	398
Technology	26	14
Corporate and unallocated	(185)	(83)
Total Group EBITDA	10,441	5,843
Attributable total Group EBITDA	*9,814*	*5,455*
Alloys	234	317
Aluminium	208	75
Coal	937	1,256
Copper	4,528	1,852
Nickel	931	333
Zinc	1,673	186
Technology	22	10
Corporate and unallocated	(193)	(97)
Total Group EBIT	8,340	3,932
Attributable total Group EBIT	*7,773*	*3,612*

Revenues in 2006 rose by 56% to $27 billion, predominantly due to the positive impact of sustained, stronger commodity prices, particularly in exchange-traded metals. EBITDA increased by 79% to $10,441 million and EBIT more than doubled to $8,340 million.

EBIT variances shown below have been calculated on the basis of a comparison between the statutory 2005 earnings and pro forma 2006 earnings for the former Xstrata Group. To enable a meaningful evaluation of the performance of the former Xstrata Group, the contribution to pro forma earnings of the Falconbridge, Tintaya and Cerrejón acquisitions is included as one line. These acquisitions contributed a total of $4,623 million to pro forma 2006 EBIT.

Higher received sales prices for the majority of Xstrata's commodities, in particular for copper and zinc, together with the impact of a stronger US dollar compared to local currencies, contributed $1,798 million to EBIT. Higher volumes were achieved at Xstrata's Australian coal operations, in particular from the coking coal operations and the Rolleston thermal coal mine which was officially opened in 2006. However, these were more than offset by lower volumes from the north Queensland copper assets due to lower head grades, and lower recoveries from the Mount Isa zinc-lead concentrator due to the transition to processing lower grade ores from the Black Star mine.

Continued robust demand and shortages for key inputs including raw materials and mining equipment, together with increased competition for skilled labour have again resulted in extraordinary increases in mining industry input prices, far in advance of CPI inflation. As set out in the 2006 interim report, Xstrata's commodity businesses have calculated the extraordinary impact of inflation on input prices specific to the mining industry, using third party indices.

Based on these calculations, mining inflation increased Group operating costs by $112 million, over and above CPI inflation of $162 million in 2006, compared to the same period in 2005. Stripping out the impact of CPI inflation and extraordinary price increases specific to the mining sector, Xstrata's businesses (excluding the acquisitions made in 2006) achieved real cost savings of $56 million in 2006, in a very challenging environment.

Other income and expenses include significantly increased share option costs under IFRS due to the increase in Xstrata's share price, which rose by 109% in 2006 on a post rights issue adjusted basis. In addition, EBIT in 2006 was impacted by the absence of $21 million of equity-accounted income from Xstrata's 20% share in Falconbridge and the absence of gains on sales of assets included in the prior year.

EBIT VARIANCES

$m	**Total**
EBIT 2005 statutory	**2,520**
Sales price*	1,730
Volumes	(138)
Unit cost - real	56
Unit cost - CPI inflation	(162)
Unit cost - foreign exchange	113
Unit cost - mining inflation	(112)
Foreign currency hedging	(45)
Other income and expenses	(179)
Depreciation and amortisation (excluding foreign exchange)	(66)
Acquisitions	4,623
EBIT 2006 pro forma	**8,340**

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

Average commodity prices	Unit	**Average price 2006**	Average price 2005	% change
Australian FOB export coking*	$/t	**111.2**	111.5	(0.3)
Australian FOB export semi-soft coking*	$/t	**68.0**	70.3	(3.3)
Australian FOB export thermal coal*	$/t	**46.4**	51.2	(9.4)
Colombian FOB export thermal coal*	$/t	**49.3**	-	-
South African export thermal coal*	$/t	**45.8**	48.5	(5.6)
Aluminium (LME cash average)	$/t	**2,570**	1,898	35.4
Copper (LME cash average)	$/t	**6,740**	3,684	83.0
Lead (LME cash average)	$/t	**1,286**	976	31.8
Zinc (LME cash average)	$/t	**3,264**	1,382	136.2
Nickel (LME cash average)	$/t	**24,155**	14,747	63.8
Ferrochrome (Metal Bulletin)	¢/lb	**71.6**	73	(1.9)
Ferrovanadium (Metal Bulletin)	$/kg	**38.5**	70.5	(45.4)
*average received price				

In 2006, base metals prices were considerably stronger than in 2005. Copper prices reached a high of $8,800 per tonne in May 2006 and remained strong throughout the year. Nickel prices repeatedly reached new historical highs due to strong demand and critically low stocks, and this trend has continued into 2007. Zinc prices also significantly outstripped the previous year's averages, increasing in the second half of the year as stocks fell and demand remained strong. Received export thermal coal prices were marginally lower than the prior year, but remained well above long run average prices and have rebounded strongly in early 2007. Coking coal prices remained at a similar level to 2005, albeit with greater price differential between high quality hard coking coal, such as Xstrata's Oaky Creek product, and lower grade semi-soft coal. Average ferrochrome prices were lower year-on-year, but robust demand for stainless steel from the second quarter supported price increases throughout the year, with ferrochrome prices ending 2006 at 78¢ per pound. Whilst ferrovanadium prices dropped substantially from their peaks of early 2005, prices remain above historical levels.

CURRENCY TABLE TO $ (USD)	**Average 2006**	Average 2005	% change (+/-)	**At 31.12.06**	At 31.12.05
USD:ARS	3.07	2.92	(5)	3.06	3.03
AUD:USD	0.75	0.76	(1)	0.79	0.73
USD:CAD	1.13	1.21	(7)	1.17	1.16
USD:CHF	1.25	1.25	-	1.22	1.31
EUR:USD	1.26	1.24	2	1.32	1.18
GBP:USD	1.84	1.82	1	1.96	1.72
USD:ZAR	6.77	6.37	(6)	7.00	6.33

The stronger US dollar against most of the local currencies in Xstrata's operating regions during 2006 gave rise to a favourable variance to EBIT of $113 million, offset partially by the impact of Australian dollar hedging in respect of contracted coal sales which reduced by $45 million compared to the prior period. The greatest impact of the stronger US dollar was seen in South Africa, where the average South African rand exchange rate was 6% weaker against the US dollar compared to 2005.

Earnings Summary **$m**	**Pro forma Year ended 31.12.06**	Pro forma Year ended 31.12.05
EBIT	**8,340**	3,932
Net interest (excl. loan issue costs written-off and realised net foreign currency translation gains)	**(1,055)**	(797)
Income tax expense	**(2,127)**	(733)
Minority interests	**(413)**	(226)
Attributable profit (before exceptionals)	**4,745**	2,176
Earnings per share (before exceptionals)*	**513¢**	**252¢**
WMC offer costs	**-**	(10)
Loan issue costs written-off	**(9)**	(17)
Gains and losses on foreign currency loans and net recycled gains/(losses) from foreign currency translation reserve	**75**	62
Income tax on exceptionals	**(5)**	8
Profit on sale of investments and operations	**79**	13
	140	56
Attributable profit	**4,885**	2,232
Earnings per share*	**528¢**	258¢
* Calculated using shares in issue on 31.12.06		

The effective tax rate for the period was 29% compared to 23% for the year ended 31 December 2005 due to increased earnings in higher tax jurisdictions and benefits from the change of tax rates in 2005. Minority interests rose steeply due to increased profitability at Alumbrera during the period.

Statutory net interest before exceptional items increased from $92 million to $534 million, reflecting the higher levels of borrowings as a result of the Falconbridge acquisition.

The statutory tax charge before exceptional items of $1,574 million represents an effective rate of 29% against 23% for 2005. The increase in 2006 is mainly due to the higher effective tax rates of the acquired Falconbridge operations and increased profitability in higher rate tax jurisdictions.

Statutory attributable profit before exceptional items doubled, increasing by $1,690 million to $3,350 million.

EBIT sensitivities **$m**	**Impact on 2007 EBIT***	**Indicative full year EBIT****
1¢/lb movement in ferrochrome price	11	11
$1/kg movement in ferrovanadium price	3	3
$1/tonne movement in Australian thermal export FOB coal price	16	35
$1/tonne movement in Australian coking export FOB coal price	3	6
$1/tonne movement in Colombian export thermal FOB coal price†	-	-
$1/tonne movement in South African export thermal FOB coal price	5	14

1¢/lb movement in aluminium price	5	5
1¢/lb movement in copper price	21	21
$10/oz movement in gold price	17	17
$1/lb movement in nickel price	132	132
$1/lb movement in ferronickel price	62	62
1¢/lb movement in zinc price	21	21
$100/tonne movement in zinc treatment charge price	6	19
1¢/lb movement in lead price	7	7
10% movement ARS	7	7
10% movement AUD	292	301
10% movement CAD	144	144
10% movement EUR	30	30
10% movement GBP	1	1
10% movement ZAR	132	132

*After impact of currency and commodity hedging, and contracted, priced sales as at 31 December 2006

** Assuming current annualised production and sales profiles, no currency or commodity hedging and no contracted, priced sales and purchases at 31 December 2006
† Not available due to confidentiality provisions within shareholder agreements

Cash Flow, Net Debt and Financing Summary

$m	**Pro forma year ended 31.12.06**	**Statutory year ended 31.12.05**
EBITDA	10,441	3,103
Share of results from associates	(11)	(23)
Increase in inventories	(811)	(125)
Increase in trade and other receivables	(633)	(334)
Increase in deferred stripping and other assets	(154)	(80)
Increase in trade and other payables	534	236
Movement in provisions and other non-cash items	4	3
Cash generated from operations	9,370	2,780
Net interest paid	(965)	(92)
Dividends received	2	17
Tax paid	(1,486)	(380)
Cash flow before capital expenditure	6,921	2,325
Sustaining capital expenditure	(893)	(412)
Disposals of fixed assets	32	11
Free cash flow	6,060	1,924
Expansionary capital expenditure	(1,163)	(455)
Cash flow before acquisitions	4,897	1,469

Purchase and sale of investments	(3)	(1,472)
Purchase of subsidiaries net of cash acquired	(17,078)	(60)
Purchase of Cerrejón	(1,715)	-
Sale of operations, net of cash disposed	24	25
Net cash flow before financing	(13,875)	(38)
Purchase of own shares	(11)	(522)
Sale and issue of own shares	7,871	25
Equity dividends paid	(496)	(154)
Dividends paid to minority interests	(202)	(148)
Redemption of minority interests	(95)	-
Debt (acquired)/disposed of with operations	(4,642)	7
Issue of convertible debenture	-	(375)
Redemption of convertible debenture	359	-
Convertible bond IAS 32/39 movements	-	120
Other non-cash movements	101	(54)
Movement in net debt	(10,990)	(1,139)
Net debt at the start of the year	(2,611)	(1,472)
Net debt at the end of the period*	(13,601)	(2,611)
* Includes 100% of Alumbrera cash and third party shareholder loans		

The cash flow statement above compares statutory 2005 with pro forma 2006 cash movement, including the acquisitions of Falconbridge, Cerrejón and Tintaya from 1 January 2006, to provide a basis for comparison between the prior year and 2006 performance.

On a pro forma basis, the Group generated $9.4 billion of operating cash flow during the period. After funding sustaining capital expenditure of $893 million, the operations generated some $6 billion of free cash flow. On a statutory basis, cash generated from operations increased by 141% from $2.8 billion to $6.7 billion.

During the period, $386 million of Xstrata's convertible debentures were converted to equity. As at 5 March 2007, less than $15 million of convertible debentures remained outstanding.

Acquisitions

In the first half of 2006, Xstrata made two major acquisitions at a total value of $2.5 billion. On 20 April, the Xstrata coal business acquired a one third share of the Cerrejón thermal coal business for $1.7 billion. The acquisition of the Tintaya copper mine in Peru was completed on 21 June 2006 at a cost of $811 million, net of cash acquired.

In the second half of 2006, Xstrata acquired the remaining 80% of Falconbridge it did not already own, at a cost of $17.1 billion. Xstrata assumed control of Falconbridge on 15 August and completed the purchase of the remaining outstanding shares on 1 November 2006. The purchase of a 20% stake in August 2005 for $1.7 billion brought the total acquisition cost to $18.8 billion or C$56.44 per share. This acquisition has transformed Xstrata, bringing with it a suite of organic growth opportunities, diversification into nickel and aluminium, exposure to North America and a significantly enhanced South American copper business, together with additional scale for the zinc business, now the largest listed producer globally.

Funding and Capital Structure

Xstrata was transformed in 2006. During the year the Group financed three major acquisitions at a total cost of $19.6 billion. These acquisitions were financed through a combination of operational cash flows, debt and issued equity, maintaining Xstrata's investment grade credit rating throughout.

On 17 May 2006, the day that Xstrata announced its offer for Falconbridge, Xstrata placed 62 million shares in the market at a price of £21.00 per share, raising $2.5 billion – slightly in excess of the combined purchase price for the acquisitions of Cerrejón and Tintaya that were concluded earlier in the period. The placement comprised 32.5 million new shares and 29.5 million shares that were previously held by Batiss Investments under Xstrata's Equity Capital Management Programme. The shares held by Batiss had been acquired over time in the market at an average price of £10.72 per share, resulting in a gain of $549 million, recognised directly in equity.

The Group's subsequent acquisition of Falconbridge in August 2006 was funded through a $19 billion financing package. This package was split equally between acquisition debt of $9.5 billion and bridging facilities of $9.5 billion.

The acquisition further enhanced the group's risk profile through increased diversification by commodity, currency and geographic spread, together with increased scale and an exceptional suite of cash generative assets. Xstrata's existing credit rating of BBB+ (stable) was reaffirmed by Standard & Poor's following completion of the transaction and Moody's commenced coverage of the group with a Baa2 (stable) rating, confirming Xstrata's investment grade balance sheet and strong financial outlook.

In October, a successful equity rights issue was completed to raise $5.5 billion, with the proceeds used to repay a portion of the $9.5 billion bridging facilities put in place at the time of the acquisition. The balance of these facilities was repaid prior to year end, through strong free operating cash flow from operations, together with the proceeds of an inaugural US global bond offering, which was heavily oversubscribed and raised $2.25 billion in November 2006.

Total equity issuance during the year of $8 billion underlines Xstrata's commitment to maintain an investment grade credit rating through a conservative capital structure. Despite undertaking three large acquisitions, funding all capital expenditure programmes and increasing dividend distributions, the Group remains well positioned to take advantage of its many internal growth options and to pursue value-adding external growth opportunities as they arise.

From a pro forma net debt position at 30 June 2006 of $16.1 billion, Xstrata's robust free cash flow generation has enabled net debt to decrease to $13.6 billion at year end. Net debt to equity (calculated as net debt to net debt plus equity) has correspondingly decreased from 47% to 41% over the same period.

NET DEBT SUMMARY

The net indebtedness figures and working capital tables below are shown on a statutory basis. The debt position at 31 December 2005 is therefore that of the Group excluding the Falconbridge operations. The debt figures for 31 December 2006 include the impact of additional debt raising for the purchase of Falconbridge, net of substantial debt repayments from strong cash generation in 2006.

Net debt summary $m	**As at** **31.12.06**	As at 31.12.05
Cash (excluding overdrafts)	**1,860**	524
External borrowings	**(15,303)**	(2,917)

Arrangement fees Finance leases	**84** **(242)**	11 (229)
Net debt * Net debt to net debt plus equity	**(13,601)** **40.8%**	(2,611) 24.3%
By currency:		
AUD	**(108)**	35
CAD	**(435)**	-
EUR	**10**	8
GBP	**12**	10
USD	**(12,984)**	(2,664)
ZAR	**(109)**	(4)
Other	**13**	4
Net debt by currency	**(13,601)**	(2,611)
* Includes 100% of Alumbrera cash		

WORKING CAPITAL

Working capital $m	**As at** **31.12.06**	As at 31.12.05
Inventories	**3,540**	891
Trade and other receivables	**2,826**	1,138
Prepayments	**204**	99
Trade and other payables	**(3,110)**	(946)
Net working capital	**3,460**	1,182

The differences between the working capital balances above and the movements shown in the EBITDA cash flow reconciliation reflect non-cash items such as movements in exchange rates and non-current assets, including deferred stripping.

The three major acquisitions resulted in a material increase in trade receivables, inventories and trade payables. Trade receivables increased further as metals sales prices rallied over the period. Inventories on hand at year end were also higher due to the higher cost of European smelter feedstock.

Treasury Management and Financial Instruments

The Group is generally exposed to US dollars through its revenue stream. The Group will seek to source debt capital in US dollars directly or by borrowing in other currencies and swapping them into US dollars, thus matching the negative exposure of debt service obligations against the positive exposure of revenue.

Currency Hedging

Currency cash flow hedging may be used to reduce the Group's short-term exposure to fluctuations in the local currency exchange rates to the US dollar, Sterling and Euro. Net currency hedging gains amounted to less than $1 million in the income statement for the period ended 31 December 2006, compared to gains of $45 million for the corresponding period in 2005. The unrealised mark-to-market gain for currency hedging maturing in 2007 as at 31 December 2006 was $7 million. Australian dollar hedging is applied in respect of US dollar priced coal sales.

FOREIGN CURRENCY FORWARD CONTRACTS IMPACTING 2007 EARNINGS

Currencies	Forward sale $m 31.12.06	Weighted average exchange rate	Fair value $m 31.12.06
Maturing 2007			
$ to AUD	143	0.7550	6
$ to CAD	4	1.5290	1
$ to JPY	9	108.38	(1)
EUR to ZAR	3	7.9685	0
$ to EUR	19	1.3125	0
Total	178		6

Commodity Hedging

Cash flow hedges relating to sales in 2007 are shown in the table below. The fair value of these hedges is deferred within equity on the balance sheet until the sale is recorded. The unrealised mark-to-market loss on commodity hedging maturing in 2007 at 31 December 2006 was $54 million, based on the forward curve at that date.

COMMODITY FORWARD AND OPTION CONTRACTS IMPACTING 2007 EARNINGS

	Commodity	Volume	Average Price $	Fair value $m 31.12.06
Thermal coal (tonnes)	$ Coal	5,185,000	53.5	(12)
Gold (ounces)	AUD Gold	88,500	559.62	(7)
Gold forwards (ounces)	$ Gold	104,166	386.3	(27)
Gold collars (ounces)	$ Gold	102,000	500-595	(8)
Total				(54)

* The average price is stated in US dollars and where necessary has been converted from foreign currencies at period end exchange rates.

No new hedging contracts were entered into for base metals during 2006.

Interest Rate Hedging

The Group normally borrows and invests at floating rates of interest and will generally swap any fixed rate exposure into floating interest rates. 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. The unrealised mark-to-market loss on interest rate hedging in place at 31 December 2006 was $16 million.

INTEREST RATE SWAPS

	Principal $m	Average rate %	Fair value $m 31.12.06
Interest rate swapped from US$ fixed rates			
Maturing between 1 to 2 years	111	8.48	6
Maturing between 3 to 4 years	600	4.50	(11)
Maturing between 4 to 5 years	1,050	5.69	(1)
Maturing greater than 5 years	1,750	6.30	(12)
Interest rate swapped to US$ fixed rates			
Maturing between 1 to 2 years	25	5.00	-
Maturing greater than 5 years	100	4.54	2
	3,636	5.84	(16)

Consolidated Capital Expenditure

CAPITAL EXPENDITURE SUMMARY (excludes deferred stripping expenditure)

$m	**Pro forma year ended 31.12.06**	**Pro forma year ended 31.12.05**
Alloys	40	35
Aluminium	33	42
Coal	235	226
Copper	257	246
Nickel	162	162
Zinc	114	94
Technology	1	1
Unallocated	5	5
Total Sustaining	847	811
Attributable Sustaining	*826*	*797*
Alloys	220	168
Aluminium	22	14
Coal	295	292
Copper	257	178
Nickel	210	205
Zinc	158	47
Technology	1	-
Unallocated	-	33
Total Expansionary	1,163	937
Attributable Expansionary	*1,149*	*932*
Alloys	260	203
Aluminium	55	56
Coal	530	518
Copper	514	424
Nickel	372	367

Zinc	272	141
Technology	2	1
Unallocated	5	38
Total	2,010	1,748
Attributable total	*1,975*	*1,729*

Expansionary capital expenditure increased in 2006, exceeding $1.1 billion on a pro forma basis as investments were made in a number of growth projects.

Expansionary capital expenditure for Xstrata on a standalone basis (excluding Falconbridge) rose to $485 million, broadly in line with the guidance given last year of approximately $500 million. Major items of expansionary capital expenditure included the Project Lion ferrochrome smelter in South Africa, continued development of the Mototolo PGM project (a joint venture with Anglo Platinum and Kagiso Trust Investments), Goedgevonden thermal coal, ongoing expansions to the copper smelter and zinc-lead concentrator at Mount Isa, a new coal wash plant at Collinsville coal mine and the acquisition of a further dragline at the Rolleston operation in Queensland.

The acquisition of Falconbridge brought with it a significant number of high quality projects undergoing development or feasibility studies.

In 2006, expenditure on expansionary nickel projects was in excess of $200 million. Funds were invested in the further development of the Nickel Rim South Project in Sudbury, which is scheduled to commence production in 2009, the renewal project underway at the Koniambo deposit in New Caledonia and an expanded drilling programme at the Kabanga project in Tanzania. Investment in former Falconbridge copper expansionary projects rose to over $173 million in 2006. Major items of expenditure included the completion of the Kidd Mine D expansion in Canada and further development of a number of growth projects including El Pachón, El Morro and Frieda River.

Dividends

The Directors have proposed a 2006 final dividend of 30¢ per share, amounting to $281 million. On a rights issue-adjusted basis, which takes into account the bonus element of the discounted rights issue, this amounts to a full year dividend of 41.6¢ per share, a 37% increase on the comparable 2005 rights issue-adjusted figure. The final dividend will be paid on 18 May to shareholders on the register at 27 April 2007.

DIVIDEND DATES

	2007
Ex-dividend date	25 April
Deadline for return of currency election forms	27 April
Record date	27 April
AGM	8 May
Applicable exchange rate date	11 May
Payment date	18 May

As Xstrata plc is a Swiss tax resident company, the dividend payment will be taxed at source in Switzerland at the rate of 35%. A full or partial refund of this tax may be available in certain circumstances.

The final dividend is declared and will be paid in US dollars. Shareholders may elect to receive this dividend in Sterling, Euros or Swiss francs. The Sterling, Euro or Swiss francs amount payable will be determined by reference to the exchange rates applicable to the US dollar seven days prior to the dividend payment date. Dividends can be paid directly into a UK bank or building society account to shareholders who elect for their dividend to be paid in Sterling.

Further details regarding tax refunds on dividend payment, together with currency election and dividend mandate forms, are available from the investor relations section of Xstrata's website (www.xstrata.com) or from the Company's Registrars.

Share Data

Under IFRS, own shares (treasury stock) are deducted from the total issued share capital when calculating earnings per share. During the period, 2.5 million shares were sold in the market and 3 million shares were issued relating to the disposal of Xstrata equity allotted to an Employee Share Ownership Trust, (an employees' share scheme as that term is defined for the purposes of the Companies Act 1985 and within the provisions), to service the exercise of employee share options.

SHARE PRICE

	XTA LSE (GBP)	XTA SWX (CHF)
Closing price 31.12.05	13.60	30.75
Closing price 31.12.06*	25.50	61.20
Period high	25.70	62.00
Period low	12.19	27.75
Period average	18.82	43.58
*share price adjusted for rights issue in October 2006		

SHARES IN ISSUE FOR STATUTORY EPS CALCULATIONS

	Number of shares (000s)
2006 Weighted average for year ended 31.12.06 used for statutory eps calculation	771,820
2005 Weighted average for year ended 31.12.05 used for statutory eps calculation	684,196
Total issued share capital as at 31.12.06	943,150

Equity Capital Management Programme

Under the equity capital management programme (ECMP), up to 10% of the issued capital of Xstrata plc can be purchased in the market by Batiss Investments, a Guernsey-registered entity owned by a trust and legally independent of the Xstrata Group. During the first half, 29.5 million shares held by the trust were sold at an average price of GBP 21.00 per share with the gain of $549 million taken directly to the Group's reserves. No shares were purchased under the ECMP during the period, and no shares are held in the trust at 31 December 2006.

PUBLICLY DISCLOSED MAJOR SHAREHOLDERS

Name of shareholder	Number of ordinary shares of $0.50 each	% of ordinary issued share capital
Glencore International AG	336,801,333	34.7
The Capital Management Arrangement between Glencore and Credit Suisse Group, which was entered into in connection with the Xstrata Group's acquisition of MIM Holdings Limited and the associated rights issue in 2003, was terminated on 20 December 2006.		

Xstrata Alloys

Chrome

FINANCIAL AND OPERATING DATA

$m	**Year ended 31.12.06**	Year ended 31.12.05
Revenue	**748**	798
EBITDA	**141**	169
Depreciation & amortisation	**(23)**	(27)
EBIT	**118**	142
Share of Group EBIT	**1.4%**	3.6%
Net assets	**898**	726
Capital Employed	**902**	851
ROCE	**12.6%**	17%
Capital expenditure	**197**	187
Sustaining	**36**	26
Expansionary	**161**	161
Total recordable injury frequency rate	**8.2**	11.8
Lost time injury frequency rate	**2.2**	4.3

Markets

The stainless steel market, which accounts for over 80% of global ferrochrome demand, displayed robust growth in 2006. Global demand for stainless melt is estimated at approximately 28 million tonnes, some 14% higher than the previous year. The stainless steel market experienced particularly strong growth from the second quarter, with most major European, American, Asian and Chinese stainless mills operating at full capacity. China is by some margin the largest stainless steel producing country, with stainless melt production of approximately 5.6 million tonnes in 2006, and also remains the most important driver of global demand growth.

In response to strong growth in demand for stainless steel, demand for ferrochrome increased by an estimated 10% in 2006, bringing global demand to 6.3 million tonnes. The lower growth rate in ferrochrome demand compared to stainless steel is due in part to increased production of high carbon ferrochrome, which has a higher chrome content, and the use of chrome-bearing nickel pig iron by Chinese producers, to cushion the impact of high nickel prices. Despite sustained higher nickel prices, the ratio of stainless steel scrap used in Austenitic stainless melt declined by 1% in 2006 to 42% due to lack of scrap availability, further supporting demand for ferrochrome.

China has emerged as a significant producer of ferrochrome and has almost doubled ferrochrome output from 494,000 tonnes in 2004 to 925,000 tonnes in 2006, meeting the bulk of increased demand from China and globally. However, as Chinese stainless melt and ferrochrome demand continue to increase, it is expected that environmental pressure, limited availability of electric power and reliance on imported ore will combine to restrict further expansions in Chinese ferrochrome production, resulting in increased alloy imports. The Chinese government recently halved the import duty on ferrochrome to 1%. Firm capacity expansion projects have also been announced for South Africa, India and Russia over the next four years.

Ferrochrome base prices continued to come under pressure in the first quarter following a 5¢ price decrease to 68¢ per pound at the end of 2005, falling to 63¢ per pound. The strong recovery in demand seen from the second quarter resulted in prices rapidly rebounding to 70.25¢ per pound, with further increases in the two subsequent quarters to 75¢ per pound and 78¢ per pound respectively.

Strong stainless melt production is expected to continue, with China anticipated to increase production further to approximately 6.5 million tonnes in 2007. As a result, the momentum gained during the year in ferrochrome demand is set to continue into the first half of 2007. Longer term, stainless steel demand is forecast to grow at approximately 6% per annum, which should result in similar growth in global ferrochrome demand.

Operations

Revenue for 2006 was 6% lower than in 2005, predominantly driven by weaker market and pricing conditions in the first quarter. Market conditions resulted in the suspension of production at a total of seven furnaces for varying periods of time. Routine maintenance stoppages also occurred at a number of other furnaces during the South African winter months. Four furnaces remained suspended at the end of 2006, two of which have been returned to production in the first quarter of 2007. Attributable saleable production of 958,600 tonnes of ferrochrome was 15% lower than in the previous year, although stockpiled material was used to supplement sales volumes, which were only marginally lower than in the previous year. Improved availability of quality ores resulted in improved metallurgical efficiencies in the furnaces, particularly in the Western operations.

EBIT decreased by 17% year on year, due to lower average prices and standing charges associated with idled capacity, together with the impact of ongoing mining sector inflation. From 1 July 2006, Merafe's interest in the Xstrata-Merafe Chrome Venture increased to 20.5%. In real terms, excluding standing charges, operating costs were contained in 2006, with cost savings contributing $8 million to EBIT. Efficiencies were achieved through more stable reductant prices, improved metallurgical performance and sound energy management. The full commissioning of the Lion plant in 2007 is expected to have a significant positive impact on unit operating costs, primarily due to increased energy efficiency from Xstrata's Premus technology.

EBIT VARIANCES

	$m
EBIT 31.12.05	**142**
Sales price*	(23)
Volumes	(2)
Unit cost – real	8
Unit cost – inflation	(35)
Unit cost – currency	34
Other income and expenses	(7)
Depreciation and amortisation (excluding foreign exchange)	1
EBIT 31.12.06	**118**

*net of commodity price linked costs

Developments

The new Lion ferrochrome smelting complex was commissioned on schedule and within budget in the third quarter of 2006. The plant's design criteria was met within the first three months of operation, and full commissioning remains on track for completion in the second quarter of 2007.

The Bokamoso pelletising project remains within budget and commissioning is due to begin in the second quarter of 2007. Construction started in May 2006 and good progress was made despite unfavourable ground conditions that necessitated significant additional blasting. Construction of the 6,000m^2 covered sinter building is completed, assisting equipment installation during the wet summer season, and the civil works remain on schedule.

Vanadium

FINANCIAL AND OPERATING DATA

$m	**Year ended 31.12.06**	Year ended 31.12.05
Revenue	**199**	318
EBITDA	**111**	181
Depreciation & amortisation	**(6)**	(6)
EBIT	**105**	175
Share of Group EBIT	**1.3%**	4.5%
Net assets	**146**	128
Capital Employed	**146**	129
ROCE	**69.5%**	137.5%
Capital expenditure	**5**	16
Sustaining	**4**	9
Expansionary	**1**	7
Total recordable injury frequency rate	**5.5**	8.1
Lost time injury frequency rate	**1.8**	3.7

Markets

Production of crude steel, the major market for vanadium, continued to grow, increasing by approximately 9% in 2006. Demand from China was again the primary driver, where crude steel production increased by 18% and accounted for more than a third of the world's production in 2006.

Strong demand for crude steel has been underpinned by relatively strong economic growth in Europe, CIS, North America and especially China, which together account for nearly 70% of global vanadium demand. Vanadium supply increased in response to strong demand and has resulted in a continued strong vanadium market in relative equilibrium.

Ferrovanadium prices have declined from the record high prices seen in 2005, with the average price declining to $38.50 per kilogram in 2006, down from $70.50 per kilogram in 2005. Prices appear to have stabilized at around $30 per kilogram throughout the fourth quarter of 2006 and into 2007, well above long term average prices. Prices are expected to remain above historical levels for 2007.

New supply is likely to emerge from the two major Chinese producers, where additional capacity is planned, and potentially from Western Australia by the end of 2007. However, with further growth anticipated in crude steel production, demand for vanadium units should remain firm during 2007.

The extended period of elevated vanadium prices is, however, resulting in predominantly temporary substitution in certain applications such as commodity grade rebar. Worldwide ferro-niobium consumption has increased significantly, with the majority of ferro-niobium consumption growth coming from China. It is anticipated that lower vanadium prices will result in reverse substitution. This is, in turn, expected to support prices and limit volatility in 2007.

Operations

Revenue decreased by 37% to $199 million while EBIT decreased by 40% to $105 million. While sales volumes of vanadium pentoxide and ferrovanadium increased by 177 and 206 tonnes respectively compared to 2005, profitability was impacted by lower sales prices for both vanadium pentoxide and ferrovanadium, 55% and 34% lower respectively than the record highs of 2005.

During 2006, a number of projects were successfully completed to increase production capacity by approximately 7% year-on-year, and to continue Rhovan's programme of continuous environmental improvements. These included increased electrical supply and process flow optimization, and the commissioning of additional air pollution control equipment and dust suppression for the slimes dam.

Vanadium-rich spinel was successfully introduced into Rhovan's production process during 2006. This increased production by approximately 40 tonnes per month. The associated increase in production costs was more than offset by the higher production volumes and premiums received. This strategy will continue in 2007, to maximise production and margins.

EBIT VARIANCES

	$m
EBIT 31.12.05	**175**
Sales price*	(97)
Volumes	9
Unit cost – real	7
Unit cost – CPI inflation	(7)
Unit cost – foreign exchange	6
Other income and expenses	13
Depreciation and amortisation (excluding foreign exchange)	(1)
EBIT 31.12.06	**105**

*net of commodity price linked costs

Developments

In January 2007, Xstrata Alloys and the Bakwena Ba Mogopa Traditional Community announced a ZAR575 million Black Economic Empowerment (BEE) transaction in respect of Xstrata's Rhovan vanadium facility. The Bakwena community is the surface owner of the property on which Rhovan is located, and will have an effective 26% participation in the EBITDA generated by Xstrata's vanadium business through a Pooling and Sharing Venture, similar to the Xstrata-Merafe Chrome Venture. The transaction is expected to complete in the first half of 2007. The transaction also enables the Bakwena community to participate in any expansion of Rhovan on competitive terms. The transaction, which is expected to be completed in the first half of 2007, completes the facilitation of meaningful black participation in Xstrata's South African operations, according to the ownership provisions of the Mineral and Petroleum Resources Development Act of 2002 ("MPRDA").

Planning for a brownfield expansion at the Rhovan vanadium plant, which will increase plant capacity by an additional 8.5 million pounds of vanadium pentoxide per annum, is at an advanced stage. Regulatory requirements for any future expansion, including approvals under the Minerals and Petroleum Development Act, will be obtained during this process. A capital application is expected to be made to the Xstrata Board during 2007.

Rehabilitation of the Vantech site, adjacent to Xstrata Alloys' Lion operation, is progressing well and remains on track for completion in 2011.

Platinum Group Metals

FINANCIAL AND OPERATING DATA

$m	**Year ended 31.12.06**	Year ended 31.12.05
Revenue	**12**	n/a
EBITDA	**11**	n/a
EBIT	**11**	n/a
Share of Group EBIT	**0.1%**	n/a
Net assets	**71**	n/a
Capital employed	**71**	n/a
Capital expenditure	**58**	-
Expansionary	**58**	-
Total recordable injury frequency rate	**9.7**	n/a
Lost time injury frequency rate	**2.8**	n/a

Markets

The second half of 2006 was marked by a strong rally in the platinum market, propelling prices to a 25-year high of $1,415 per ounce in November 2006. High rhodium prices also further enhanced the profitability of platinum group metals (PGM) producers mining the UG2 reef within the Bushveld Igneous Complex, which has a higher rhodium content. The rhodium price continued its three-year climb reaching a high of $6,275 per ounce in May 2006.The positive outlook for PGM prices is supported by improved supply-demand fundamentals and is expected to continue in the short term. Growth in demand is expected to continue due to the growing European market for auto catalysts, with good potential for this market to grow further in the US in the near future.

Operations

The commissioning of the Mototolo Concentrator during October 2006 as anticipated marked the formal entry by Xstrata into platinum group metals. The first concentrate was delivered to Anglo Platinum's Polokwane smelter towards the end of October 2006. Steady state production for the concentrator is anticipated from February 2007 when design capacity of approximately 200,000 tonnes of run of mine material will be milled and processed. Both Borwa and Lebowa shafts will reach steady state production of approximately 100,000 run of mine tonnes per month during the third quarter of 2007. The early geological problems encountered last year have been fully addressed and the project remains on budget.

In February 2006, Xstrata announced the formation of a black economic empowerment partnership with Kagiso Trust Investments, through which Kagiso has taken a 26% share of Xstrata's 50% interest in the Mototolo joint venture. This has resulted in Kagiso owning a fully participative 13% interest in the earnings from the Mototolo operation, in return for funding its proportionate share of the total capital expenditure required for the project.

Xstrata Aluminum

CONSOLIDATED FINANCIAL AND OPERATING DATA

$m	**Pro forma Year ended 31.12.06**	Pro Forma Year ended 31.12.05
Revenue	**1,395**	1,080
EBITDA	**286**	158
Depreciation & amortisation	**(78)**	(83)
EBIT	**208**	75
Share of Group EBIT	**2.5%**	1.9%
Net assets	**1,313**	n/a
Capital Employed	**1,313**	n/a
ROCE	**15.8%**	n/a
Capital expenditure	**55**	56
Sustaining	**33**	42
Expansionary	**22**	14

Markets

The aluminium market experienced a third consecutive year of supply shortfall with a deficit of approximately 250,000 tonnes during 2006. As at the end of December 2006, combined producer, LME and COMEX inventories remained low, representing approximately 3.6 weeks of global consumption.

Healthy market fundamentals in aluminium pushed the LME aluminium cash price to a multi-year high of $3,275 per tonne on 11 May 2006. The average LME cash price in 2006 was $2,570 per tonne, 35% higher than the 2005 average of $1,898 per tonne. At the end of 2006, the LME price closed at $2,850 per tonne, well above the annual average and prices have remained robust into the first quarter of 2007.

Globally, consumption of aluminium is estimated to have increased by 7% over the previous year. Demand grew strongly in China, up by approximately 20% over 2005 levels to represent nearly a quarter of total global demand, consolidating China's position as the world's largest consumer of primary aluminium. Demand growth from North America and Western Europe was more modest, with a slight decline in consumption in Japan year-on-year.

Global aluminium production increased by approximately 6% in 2006, with China again the largest producing nation, reporting a 19% increase in primary aluminium production over the previous year. Other regions experiencing production growth included the Middle East, South America and Australia, while production from the US and Western Europe declined slightly year-on-year.

In 2007, demand and production from China will continue to be the dominant factors in determining the global supply/demand balance in the aluminium market. Recent analyst forecasts have moved from projecting a small deficit in 2007 to a modest surplus, on the back of more rapid production growth from China. With global demand growth forecast to be at, or near, the levels seen in 2006 and inventory levels already low, any shortfall in this projected production growth should be very supportive of the aluminium price during 2007.

Alumina prices were volatile during 2006, peaking at over $600 per tonne in May before falling to around $200 per tonne by year end. However, spot prices rebounded quickly in the early part of 2007. Analysts had been forecasting a significant surplus in the global alumina market for 2007, but delays to planned expansions and curtailment of marginal capacity should be supportive to spot prices during the coming year. Power costs continue to be a concern for some smelters with operations in Western Europe, the US, and more recently South Africa, experiencing difficulties. Regional power grids in developing countries may continue to come under severe strain, resulting in periods of disruption to supply and loss of aluminium production.

Despite strong demand throughout most of 2006, weak US housing starts and industrial customer de-stocking resulted in a smaller than expected demand growth of only 1.5% for aluminium foil products in the US and Canada. North American imports of Chinese aluminium foil products increased by approximately 20% in 2006. If US trade representative complaints against China's subsidised 13% VAT rebate on exports of aluminium foil and other semi-fabricated aluminium products are successful, this would severely limit the economic viability of these products into the North American market.

SALES VOLUMES

Kt	**Year ended 31.12.06**	Year ended 31.12.05
Jamaica – St. Ann mine*		
Inter-company bauxite sales	2,307.4	2,201.3
Third party bauxite sales	2,235.5	1,857.5
United States – Gramercy refinery*		
Inter-company alumina sales	481.3	477.2
Third party alumina sales	693.9	701.2
United States – New Madrid Primary Plant		
Aluminium	255.6	247.8
United States – Norandal USA, Inc. Aluminium rolled products	185.6	177.9
Primary - Realised aluminium price ($/lb)	120.3	91.0
Norandal - Average fabrication spread ($/lb of foil)	47.8	46.0
*100% sales volumes of which Xstrata's share is 50%		

Operations

Xstrata Aluminum comprises the St Ann bauxite mine in Jamaica and the Gramercy alumina plant, both of which are 50% owned through a joint venture with Century Aluminum Company, the New Madrid primary smelter, supplied by the Gramercy alumina plant, and four rolling mills in the south-eastern United States, capable of producing a range of fabricated products.

Revenue for 2006 rose by 29% compared to the previous year, largely due to higher aluminium and fabrication prices and record production and sales volumes, driven by strong customer demand.

At the St Ann mining operation in Jamaica, production of bauxite increased by 31% to 5 million tonnes (of which Xstrata's attributable share is 50%), but heavy rains during the fourth quarter created logistical constraints on vessels used to deliver bauxite to the Gramercy alumina plant. As a result, production of smelter grade alumina at Gramercy remained constant with 2005 levels of 1 million tonnes.

Production of refined aluminium metal increased by 3% year-on-year at the New Madrid smelter, and record sales of value-added products such as billet, electrical conductor rods and foundry alloys were 5% higher in 2006, adding $11 million to EBIT.

The fabricated products business increased production of rolled aluminium by 8% to 215,000 tonnes in 2006. The new 905 caster at Norandal, installed January 2006, increased cast coil production capacity by 9% and was the main driver of increased third-party sales, up by 4% year-on-year.

Xstrata Aluminum EBIT more than doubled compared to 2005 on a pro forma basis to $208 million, as higher prices and increased volumes more than offset increased natural gas costs and higher power costs at the New Madrid primary smelter.

Operating unit costs benefited from energy efficiency programmes at the New Madrid primary smelter, where a 1% reduction in kilowatt hours required to generate aluminium metal was achieved, partially offsetting a $5 million increase in power costs due to a new power contract effective June 2005.

Unit costs also benefited from improved mill performance at Norandal due to increased throughput and cost improvement projects, especially energy conservation. Despite a natural gas price increase from $7.77 per dekatherm (Dth) in 2005 to $10.28 per Dth in 2006, the impact on conversion costs was offset by improvements in energy efficiencies. Conversion programmes at the Huntingdon plant combined to produce an 8% year-on-year reduction in energy consumption per pound of product.

Norandal USA Inc. and the United Steelworkers agreed to a new three-year contract at the Salisbury Plant in November 2006. The union membership ratified the contract on 20 November 2006, which runs to 20 November 2009.

Developments

The New Madrid primary smelter is currently progressing four projects at a cost of $22 million to achieve improved energy efficiency and increase metal production by 10,000 tonnes per annum by 2011.

Xstrata Coal

Markets

Pacific thermal coal markets

Demand for imported seaborne thermal coal in the Pacific Basin remained strong during 2006 with import tonnages growing by over 8% for the third consecutive year. As in 2005, the majority of 2006 Pacific demand growth was fuelled by the emerging economies of China, India and Latin America, supported by continued growth from the traditional North Asian markets of Japan, Korea and Taiwan.

Growth in Chinese demand for thermal coal pushed domestic Chinese coal prices above import prices. As a result, not only did Chinese thermal coal exports decline by around 11% or 6.5 million tonnes in 2006, but coastal utilities further increased their import requirements, resulting in imports from Australia and Indonesia to China increasing by over 130% or 7 million tonnes in 2006. India faced a similar shortfall of domestic thermal coal and resulted in an increase of approximately 15% in imports. Thermal coal demand into the major markets of Japan, Korea and Taiwan increased by an estimated 2% over 2005 levels, as new coal-fired power stations were commissioned.

As a result of this demand growth and the market's recognition that export volumes from the Hunter Valley were stabilising at levels significantly below initial expectations, the first half of 2006 saw a swift recovery in Newcastle spot prices, increasing from around $40 per tonne in early January and stabilising within the range of $51 to $54 per tonne. Xstrata Coal secured annual contracts prices with the majority of Japanese utilities at around $52.50 per tonne free on board (FOB). The prices were effective for the year commencing 1 April 2006, slightly down on average prices in 2005.

In the second half of 2006, an apparent oversupply in the Pacific induced by de-stocking caused spot prices to slide to around $41 per tonne in late November. However, the continued decline in Chinese export volumes brought buyers into the market to cover Chinese shortfalls and this, combined with the onset of winter buying, led to a rapid recovery in prices. The FOB Newcastle spot price was over $50 per tonne at the close of 2006. Average received prices for Xstrata's Australian thermal coal declined from $51.20 per tonne in 2005 to $46.40 in 2006.

The Asian market accounted for over 75% of Xstrata's managed export thermal coal sales from Australia in 2006 with Japan, Korea and Taiwan remaining dominant. Term and annual contracts comprised 60% of Xstrata Coal's Australian managed export thermal sales in 2006, with the balance sold on the spot market.

Market supply was characterised by surging Indonesian export growth, of which a significant proportion went into Europe, flat exports from Australia and a substantial decline in Chinese exports. Despite the progress made in improving the export coal chain, Australia's export growth in 2006 continued to be constrained by supply-side issues, including production problems at several large New South Wales mines, labour and equipment shortages and ongoing infrastructure constraints. The Hunter Valley coal chain's 'Capacity Balancing Scheme', approved by the Australian Competition and Consumer Commission (ACCC), proved successful in ensuring minimal queuing at the Newcastle port throughout most of 2006. This scheme was annulled in September and subsequently the shipping queue at Newcastle has grown. Following producer and Port Waratah Coal Services agreement, it is anticipated that the ACCC will ratify the reintroduction of a Capacity Balancing Scheme towards the end of the first quarter of 2007.

Xstrata Coal continues to maintain a stable and balanced domestic portfolio to provide geographic and currency diversification. Domestic thermal coal sales remain predominantly long-term contracts with power utilities in both New South Wales and Queensland and represent about 20% of total managed thermal coal sales from Xstrata Coal's Australian operations.

Atlantic thermal coal markets

Atlantic export coal prices strengthened during the first half of 2006 from spot prices of $43 per tonne in January to a peak of above $55 per tonne in March, thereafter stabilising at between $47 and $53 per tonne. Average received prices declined slightly from $48.50 per tonnes in 2005 to $45.80 per tonne in 2006. The European and Mediterranean import market grew by around 8% with imports from the Americas up by around 14% year-on-year. The strong European market largely reflected the robust but volatile energy market in Europe during the year as oil, gas and electricity prices reached record levels.

Although South African export tonnages were constrained during the first half of the year by a combination of rail bottlenecks and mine production disruptions, this was largely offset by improved volumes during the second half, due to a stable performance from the rail network and the recovery of export production. In 2006 total South African export volumes of approximately 67 million tonnes were slightly lower than the 69 million tonnes exported in 2005. Export sales from Xstrata Coal's South African operations were 1% lower than in 2005, and account for about two-thirds of the Group's total South African sales tonnage.

Export volumes from Colombia increased overall by about 7%, despite some production disruptions caused by industrial action and minor impacts from weather and equipment availability. The major portion of this growth went into the Americas with the balance into Europe. Export thermal coal demand in North and South America grew by approximately 14% year-on-year, and this trend is expected to continue. . On a pro forma basis, average received prices declined slightly from $51.72 per tonne in 2005 to $49.30 per tonne in 2006.

The price of carbon credits, allocated and traded under the EU emissions trading scheme, was volatile throughout 2006, fluctuating from a high of €30 per tonne to a low of €6 per tonne. On average, carbon credit prices in 2006 exceeded the prior year average. Nonetheless, seaborne coal exports to Europe in 2006 are estimated to have increased by approximately 8% over the prior year. For the majority of 2006, imported coal remained the least expensive fossil fuel for electricity generation.

The South African domestic market, which accounted for around a third of Xstrata Coal's South African sales volumes, also remained robust during 2006. Supply of higher-grade industrial products remained tight and, together with increasing demand for lower-grade coals from Eskom, supported domestic coal prices. Both new and extended annual contracts for the supply of low quality coal to Eskom contributed to an overall increase in Xstrata's sales to the Eskom market of 15% over 2005 levels. Average received prices from Eskom increased by 4% in 2006 due to inflation-related adjustments coupled with changes in quality mix and delivery bases.

Non-Eskom domestic sales volumes decreased by 20% in 2006, as coal was diverted to meet higher margin export demand. The majority of non-Eskom domestic contracts from Xstrata South African coal operations achieved above-inflation increases, but this was also coupled with a change in quality mix resulting in an average price increase of 22% year-on-year.

Coking coal markets

Term prices for premium quality hard coking coal were established by the BHP Billiton Mitsubishi Alliance (BMA) and the Japanese Steel Mills (JSM) in January 2006 at about $115 per tonne, some 8% lower year-on-year. Prices for lower quality hard coking coals were discounted by a greater percentage, reflecting the increasing supply of these lesser grade coals. Despite a further drop from the record prices achieved in 2004, demand for hard coking coal remains robust and continues to command a high premium over historical prices

Xstrata Coal's hard coking coal prices for the 2006-07 contract year were agreed with term customers in Europe and Asia at an average level of $114 FOB per tonne. During 2006, the vast majority of Xstrata Coal's hard coking coal was sold under long term contracts, with 60% of output going to Asian markets, 24% to Europe, and the balance to the Americas, Africa, Australia and the Middle East. The high premium for hard coking coal during 2006 has resulted in increased interest by non-traditional European markets for Xstrata's high volatile semi-soft coking coal to reduce costs. Prices for Xstrata's semi soft coking coals were settled at an average level above $59 FOB per tonne. Average received prices for Xstrata's hard coking coal remained at a similar level to the previous year, at slightly over $111 per tonne. Japanese steel mills were once again the dominant buyers of coking coal in 2006, accounting for over 60% of Xstrata's total sales including semi soft. Coking coal was predominantly sold under long-term contracts with spot market sales comprising less than 30% of total sales. Steel companies are showing considerable interest in the prime low volatile coking coal produced from Xstrata's new Wollombi mine. Shipments from this operation commenced in the fourth quarter.

Demand for seaborne metallurgical coal remained constant over the course of 2006. Global steel prices strengthened in most regions from the second quarter and despite falling slightly in the second half, remain well above historical levels. Pig iron production increased by 24% in China in 2006, compared to 2.5% annual growth in the rest of the world and just 1% growth in coking coal importing countries excluding China. Lower quality domestic coking coals, rather than imports, have largely fuelled increased Chinese pig iron production, and, as a result of significantly higher export prices, China imported 39% less coking coal in 2006 than in the previous year.

Australian coking coal exports declined marginally during the first half of 2006, principally attributable to production difficulties, skills shortages and a series of planned longwall moves, rather than any market impact. During the second half of the year, production recovered resulting in total Australian coking coal export growth of more than 3 million tonnes for 2006 compared to 2005. Canadian exports remained in line with 2005 levels and lower US coking coal exports were offset by small increases from Poland, New Zealand and Indonesia.

Global steel production forecasts continue to show growth in Brazil, Russia, India and China. Construction of new integrated blast furnaces in Brazil and India in particular, will continue to drive demand growth for imported coking coal whilst further growth is also forecast in Japan, Korea and Taiwan as new coke-making capacity comes on line.

FINANCIAL AND OPERATING DATA

$m	**Pro Forma Year ended 31.12.06****	Pro Forma Year ended 31.12.05**
Revenue: operations†	**3,626**	3,649
Coking Australia	**598**	537
Thermal Australia	**1,887**	1,935
Thermal South Africa	**688**	736
Thermal Americas	**453**	441
Revenue: other	**131**	192
Thermal Australia	**105**	138
Thermal South Africa	**26**	54
Total revenue	**3,757**	3,841
Coking Australia	**598**	537
Thermal Australia	**1,992**	2,073
Thermal South Africa	**714**	790
Thermal Americas	**453**	441

EBITDA	**1,320**	1,588
Coking Australia	**300**	278
Thermal Australia	**622**	812
Thermal South Africa	**175**	256
Thermal Americas	**223**	242
Depreciation & amortisation	**(383)**	(332)
Coking Australia	**(50)**	(34)
Thermal Australia	**(186)**	(155)
Thermal South Africa	**(77)**	(78)
Thermal Americas	**(70)**	(65)
EBIT (before exceptionals)	**937**	1,256
Coking Australia	**250**	244
Thermal Australia	**436**	657
Thermal South Africa	**98**	178
Thermal Americas	**153**	177
Net assets	**6,342**	n/a
Australia	**3,269**	n/a
South Africa	**1,299**	n/a
Americas	**1,774**	n/a
Capital employed	**6,709**	n/a
Australia	**3,497**	n/a
South Africa	**1,438**	n/a
Americas	**1,774**	n/a
Share of Group EBIT	**11.2%**	31.9%
Australia	**8.2%**	22.9%
South Africa	**1.2%**	4.5%
Americas	**1.8%**	4.5%
Return on capital employed*	**14.2%**	n/a
Australia	**20.5%**	n/a
South Africa	**6.6%**	n/a
Americas	**8.6%**	n/a
Capital expenditure	**530**	518
Australia	**307**	404
South Africa	**159**	65
Americas	**64**	49
Sustaining	**235**	226
Expansionary	**295**	292
† Includes purchased coal for blending with mine production		
* ROCE % based on average exchange rates for the period		
**Pro forma including Cerrejón acquisition from 01.01.06 and 01.01.05 for 2006 and 2005 respectively		

Operations

EBIT VARIANCES (pre exceptionals)

	$m
EBIT 31.12.05 (Statutory)	**1,079**
Sales price*	(231)
Volumes	115
Unit cost – real	(2)
Unit cost – coal mining sector inflation	(34)
Unit cost – CPI inflation	(89)
Unit cost – foreign exchange	59
Foreign currency hedging	(56)
Corporate social involvement	2

Other income and expenses	(5)
Depreciation and amortisation (excluding foreign exchange)	(54)
Acquisitions	153
EBIT 31.12.06 (Pro forma†)	**937**

*net of commodity price linked costs

†Pro forma EBIT includes the acquisition of Cerrejón from 01.01.06

Increased volumes across the business contributed $115 million to EBIT and enabled consolidated sales to grow by 7% in 2006. Production volumes and sales increased as a result of capital projects to improve existing operations and the commissioning and ramping up of new projects.

In addition, in March 2006 Xstrata Coal announced the acquisition of a one-third interest in Cerrejón in Colombia, one of the world's largest open-pit coal mines. This acquisition contributed $153 million to EBIT in 2006, on a pro forma basis. Together, increased volumes and the contribution of Cerrejón more than offset the impact of lower received prices for thermal coal and, to a lesser extent, semi-soft coking coal compared to the prior year, which impacted EBIT by $231 million.

Overall, EBIT fell by 25% to $937 million, due to the impact of lower sales prices and ongoing increases in prices for key mining materials, in addition to consumer price index inflation. In particular, the mining industry continues to be heavily affected by increasing costs for labour, fuel and explosives. Nonetheless, increased volumes at existing operations, the commissioning of new projects and the ramping up of the Rolleston coal mine, commissioned in April 2006, enabled the business to contain real unit costs at a similar level to the prior year. Despite South Africa's increased costs year-on-year, real unit costs remained flat due to improved unit costs in Australia, primarily from coking coal.

Australian thermal coal

Consolidated saleable production in 2006 rose to 41 million tonnes, an increase of 7% compared to the previous year, however lower average thermal coal prices and the impact of coal mining sector inflation resulted in EBIT falling by 34% to $436 million.

Export sales increased by 1.3 million tonnes over 2005 and domestic sales of thermal coal increased by 2.6 million tonnes, the latter assisted by the commencement of the Ravensworth West domestic dragline operation in New South Wales and the ramp-up of the Rolleston mine in Queensland. In February 2006, longwall production commenced at Newlands Northern Underground, replacing production from the now closed Southern Underground. The full ramp up of Rolleston resulted in achieving its planned production level of 5 million tonnes for the first full year of operation. Export growth was primarily driven by the Rolleston operation, offsetting decreases in other operations.

After excluding the impact of coal mining sector inflation and revenue-related costs (primarily Government royalties), and despite increased demurrage at the port of Newcastle particularly during the last quarter of the year, real unit cost savings were again achieved in 2006, following on from savings in the two previous years.

Australian coking coal

Production from Xstrata's coking coal business increased by 15% in 2006, reaching 5.6 million tonnes, with sales volumes increasing to 5.4 million tonnes. Increased volumes were primarily driven by new production from the low cost Wollombi deposit at Newlands which commenced production in June 2006, continued growth from the Oaky Creek underground operations and increased coking coal production from Collinsville. Production at the higher cost Oaky Creek open cut operation was curtailed in 2006, benefiting unit costs.

Higher volumes, together with stable sales prices for premium hard coking coal, offset higher mining sector inflation to increase EBIT by 2% to $250 million in 2006.

Excluding coal mining sector inflation and revenue-related costs, real unit cost savings were achieved in the coking coal business in 2006, largely as a result of increased productivity at the Oaky Creek underground operation and new lower cost production at Wollombi.

South Africa

Saleable production increased by 10% to 20.5 million tonnes in 2006, mainly due to additional domestic product from the Tweefontein complex and improved production across operations in the second half of the year. Export thermal coal sales were down slightly year on year (13.3 million tonnes compared to 13.5 million tonnes), due to difficult operating conditions, principally in the first half. These included the impact of high rainfall and difficult geological and mining conditions. Domestic thermal coal sales increased from 6.9 million tonnes in 2005 to 7.1 million tonnes in 2006.

Significant increases in real unit costs in the first half due to difficult operating conditions were largely offset by productivity improvements in the second half, resulting in an overall real cost increase of 7% year-on-year, excluding the impact of mining sector inflation.

Americas

On a pro-forma basis, Xstrata Coal's one third interest in Cerrejón contributed 9.5 million tonnes of saleable product and $153 million to EBIT, slightly ahead of expectations made at the time of the acquisition.

EBIT for 2006 fell by 14% or by $24 million compared to the prior year, due to slightly lower realised sales prices, compounded by the impact of inflation, predominantly as a result of rising global fuel prices. Cost pressures were partially offset by increased export sales volumes. Xstrata's share of sales increased from 8.5 million tonnes to 9.2 million tonnes, in line with planned production expansion.

In January 2007, a two-year collective agreement was signed with the Sintracarbón union at Cerrejón, with no labour disruptions.

Developments

Australia
Capital expenditure for Xstrata Coal's Australian operations decreased to AUD407 million ($307 million) in 2006, with the majority of expenditure incurred in Queensland. Key capital expenditure projects in 2006 included:

- completion of Rolleston Coal mine (AUD67 million in 2006);
- replacement of the existing Newlands coal handling and preparation plant with a new dense medium cyclone plant, enabling the production of additional coking coal product (AUD48 million);
- the upgrade of the fines treatment circuit at Oaky Creek coal handling and preparation plant to increase recoveries of coking coal product (AUD9 million);

Conceptual studies were completed at Wandoan during the year, where the coal resource delineated to date comprises 1.13 billion tonnes of export potential thermal coal in the Surat Basin in Queensland. In addition, Xstrata Coal has taken a 25% interest in the Surat Basin Rail joint venture, a consortium comprising Queensland Rail, Anglo Coal, Australian Transport and Energy Corridor Pty Ltd, and Industry Funds Management. In December 2006, the Premier of Queensland awarded the joint venture consortium a Conditional Exclusive Mandate to develop a 210 kilometre rail link between Wandoan and Banana, allowing access for coal exports from the Surat Basin to the Port of Gladstone.

In June 2006, Xstrata Coal announced the signing of a Heads of Agreement with Caledon Resources plc for the partial sale of its Cook Colliery for a purchase consideration of AUD46 million ($34 million). Located in Central Queensland's Bowen Basin, Cook Colliery produces hard coking, semi-soft and thermal coal products primarily for the export market. The colliery's operating company, Cook Resource Mining Pty Ltd (CRM), is owned by Xstrata Coal. Under the terms of the agreement, Caledon has been granted a sub-lease to mine the Southern region and accepts responsibility for the rehabilitation of the area. CRM retains exclusive ownership of the Northern Region for exploration. The transaction was completed in December 2006.

South Africa

In February 2006, Xstrata and African Rainbow Minerals Limited (ARM) announced an agreement to establish jointly a new, majority black-owned coal mining company, ARM Coal, owned 51% by ARM and 49% by Xstrata Coal. The new company has a 51% interest in the Goedgevonden joint venture. Following the direct acquisition of an additional 10% interest (excluding the Goedgevonden joint venture) by ARM in the South African coal business in August 2006, ARM now (directly and indirectly) holds a 30% interest in Xstrata's South African coal business. This represents meaningful and sustainable black economic ownership and management involvement in Xstrata's South African coal assets and provides a platform for further growth for both partners. ARM Coal has subsequently applied for Richards Bay Coal Terminal port entitlement to support the future development of the Goedgevonden mine.

The Goedgevonden joint venture between Xstrata Coal South Africa and ARM Coal is a major new greenfield, open cut, thermal coal mine at a total investment of ZAR2.9 billion ($392 million). The project will commence upon receipt of the remaining new order mining lease rights. At full production, the Goedgevonden mine will produce 3.1 million tonnes per annum of export thermal coal and 3.6 million tonnes per annum suitable for the domestic thermal markets and will have a mine life in excess of 30 years. The mine is located in the Witbank coalfield, in the Mpumalanga province.

The mine will be developed through a majority black-owned joint venture, the "Goedgevonden JV", in which ARM Coal owns a 51% share. Xstrata Coal South Africa owns the remaining 49%. ARM will appoint the majority of representatives on the Goedgevonden JV management committee, in line with its majority interest. Xstrata will manage the Goedgevonden Project on behalf of the Goedgevonden JV and Xstrata Coal Marketing AG will market all export coal produced by the mine.
Capital expenditure in South Africa increased significantly by 145% compared to 2005 to ZAR1,079 million ($159 million), of which ZAR675 million was incurred on expansionary projects. Major items included ZAR83 million on Southstock 5 seam development and ZAR68 million on initial works at the Goedgevonden open cut project.

Expansionary capital expenditure also included the purchase of Total Coal South Africa's 50% share of the ATC and ATCOM operations, in conjunction with a three-year supply agreement, announced in December 2006. The acquisition enables Xstrata Coal South Africa to mine a single large complex in the Witbank coalfields, benefiting from synergies across various Xstrata Coal sites.

Americas

In May 2006, Xstrata completed the acquisition of one-third of the Cerrejón thermal coal operation in Colombia from Glencore International AG for a cash consideration of $1.7 billion. Cerrejón is a privately-owned, independently-managed joint venture in which BHP Billiton plc, Anglo American plc and Xstrata Coal each own a one-third stake. The acquisition has provided Xstrata Coal with a meaningful interest in one of the world's largest and lowest-cost export open-pit coal mines, with a reserve base in excess of 900 million tonnes.

An expansion is under way to increase Cerrejón's production from 26 million tonnes in 2005 to an annual production capacity of 32 million tonnes in 2008, with further incremental brownfield expansions currently being assessed.

In February 2006, Xstrata Coal purchased a 9.8% interest in Erdene Gold, a Toronto-listed junior Canadian exploration company with interests in Georgia, USA and Mongolia. The investment provides an option to acquire 75% of coal or other mineral tenements based on investing in exploration and feasibility activities in Mongolia. Xstrata Coal's shareholding has been diluted to 6.6% in the past year, following a rights issue.

During 2006, Xstrata Coal undertook exploration and pre-feasibility work on the Donkin coal resource in Nova Scotia, Canada. This included the acquisition of the Donkin lands, dewatering of two 3.7 kilometre tunnels that access the underground coal resource, resource assessments, mining assessments, and environmental studies at a capital cost of $4 million. Feasibility studies will continue throughout 2007.

To manage these interests, a new divisional office has been established in Toronto, Canada.

Xstrata Copper

Financial and Operating Data

$m	Pro Forma Year ended 31 Dec 06 US$m	Pro Forma Year ended 31 Dec 05 US$m
Revenue	**12,508**	**6,927**
Argentina		
Alumbrera	1,457	849
Australia		
North Queensland	1,635	1,158
Canada*	4,560	1,824
Chile		
Collahuasi**	1,320	649
North Chile	1,780	1,414
Peru		
Antamina‡	989	623
Tintaya	735	410
Marketing and Trading	32	-
EBITDA	**5,399**	**2,697**
Argentina		
Alumbrera	1,025	537
Australia		
North Queensland	1,089	594
Canada*	561	169
Chile		
Collahuasi**	967	456
North Chile	429	196
Peru		
Antamina‡	796	508
Tintaya	508	221
Marketing, Trading & other	32	16
Depreciation & amortisation	**(871)**	**(845)**
Argentina		
Alumbrera	(100)	(105)
Australia		
North Queensland	(119)	(106)
Canada*	(130)	(132)
Chile		
Collahuasi**	(234)	(234)
North Chile	(79)	(77)
Peru		
Antamina‡	(109)	(109)
Tintaya	(98)	(82)
EBIT	**4,528**	**1,852**
Argentina		
Alumbrera	915	432
Australia		
North Queensland	970	488

Canada*	431	37
Chile		
Collahuasi**	733	222
North Chile	350	119
Peru		
Antamina‡	687	399
Tintaya	410	139
Marketing, Trading & other	32	16
Share of Group EBIT	**54.3%**	**47.1%**
Argentina	**11.0%**	**10.9%**
Alumbrera	11.0%	10.9%
Australia	**11.6%**	**12.8%**
North Queensland	11.6%	12.8%
Canada*	**5.2%**	**0.9%**
Chile	**13.0%**	**8.6%**
Collahuasi**	8.8%	5.6%
North Chile	4.2%	3.0%
Peru	**13.1%**	**13.9%**
Antamina‡	8.2%	10.5%
Tintaya	4.9%	3.4%
Marketing and Trading	**0.4%**	-
Net Assets†	**14,154**	**n/a**
Capital Employed	**14,665**	**n/a**
ROCE	**33.6%**	**n/a**
Capital Expenditure	**514**	**424**
Argentina	55	43
Australia	180	116
Canada*	128	140
Chile		
Collahuasi**	26	31
North Chile	88	49
Peru		
Antamina‡	8	18
Tintaya and Others	29	27
Sustaining	257	246
Expansionary	257	178

† Includes goodwill allocation on acquisition of Falconbridge

*Canada includes Noranda Recycling that operates businesses in Canada, the United States of America and Asia

** Xstrata's 44% share of Collahuasi

‡ Xstrata Copper's pro rata share of Xstrata's 33.75% interest in Antamina. Xstrata Copper's share is determined by accounting for all product revenue, excluding zinc, offset by its pro rata share of costs which is determined on the basis of revenue earned as outlined above

Markets

Supply side disruptions, strong demand growth and low exchange inventories drove copper prices to new highs in real terms during 2006. The LME copper cash price averaged $3.06 per pound or $6,740 per tonne for the year, representing an increase of 83% over the average price in 2005.

In contrast to 2005, copper demand from the major Western consuming regions was stronger than expected, while apparent Chinese consumption growth has been limited by inventory de-stocking. Global copper exchange inventories increased by more than 96,000 tonnes over the year to 252,533 tonnes at the end of 2006. Much of this increase occurred during the fourth quarter, due to slowing economic conditions in the US as well as inventory de-stocking ahead of the financial year-end. Despite this increase, exchange stocks remained at a critically low level and at the end of 2006 represented five days of global consumption.

The oversupply of copper concentrate that accumulated in 2005 was progressively eroded during 2006 through a combination of increased global smelting capacity and a series of mine production problems in the industry. This tightening concentrate situation drove spot concentrate treatment and refining charges down from $135 per dry metric tonne and 13.5¢ per pound at the beginning of 2006 to around $50 per dry metric tonne and 5¢ per pound by year-end. Further growth in smelting capacity should continue to outstrip mine supply and maintain the downward trend in treatment and refining charges in 2007.

Although slowing economic growth is likely to generate weaker demand conditions in the US during the year, this is likely to be offset by continuing refined copper demand growth in China and Europe, together with an expected end to Chinese inventory de-stocking. These factors, together with the potential for further supply-side disruptions, should help to support another year of strong copper prices.

SALES VOLUMES

	Pro Forma Year ended 31.12.06	**Pro Forma Year ended 31.12.05**
Argentina - Alumbrera †		
Copper in concentrate (t) inter-company (payable metal)	11,724	25,047
Copper in concentrate (t) third-parties (payable metal)	158,522	158,954
Total copper (t) (payable metal)	170,246	184,001
Gold in concentrate (oz) (payable metal)	539,065	507,742
Gold in doré (oz) (payable metal)	80,114	57,297
Total gold (oz) (payable metal)	619,179	565,039
Australia – North Queensland		
Refined copper (t)	208,859	221,317
Copper in concentrate (t) (payable metal)	37,057	61,886
Other products (payable metal)	5,870	8,528
Total copper (t) (payable metal)	251,786	291,731
Gold in concentrate and slimes (oz) (payable metal)	82,714	159,097
Canada		
Refined copper – mined copper (t)	47,517	41,241
Refined copper – inter-company sourced (t)	79,226	131,018
Refined copper – third party sourced(t)	359,807	249,064
Other products inter-company (t) (payable metal)	13,516	14,244
Other products third-parties (t) (payable metal)	3,412	608
Total copper (t) (payable metal)	503,478	436,175

Gold in concentrate and slimes (oz) (payable metal)	774,000	613,000
Chile – Collahuasi*		
Copper in concentrate (t) inter-company (payable metal)	40,184	35,290
Copper in concentrate (t) third-parties (payable metal)	121,585	119,246
Copper cathode (t) (payable metal)	26,995	26,137
Total copper (t) (payable metal)	188,764	180,673
Gold in concentrate and slimes (oz) (payable metal)	-	-
Chile – Lomas Bayas and Altonorte		
Copper cathode (t) (payable metal)	61,931	63,746
Copper anode - inter-company sourced (payable metal)	79,620	131,018
Copper anode – third party sourced (payable metal)	215,590	162,995
Total copper (t) (payable metal)	357,141	357,759
Gold in concentrate and slimes (oz) (payable metal)	23,263	37,202
Peru - Antamina**		
Copper in concentrate (t) inter-company (payable metal)	32,575	33,307
Copper in concentrate (t) third-parties (payable metal)	92,714	91,567
Other products (payable metal)	-	-
Total copper (t) (payable metal)	125,289	124,874
Peru Tintaya		
Copper in concentrate (t) third-parties (payable metal)	77,040	76,938
Copper cathode (t) (payable metal)	37,446	37,381
Total copper (t) (payable metal)	114,486	114,319
Total copper sales (t) (payable metal)	1,467,861	1,333,852
Total gold sales (oz) (payable metal)	1,499,156	1,374,338
Average LME copper cash price ($/lb)	3.06	1.67
Average LBM gold price ($/oz)	599	445

† 100% consolidated figures

* Including Xstrata's 44% share of Collahuasi

** Including Xstrata Copper's pro rata share of Xstrata's 33.75% interest in Antamina

Operations

EBIT Variance

	$m
EBIT 31.12.05 Statutory	**920**
Sales price	1,098
Volumes	(79)
Unit cost – real	(14)
Unit cost – inflation (CPI)	(27)
Unit cost – mining sector inflation	(26)
Unit cost – foreign exchange	14
Corporate social involvement	(9)
Depreciation and amortisation (excluding foreign exchange)	(8)
Other	(11)
Acquisitions	2,670
EBIT 31.12.06 Pro forma	**4,528**

The highlight of the 2006 financial year has been the acquisition and integration of the Tintaya and Falconbridge copper assets within the Xstrata Copper business unit, contributing 74% or $2.7 billion to the business unit's EBIT growth of $3.6 billion for the year.

Pro forma average cash costs (C1) for the combined copper businesses were particularly impressive, showing a reduction from 57.6¢ per pound to 57.2¢ per pound over the corresponding period. The benefits of a favourable mix of by-product credits and lower realisation costs helped to offset an increase in costs related to mining industry inflation. This mining sector inflation continued to exceed CPI inflation during the year, with significant pressures being experienced in the areas of labour, contractors, fuel and energy. Real unit cost performance for the pre-existing Xstrata Copper assets was affected by planned lower head grades at Ernest Henry, as well as a planned smelter re-brick in North Queensland.

Asset capacity utilisation rates have been high, with improved operating efficiencies resulting in increased productivities in key assets. Of particular note were record ore production from the Mount Isa underground operations, record plant throughputs at Tintaya and strong asset utilisations across the Canadian assets.

Xstrata Copper's mined copper production profile more than doubled in 2006 to a pro forma total of over 1 million tonnes of contained metal, owing to the addition of the Falconbridge copper assets and the acquisition of the Tintaya operation in Peru. On a pro forma basis, total copper production of 1.01 million tonnes in 2006 was slightly lower than 1.02 million tonnes in 2005, as strong performances at Mount Isa, Kidd, Collahuasi, Lomas Bayas, Antamina and Tintaya were offset by grade-influenced lower output at Ernest Henry and Alumbrera more than offset a lower production year from Ernest Henry.

Xstrata Copper's mined gold production increased to 786,800 ounces of contained metal, in which a strong gold production performance at Alumbrera more than offset a lower production year from Ernest Henry.

During the Falconbridge integration planning process, Xstrata Copper identified approximately $60 million of annual synergy benefits from the integration of the former Falconbridge copper assets. The progressive implementation of integration plans will see these benefits fully realised during 2007. In addition, a once-off finance re-structuring benefit of $58 million was achieved as a result of the copper asset integration.

The synergies identified through the integration of the Tintaya operation into Xstrata Copper Peru, which totalled $110 million of additional value, have been confirmed and are being progressively realised. A further $50 million of value uplift has already been realised through ongoing operational management initiatives, with a range of other significant initiatives being actively pursued in 2007.

Argentina

Alumbrera

Higher commodity prices and strong gold production increased revenues at Alumbrera by 72% compared to the previous year to $1.5 billion. EBIT rose by 114% to $915 million.

Copper-in-concentrate production at Alumbrera was 4% lower than in the corresponding period, at 180,100 tonnes, due to lower head grades and metallurgical recoveries. This was compensated by a stronger gold production performance, which was 11% higher at 641,160 ounces, reflecting higher gold grades and improved metallurgical performance. Total material mined from the Alumbrera pit was slightly lower than the corresponding period at 112 million tonnes, in line with the plan.

Copper concentrate sales decreased by 8% over 2005 to 170,200 tonnes, mainly due to a carry-over of sales into 2007. Total gold sales were 10% higher than 2005.

Australia

The North Queensland division achieved strong EBIT of $970 million in 2006, a significant increase of 92% over 2005. The stronger copper price was the main contributor to improved profitability, offset slightly by lower sales volumes, inflationary impacts and scheduled lower grade ore from the Ernest Henry operation.

Overall, the North Queensland operations produced 278,100 tonnes of copper in concentrate in 2006, a decrease of 9% over 2005 production, as increased production from Mount Isa was offset by lower head grades and production levels at Ernest Henry.

At the Mount Isa underground copper operations, important milestones were achieved during the period with full-year tonnages of ore hoisted and milled reaching 6.2 million tonnes and 6.1 million tonnes respectively, both representing new production records for Mount Isa. The increased ore production, 11% higher than in 2005, together with higher copper head grades of 3.42% compared to 3.36% in 2005, contributed to a record copper-in-concentrate production of 194,100 tonnes from Mount Isa, which was a 9% increase over 2005.

At Ernest Henry, operating performance was significantly influenced by planned lower copper head grades at the mine, 27% lower at 0.89%. Continued improvements in the maintenance and operations plan for the concentrator resulted in record annualised plant runtime of 94% of total time, although the harder ore treated reduced throughputs by 10%. Overall Ernest Henry production was 35% lower than the previous year at 84,000 tonnes of copper in concentrate.

Copper smelter production was 3% lower than in 2005, predominantly due to a planned month-long shutdown of the copper smelter in September 2006 to re-brick the IsaSmelt furnace and to enable the commissioning of the second Rotary Holding Furnace. The Townsville copper refinery produced

209,200 tonnes of saleable cathode, 5% lower than in 2005, due to the lower anode supply from the Isa smelter.

Canada

Xstrata Copper Canada comprises the former Falconbridge assets of Kidd mining and metallurgical divisions, the Horne Smelter, the Canadian Copper Refinery (CCR) and Noranda Recycling. Strong copper prices and higher sales volumes from increased production boosted revenue by 150% to $4.6 billion and led to a significant increase in EBIT to $431 million in 2006 on a pro forma basis.

At Kidd mine, ore production increased by 6% to 2.5 million tonnes as additional mining areas became available following the completion of the Mine D expansion project. Copper head grades rose slightly to 2.05% while zinc grades were 15% lower at 5.3%.

The Kidd mill processed 2.6 million tonnes of ore from Kidd mine and a record 0.9 million tonnes of Montcalm copper-nickel ore, up by 14% and 17% respectively compared to the prior year. Copper in concentrate production increased by 18% to 50,400 tonnes, while zinc in concentrate was 4% lower due to lower feed grades.

The Kidd smelter produced 129,000 tonnes of blister copper, an improvement of 8% over 2005, when output was impacted by a strike. The Kidd copper refinery produced 127,900 tonnes of cathode, an improvement of 15% over 2005 due to increased ore production and no industrial action in 2006.

The Horne smelter processed 843,200 tonnes of feed in 2006, an increase of 18% over 2005 and the highest volume processed since 1998. Anode production rose 26% to 185,000 tonnes compared to the previous year.

Cathode output at the CCR refinery set a new production record of 368,300 tonnes, 21% higher than in 2005. Higher production rates at the Horne smelter, coupled with a new anode supply agreement with CVRD/Inco from its Sudbury operations contributed to the higher production rates. The refinery successfully demonstrated its capacity to process anodes that are high in nickel content.

In the recycling operations, volumes of direct smelter feed increased by 43% to 84,000 tonnes.

Chile

Collahuasi

Xstrata acquired a 44% interest in the Collahuasi mine in northern Chile's Region I through the Falconbridge acquisition. On a pro forma basis, Xstrata's attributable share in Collahuasi realised revenues of $1.3 billion in 2006, an increase of 103% over 2005. Xstrata's share of EBITDA more than doubled to $967 million and EBIT increased by 230% to $732 million in 2006 compared to the previous year on a pro forma basis.

Xstrata's share of Collahuasi's copper-in-concentrate production for 2006 increased 4% to 167,300 tonnes, and benefited from higher ore volumes treated in the second half of the year. Xstrata's share of copper cathode production from the SX/EW plant was marginally lower at 26,300 tonnes.

North Chile

The North Chile division comprises the former Falconbridge assets of the Altonorte smelter and the Lomas Bayas mine. Financial performance in 2006 was positively influenced by the buoyant commodity price environment and a strong operating performance, particularly in the second half of the year. Revenue increased by 26% to $1.8 billion in 2006, while EBIT rose by 195% to $351 million.

The Lomas Bayas mine achieved a record full-year cathode production of 64,300 tonnes, 2% higher than the prior year. At the Altonorte smelter, copper anode production in 2006 of 282,000 tonnes was 5% lower than the corresponding period, with an improved operating performance in the second half. A new three year labour agreement was achieved with the workforce in December with minimal disruption to the operation.

Peru

Antamina

Xstrata has a 33.75% interest in the Antamina copper-zinc mine in Peru's Ancash department. Xstrata's attributable share of Antamina's financial performance is divided between the Xstrata Copper and Xstrata Zinc business units on the basis of sales revenue. Sales volumes of both copper and molybdenum metal increased in 2006 at Antamina, reaping the benefit of the strong commodity price environment. In particular, molybdenum sales were 9% higher, benefiting from improved recoveries, 8% higher than the previous year, following improvements made to processing circuits late in 2005. On a pro forma basis, Xstrata Copper's attributable share of revenue increased by 59% from $623 million to $989 million in 2006. The corresponding attributable EBIT increased by 70% from $404 million to $687 million.

The overall concentrator throughput in 2006 remained at a similar rate to 2005, as lower throughput for copper-zinc ores, due to harder rock, was offset by higher copper-only ore milling rates. Copper and molybdenum head grades and copper recovery improved marginally year on year, and as a result Xstrata's share of copper-in-concentrate production increased by 3% to 129,700 tonnes.

Tintaya

Xstrata acquired the Tintaya operation from BHP Billiton in June 2006. Revenue increased 79% to $735 million and EBIT rose 195% to $410 million in 2006 compared with 2005, on a pro forma basis. The operating performance at Tintaya was characterised by record full-year mill and oxide plant throughputs and a range of efficiency initiatives implemented during the second half of the year. Total material mined of 71.6 million tonnes was 11% higher than 2005, due to haulage and pit phase optimisation. Mill throughput increased by 11% and concentrate production was 10% higher than in 2005. Oxide ore processed was 8% higher than the previous year. Copper-in-concentrate produced was 6% higher than the corresponding period, at 78,300 tonnes, and cathode copper from SX/EW was 3% higher at 36,700 tonnes. Gold in concentrate production of 40,100 ounces was 23% higher compared to 2005.

Developments

Sustaining capital expenditure for 2006 was slightly higher than 2005 at $257 million and is expected to increase in 2007 due to a number of key initiatives. These include further underground development work at Mount Isa to facilitate further planned production increases, environmental and plant refurbishment projects in Canada, the extension and improvements of the leach pads and plant at Lomas Bayas as well as further water borefield exploration at Collahuasi.

Major expansionary capital expenditure items for 2007 include the completion of the smelter capacity expansion project at Mount Isa and the construction and completion of the molybdenum plant at Alumbrera.

Xstrata Copper now holds the most attractive project development pipeline in the copper industry. Five major projects are currently at various stages of evaluation. The total project development budget expenditure for 2007 is approximately $90 million as work progresses on all of these projects.

Argentina

Alumbrera

The Alumbrera concentrator throughput expansion from 37 million tonnes per annum to 40 million tonnes per annum was successfully commissioned in November 2006. The project was delivered 35 days ahead of the scheduled start up date and completed within the original budget of $15.5 million.

A project to construct a molybdenum flotation plant adjacent to the existing Alumbrera concentrator was approved in July 2006. The new plant is expected to produce more than 2,000 tonnes of molybdenum in concentrate per annum. The project, with a budgeted cost of $15.5 million, is scheduled for commissioning in July 2007.

An ongoing ore delineation drilling programme in the Alumbrera pit, undertaken both within the existing ore envelope and for extensions at depth, confirmed 40 million tonnes of additional ore reserves and was announced in August 2006, as part of the mid-year reserve statement. The mine plan was re-optimised based on a new geological model with additional mineralisation, which, together with improved final pit slope angles, resulted in an increase in contained metal reserves of 8%

Exploration drilling at the Xstrata-owned Filo Colorado copper porphyry prospect near the Alumbrera mine commenced in December 2006, following the completion of access road construction in November. Results from the drilling programme are expected in the first half of 2007.

El Pachón

A pre-feasibility study into the development of the large El Pachón copper deposit in San Juan province commenced in 2006. Completion of the study is expected by the end of 2007. Infrastructure support options in both Argentina and Chile are currently being investigated. Access to the site was achieved in late October after the 159 kilometre access road was cleared of snow. A total of 20,500 metres of drilling is planned around the resource area. Environmental baseline studies are also under way.

Australia

North Queensland
The ore definition programme at Mount Isa has yielded a further 7 million tonnes, equivalent to an additional year of underground ore reserves. An initial Mineral Resource of 72 million tonnes at 1.2% copper has also been defined in the low grade 500 ore body at Mount Isa. Pre-feasibility work on this resource and the surrounding "halo" mineralization surrounding the 1100 ore body will now commence in 2007. Exploration activity in the Mount Isa-Cloncurry region of north-west Queensland continues.

Access development to the Northern 3500 underground copper ore body at Mount Isa's Enterprise copper mine was completed at the end of 2006, with the first stope extracted in December 2006 at a total capital cost of AUD38 million. Production from this ore body will now be progressively increased during 2007 to enable this additional high-grade mining zone to sustain the Enterprise mine's rated capacity of 3.5 million tonnes per annum and improve the utilisation of the existing hoisting and concentrator capacity.

The copper smelter and refinery capacities will continue to be expanded to the planned production rate of 300,000 tonnes per annum during 2007 with the completion of a series of projects. This is designed to match the total copper in concentrate production from the Mount Isa and Ernest Henry copper mines.

Canada

In 2006 the Mine D expansion project was completed at Kidd mine. The project added 14.6 million tonnes of reserves, extending the life of the mine to 2016, at a total capital cost of approximately C$664 million, C$10 million of which is budgeted for 2007. Developed ore reserves now extend to a depth of 8,800 feet.

CCR completed a number of installations during 2006 to permit the processing of nickel-rich anodes from CVRD/Inco. These included automated sampling equipment, nickel sulphate filtering equipment, new slimes leaching autoclaves and environmental control equipment. Subsequent to a successful commissioning period, CCR successfully processed 90,000 tonnes of CVRD/Inco anodes by the end of 2006.

Chile

North Chile

Xstrata Copper is completing feasibility studies into a further expansion to the Altonorte smelter that would increase capacity by 30% to process approximately 1.2 million tonnes of copper concentrate a year, producing 400,000 tonnes of copper anode per annum. If approved, expansion construction activities would commence in 2007 and reach full production in 2009. The expansion includes the construction of a new acid plant. Following completion, Altonorte would be the fourth largest copper smelter in the world.

At Lomas Bayas, Xstrata Copper is reviewing two key projects that are at the pre-feasibility stage. First, the Lomas expansion case has the potential to expand Lomas Bayas production by 15% to 75,000 tonnes per annum at an estimated cost of $65 million. Second, the Lomas II project has the potential to extend the life of the Lomas Bayas mine from 2012 at the expanded rate until 2020 by exploiting the Fortuna de Cobre deposit, three kilometres away. A decision on these projects is expected during 2007.

El Morro

In 2006, delineation drilling at the La Fortuna ore body was closed to a 50 metre grid to depths of over 600 metres below surface, totalling 68,800 metres of mostly core drilling in 170 boreholes. Drilling included 4,877 metres in 16 large diameter core holes that were used for laboratory scale metallurgical test work. An updated Mineral Resource estimate was published in November of 490 million tonnes at a grade of 0.59% copper and 0.52 grams per tonne gold using a 0.3% copper cut-off. Based on this and other support work, a pre-feasibility study was completed towards the end of the year. . A feasibility study is planned to be undertaken on this project during 2007. Xstrata Copper holds 70% of El Morro. Metallica Resources owns the remaining 30%.

Collahuasi

Xstrata and its joint venture partners are undertaking a joint strategic business review of Collahuasi during the first half of 2007, with an objective of developing a revised strategic business plan to maximise the value of Collahuasi for its owners.

Peru

Tintaya

A project to purchase and install a replacement secondary crusher, together with related modifications to the crushing circuit, was approved in October 2006. This project, with a budgeted cost of $8 million, is expected to increase mill throughput by 11%, and is scheduled for completion in June 2007.

A near-pit exploration and reserve extension programme commenced during 2006 and will continue throughout 2007 with the objective of confirming and extending the ore reserve base at the mine. In addition, a Mineral Resource Statement has been published for the nearby Antapaccay deposit, which identifies a total current resource of 472 million tonnes at 0.74% copper. A $7 million in-fill drill programme and pre-feasibility study has now been approved for this significant deposit, which is located just 9 kilometres from the Tintaya plant infrastructure. The drilling programme, involving 40,000 metres of drilling, will be completed by the end of 2007.

Antamina

An incremental expansion to the Antamina concentrator was approved in November 2006 to increase concentrator throughput capacity by 10%. The project, which includes the installation of a newly designed pulp lifter, a pebble crushing circuit and conveyance system upgrades, at a cost of $37 million, is scheduled for commissioning in January 2008.

Las Bambas

During the year, 100,000 metres of diamond drilling were completed at Las Bambas, focused on expanding the resources at Ferrobamba, Chalcobamba and Sulfobamba. In addition, initial drill testing of the Charcas and Azuljaja prospects was undertaken. To date, Xstrata has accumulated a total of 156,000 metres of drilling on the project. Based on 2006 drill results, an upgraded total Mineral Resource estimate has been established of 508 million tonnes at a grade of 1.14% copper, 220ppm molybdenum and 0.11 grams per tonne gold at a cut-off grade of 0.5% copper. This substantial increase in mineral resources continues to provide encouragement about the ultimate potential of this exciting mineral district. A project covering an additional programme of 85,000 metres of drilling for 2007, principally covering the currently known deposits of Ferrobamba, Chalcobamba and Sulfobamba, as well as a broader regional exploration programme, has been approved for 2007.

A two-year environmental baseline study was initiated in 2006 and conceptual studies will commence in 2007, slightly ahead of the original schedule.

Philippines

Tampakan

Xstrata gave notice of intent to exercise its option to acquire 62.5% of the Tampakan copper-gold deposit in the Philippines on 21 December 2006. Completion of the option exercise and the corresponding transfer of management control to Xstrata Copper is scheduled for 30 March 2007. In 2006, Indophil Resources sole-funded and managed a pre-feasibility study that was completed and delivered to Xstrata in September. Xstrata elected to sole-fund additional work during the period 30 September to 21 December 2006 prior to exercising its option. The Mineral Resource estimated for Tampakan currently stands at 2 billion tonnes at 0.59% copper and 0.23 grams per tonne gold at a cut-off grade of 0.3% copper. During 2007 the focus of Xstrata's activities will be to conduct additional optimisation studies to identify a project development case, to be evaluated in a full feasibility study.

Papua New Guinea

Frieda River

Xstrata holds a 72% interest in the Frieda River copper-gold porphyry project. Its joint venture partners are Highlands Pacific Limited (17%) and Japan's OMRD (11%). Prior to 2012, Xstrata may elect to acquire a 72% interest in the adjacent high grade copper-gold Nena deposit for a cash payment of $10.8 million and the completion of a feasibility study within five years. The mineral resources on the property consist of 434 million tonnes at 0.60% copper and 0.38 grams per tonne of gold in the Horse-Ivaal-Trukai porphyry deposit and 42.7 million tonnes at a grade of 3.09% copper and 0.59 grams per tonne gold in the Nena epithermal deposit. Good potential exists to increase the mineral resource inventory. A scoping study is under way to examine infrastructure options and metallurgical test work has begun on mineralization from both deposits.

Xstrata Nickel

FINANCIAL AND OPERATING DATA

$m	**Pro Forma Year ended 31.12.06**	Pro Forma Year ended 31.12.05
Revenue	**3,364**	2,161
INO†	**2,657**	1,774
Dominican Republic	**707**	387
EBITDA	**1,386**	721
INO†	**1,034**	600
Dominican Republic	**352**	121
Depreciation & amortisation	**(455)**	(388)
INO†	**(412)**	(353)
Dominican Republic	**(43)**	(35)
EBIT	**931**	333
INO†	**623**	247
Dominican Republic	**308**	86
Share of Group EBIT	**11.2%**	8.5%
INO†	**7.5%**	6.3%
Dominican Republic	**3.7%**	2.2%
Net assets	**6,719**	n/a
Capital Employed	**6,797**	n/a
ROCE	**15.4%**	n/a
Capital expenditure	**372**	367
INO†	**346**	345
Dominican Republic	**26**	22
Sustaining	**162**	162
Expansionary	**210**	205
† Includes Canadian mines and Nikkelverk refinery		

SALES VOLUMES

	Pro Forma Year ended 31.12.06	**Pro Forma** Year ended 31.12.05
North America – INO		
Total nickel (t) (payable metal)	**82,257**	85,374
Copper in concentrate (t) inter-company sales (payable metal)	**24,948**	21,729
Total copper (t) (payable metal)	**65,040**	59,470
Dominican Republic – Falcondo		
Ferronickel (t) (payable metal)	**31,074**	26,289
Europe – Nikkelverk		
Refined nickel from own mines (t) (payable metal)	**45,471**	53,973
Refined nickel from third parties (t) (payable metal)	**36,786**	31,401
Total nickel (t) (payable metal)	**82,257**	85,374
Total nickel sales (t) (payable metal)	**82,257**	85,374
Total ferronickel sales (t) (payable metal)	**31,074**	26,289
Total copper sales (t) (payable metal)	**65,040**	59,470
Total cobalt sales (t) (payable metal)	**3,763**	3,836
Average LME nickel cash price ($/lb)	**10.96**	6.69

Average LME cobalt cash price ($/lb)	**14.83**	14.06
Average LME copper cash price ($/lb)	**3.06**	1.67

Markets

Global consumption of primary nickel is estimated to have increased by 12% in 2006, principally driven by strong growth in the stainless steel market, which accounts for approximately two thirds of global nickel demand. Significant de-stocking of the stainless steel market in the latter part of 2005, together with strong global economic growth in 2006, drove increased demand for stainless steel during the year. Global stainless steel production reached record volumes in the first half, boosted by the commissioning of an estimated nearly 2 million tonnes of new stainless steel production capacity in China. Seasonal summer shutdowns at European and North American mills temporarily offset some of the demand pressure for nickel, leading to a more balanced physical market. However, with order books at the mills booked into the first quarter of 2007, previous production rates were quickly resumed and continued to the end of the year. As a result, stainless steel production for 2006 is estimated at 28 million tonnes, an increase of some 14% from the previous year.

Demand was also very strong from non-stainless steel sectors, such as foundry and nickel alloys, and especially from the aerospace, oil and gas, and power generation industries.

On the supply side, more than 40,000 tonnes of nickel production losses were announced during the course of 2006, contributing to tightness in the market. With many nickel producers operating at high capacity utilization rates and postponing or forgoing maintenance shutdowns, there is a greater risk of future potential disruptions to operations in 2007 and beyond. Elevated nickel prices in 2006, together with a 45% increase in stainless steel production by Chinese mills, also led to the emergence of a new source of primary nickel. Chinese ferronickel and pig iron plants began importing significant quantities of low-grade laterite nickel ores from the Philippines, for conversion in blast furnaces into low grade nickel pig-iron, producing between 20,000 and 40,000 tonnes of contained nickel. Break-even costs for this high cost, marginal supply are estimated by market analysts to be in the range of $8 to $11 per pound. While Chinese stainless steel producers are likely to increase imports of laterite nickel ores in 2007, this additional supply, together with imported and domestically produced refined nickel, will be absorbed by planned expansions in stainless steel production. As a result, the net impact on the global nickel market is likely to be neutral.

The nickel market is estimated to have recorded a deficit of 34,000 tonnes in 2006, with most of the deficit having occurred during the first seven months, as evidenced by the run-down of LME stocks during the period. Strong physical demand for nickel and tight nickel supply, together with investment fund interest in commodities, helped to fuel an unprecedented rise in the LME nickel cash price from $6.25 per pound ($13, 786 per tonne) at the start of the year to around $15.74 per pound ($34,700 per tonne) in late August and later peaking at $16.16 per pound ($35,635 per tonne) in December. For the latter part of the year, the market remained in equilibrium, as LME stock levels remained within a narrow range, finishing the year at 6,600 tonnes, representing 1.5 days of global consumption, and with prices trading in the range of $13 to $16 per pound ($28,000 to $35,000 per tonne). The average LME nickel cash price more than doubled compared to the previous year, reaching $10.96 per pound ($24,155 per tonne), up from $6.68 per pound in 2005 ($14,732 per tonne).

Demand is expected to remain strong from the non-stainless steel sector and particularly from super alloys producers in 2007. However, overall demand growth for nickel is expected to moderate somewhat during the year. In addition, with a number of major producers sold out and LME inventories at critically low levels, the nickel market will not be able to accommodate a deficit, and cannot sustain global nickel demand growth in excess of 4% year-on-year. Importantly, while nickel supply is forecast to increase by 7% or around 95,000 tonnes in 2007, this additional supply will not be enough to satisfy anticipated demand, even when factoring in a decelerating economic cycle.

Under such conditions, the short and mid-term price outlook remains favourable with prices expected to remain well above long-term averages. The tightness of the market and further potential supply shocks are also likely to lead to price volatility in 2007. Early in the first quarter, LME stocks were drawn down to record lows below 3,000 tonnes, prompting the LME price to rise above $40,000 per tonne.

Operations

Xstrata Nickel achieved record financial performance in 2006. Revenue rose by 56% to $3,364 million compared to the prior year, primarily due to very strong nickel prices. A 3% year-on-year reduction in the output of refined nickel was mostly offset by a 4% increase in ferronickel output at Falcondo. On a pro forma basis, EBIT rose by 180% to $931 million, compared to $333 million for 2005. The full benefit of higher sales prices and higher volumes was tempered by the strengthening of the Canadian dollar, higher oil prices, rising labour costs and increased royalties payments linked to higher metal prices.

On a consolidated basis, post by-product credits, nickel cash costs fell by 7% to 2.77¢ per pound, bolstered by stronger copper and precious metal production and robust copper and precious metal prices. Ferronickel cash costs increased by 18% to 5.18¢ per pound, primarily due to higher oil prices.

INO

Xstrata Nickel's Integrated Nickel Operations (INO) comprise the Sudbury mines and smelter, Montcalm, and Raglan mine in Canada, together with the Nikkelverk refinery in Norway. Lower levels of ore feed from Sudbury, combined with custom matte feed shortfalls in the second and third quarters, resulted in lower overall sales volumes for the year, down by almost 4% to 82,300 tonnes. This was more than offset by the impact of record sales prices. EBIT was also impacted by increased unit costs from the strengthening of the Canadian dollar, which impacted EBIT by $40 million in 2006, and inflation-related input costs, such as labour compensation and royalties.

Sudbury and Montcalm

Mined nickel production at Sudbury operations was impacted by lower nickel ore grade which fell to 1.11% compared to 1.16% in 2005, and poor ground conditions at the Thayer Lindsley mine. As a result, the amount of mined ore processed through Sudbury's Strathcona mill declined by 13% to 1.89 million tonnes. This decline was largely offset by a significant increase in custom ores milled, which rose more than four-fold to 365,800 tonnes compared to 73,300 tonnes in 2005.

The Montcalm mine set a production record in 2006 for net metal nickel produced at 10,600 tonnes, surpassing the 2005 level by 17%. Production of matte at the Sudbury smelter decreased by 2% to 112,400 tonnes, primarily due to lower mine concentrate tonnages, lower feed grades in the first half of the year, and a three-week vacation shutdown in July. The decrease was partially offset by a higher volume of custom feed concentrate.

A new three-year labour agreement was signed with production and maintenance employees at Sudbury in early February 2007, with no labour disruptions.

Raglan

The Raglan mine in the Canadian Arctic increased milled production by 14% to 1,062,400 tonnes. Higher mill throughput was achieved as a result of a mill optimization project, the first phase of which was commissioned in October 2005. The second phase is expected to be completed in early 2008. The benefits of this programme were partially offset by the impact of lower ore grade which fell from 2.84% in 2005, to 2.56% in 2006.

Nikkelverk
Production at the Nikkelverk refinery was unfavourably impacted by the shortfall in matte feed from the Sudbury mines and lower refinery custom matte feed between May and August. Refined nickel production decreased to 82,000 tonnes from 85,000 tonnes in 2005. However, an annualized production capacity rate of 86,000 tonnes of nickel was achieved during the earlier and later months of the year. Copper production at the refinery reached a new record of 39,700 tonnes, up 3% from 2005. Cobalt production remained at a similar level to the previous year at 4,900 tonnes, while new records for refined platinum production and rhodium production were achieved during 2006.

Falcondo
Falcondo, a fully-integrated ferronickel operation in the Dominican Republic, increased sales volumes by 18% to 31,100 tonnes of ferronickel, compared to 26,300 tonnes in 2005. This increase is attributable largely to a drawdown of inventory during the first quarter of 2006, which had been built from late 2005. Increased sales volumes and high nickel prices were partially offset by increases in production costs. Fuel accounts for nearly 70% of Falcondo's costs, and in 2006, oil prices rose by 20% to around $59 per barrel, compared to $49 per barrel in 2005. The higher oil prices resulted in an EBIT impact of $39 million.

Production increased by 4% to 29,700 tonnes, as a result of increased process plant throughput and extra nickel from a new revert recovery plant commissioned in 2006. New records for mining and reclaimed ore tonnages and calcine throughput were also achieved in 2006, delivering 5 million wet metric tonnes and 2.1 million dry metric tonnes, respectively.

Developments

Koniambo Project
Development of the 60,000 tonnes per annum Koniambo ferronickel project in New Caledonia's North Province continued in 2006, following receipt of the project's primary operating and construction permits in December 2005. Detailed engineering and procurement activities progressed well. All major technology packages for the nickel smelter were awarded, and major contracts for the power plant and primary infrastructure were tendered.

In September, Xstrata Nickel (49%) and its partner SMSP (51%) announced that due to resource and cost pressures in the global construction market, the project would enter a renewal phase with an emphasis on cost containment and execution planning. The project has made notable progress toward fiscal, legal and regulatory stability agreements with the relevant levels of government in New Caledonia. It is anticipated that formal agreements will be in place by the second quarter of 2007.

In February 2007, Koniambo Nickel announced the commencement of early construction activity on site, including site access, construction facilities (including construction offices and the starter camp), construction services and utilities (water and power).

Kabanga Nickel
The Kabanga Nickel project is a 50/50 joint venture with Barrick Gold Corporation in Tanzania. In February 2007, Xstrata Nickel announced a tranche of $95 million funding, satisfying the initial joint venture funding obligation of $145 million in total. The initial $50 million funding was committed in May 2005. An extended scoping study phase was concluded in November, resulting in a substantial

increase to the Kabanga mineral resource, currently estimated at 46 million tonnes (inferred and indicated), grading 2.7% nickel, with a 1% Ni-Eq cut off grade.

A pre-feasibility study was initiated in December 2006 and will include continued exploration work, delineation of the current resources to upgrade the mineral resource classification to the indicated and measured categories, geotechnical, hydrological and project engineering to support final design criteria, a comprehensive Social and Environmental Impact Assessment study, and further definition of the capital and operating costs for development of the project.

Araguaia Exploration

During the year, 26,000 metres of diamond drilling were completed on the Araguaia project in Brazil, focused on the two known zones of nickel laterite mineralization at Serra do Tapa and Vale dos Sonhos. The resource base continued to expand during the year and now stands at 61.8 million tonnes at 1.63% nickel at a 1.2% nickel cut off grade; including 43.9 million tonnes at 1.62% nickel in Serro do Tapa, and 17.9 million tonnes at 1.64% nickel in Vale dos Sonhos.

These encouraging results have given sufficient confidence to increase the drilling programme by 50%, primarily focused on additional drilling at Serro do Tapa and Vale dos Sonhos to provide the necessary geological information to begin the scoping study in 2007. Additional exploration drilling is also planned on nearby targets with known nickel mineralization identified in wide-spaced scout drilling using remote sensing methodologies proprietary to Xstrata.

Sudbury

Nickel Rim South Project

The Nickel Rim South Project is situated in the East Range of the Sudbury Basin, which is home to existing Xstrata Nickel mines and metallurgical processing facilities. The project is currently in the early stage of development and entails the construction of surface and underground works to facilitate an extensive underground definition drilling programme and rapid ramp-up to 60% of the ultimate 1.25 million tonne per annum production rate in 2009.

The Deposit Definition Phase of the project remains on schedule to be completed in the fourth quarter of 2008 within the initial budget of C$627 million ($538 million). Most of the surface infrastructure has been constructed and is operational. Shaft sinking is more than 80% complete. Preliminary underground drilling results have shown mineral location, thicknesses and grades to be consistent with expectations. Underground lateral development will commence in 2007 and most of the definition drilling will be undertaken in 2008. To date, environmental and safety performance at the project has exceeded industry benchmarks with zero critical or significant environmental incidents, a lost time injury frequency rate of 0.89 per million work hours, and a total recordable injury frequency rate of 16.46 per million work hours.

Fraser Morgan Project

In November 2006, capital expenditure of C$18 million ($16 million) was approved for the first phase of the Fraser Morgan nickel project, located adjacent to the existing Fraser Mine in Sudbury, Canada. This first phase is scheduled to be completed by the second quarter of 2007 and will include the completion of a pre-feasibility study, definition drilling, equipment procurement, and infrastructure upgrades on the 3400-foot level of the current Fraser mine to allow for project development and for potential future ore handling.

Subsequent development phases will be subject to approvals in the second and third quarters of 2007 and mine production could start as soon as 2009. When brought into production, Fraser Morgan will contribute an estimated 7,200 tonnes of refined nickel per year over its seven-year expected mine life.

Recycling plant
Following detailed engineering and pilot testing, completed at the end of the first half, construction work commenced to build a new recycling plant at the Sudbury smelter in September. The total investment for the project is C$21.4 million ($19 million) and commissioning is scheduled in July 2007. The new plant will allow increased custom feed capacity for materials such as nickel-cobalt catalysts, nickel plating sludges and lithium ion/nickel metal hydride batteries by eliminating restrictions on moisture and oil content.

Falcondo
Falcondo commissioned several significant projects during the year, with an aggregate investment of $26 million.

Exploration was initiated at the Loma Ortega 3 area, an extension of the operating Loma Ortega mine. This exploration programme will be completed during 2007.

A project to assess the potential to switch Falcondo's primary source of energy from naphtha produced at site to coal is currently under way. The project is examining the potential to decrease operating costs, using simple rotary kiln technology to reduce the furnace feed. The project will also permit the evaluation of various expansion scenarios.

The Loma Miranda area, 25 kilometres from the Falcondo plant site, was drilled in the 1980s and has 12.4 million tonnes of resources at 1.58% nickel. During 2007, the potential for increased ore reserves at the area will be assessed.

Raglan
Exploration activities at Raglan in 2006 added 2.67 million tonnes of resources grading 3.0% nickel and 0.8% copper. Raglan now contains a total resource of 25.7 million tonnes grading 3.0% nickel and 0.9% copper.

In November 2006, capital expenditure of $45 million was approved to refurbish the existing Deception Bay wharf installations. The current wharfs are 35-years old and are used during nine months of the year to bring supplies to the Raglan site and to send nickel-copper concentrate to Quebec City. The project has now entered the engineering, procurement, and construction management stage, and construction will start in June 2007.

Raglan's permanent accommodation facility will be expanded during 2007 at a total capital cost of C$50 million ($44 million). The project will add 60 temporary rooms and 210 permanent rooms to the existing complex. This will allow the dismantling of some of the older temporary camps and add flexibility to the Raglan site operations. Construction is expected to start during the first quarter of 2007, to allow transportation to site during the northern hemisphere summer months, with an anticipated completion date during the first quarter of 2008. Once completed, the additional accommodation will provide extra capacity required for short- and long-term expansion plans at Raglan.

Xstrata Zinc

FINANCIAL AND OPERATING DATA

$m	**Pro Forma Year ended 31.12.06**	Pro Forma Year ended 31.12.05
Revenue	**4,774**	**1,997**
Zinc lead Australia	470	240
Zinc Europe	2,465	951
Lead Europe	363	258
Zinc North America*	1,355	472
Zinc Peru - Antamina**	121	76
EBITDA	**1,946**	**398**
Zinc lead Australia	513	125
Zinc Europe	540	156
Lead Europe	12	22
Zinc North America*	782	47
Zinc Peru – Antamina**	99	48
Depreciation & amortisation	**(273)**	**(212)**
Zinc lead Australia	(33)	(28)
Zinc Europe	(33)	(32)
Lead Europe	(4)	(4)
Zinc North America*	(170)	(130)
Zinc Peru - Antamina**	(33)	(18)
EBIT	**1,673**	**186**
Zinc lead Australia	480	97
Zinc Europe	507	124
Lead Europe	8	18
Zinc North America*	612	(83)
Zinc Peru – Antamina**	66	30
Share of Group EBIT	**20.1%**	4.7%
Australia	5.8%	2.5%
Europe	6.2%	3.6%
North America*	7.3%	(2.1)%
Peru**	0.8%	0.7%
Net assets†	**4,848**	n/a
Capital employed	**4,910**	n/a
ROCE	**51.7%**	n/a
Capital expenditure	**272**	**141**
Australia	203	79
Europe	53	42
North America*	16	20
Peru**	-	-
Sustaining	114	94
Expansionary	158	47

† Includes goodwill allocation on acquisition of Falconbridge

***** Includes Xstrata Zinc's pro-rata share of CEZ (25%)

****** Xstrata Zinc's pro-rata share determined by zinc sales from Xstrata's 33.75% interest in Antamina

SALES VOLUMES

	Pro Forma Year ended 31.12.06	Pro Forma Year ended 31.12.05
Australia – Mount Isa		
Zinc in concentrate (t) third party sales (payable metal)	**70,179**	129,507
Zinc in concentrate (t) inter-company sales (payable metal)	**91,086**	65,649
Total zinc (t) (payable metal)	**161,265**	195,156
Lead in concentrate (t) third party sales (payable metal)	**3,716**	7,876
Lead in bullion (t) inter-company sales (payable metal)	**114,115**	159,907
Total lead (t) (payable metal)	**117,831**	167,783
Silver in concentrate (koz) third party sales (payable metal)	**505**	799
Silver in bullion (koz) inter-company sales (payable metal)	**6,390**	11,295
Total silver (koz) (payable metal)	**6,895**	12,094
Australia – McArthur River*		
Zinc in concentrate (t) third party sales (payable metal)	**107,163**	122,317
Lead in concentrate (t) third party sales (payable metal)	**19,696**	23,552
Silver in concentrate (koz) third party sales (payable metal)	**171**	320
Europe – San Juan de Nieva		
Refined zinc (t)	**472,158**	478,482
Europe – Nordenham		
Refined zinc (t)	**159,620**	149,290
Noranda zinc (t)	**12,182**	
Europe – Northfleet		
Refined lead (t)	**174,703**	148,912
Noranda lead (t)	**6,479**	-
Refined silver (koz)	**8,198**	12,089
North America - Brunswick		
Zinc in concentrate (t) third party sales (payable metal)	**205,415**	199,139
Zinc in concentrate (t) inter-company sales (payable metal)	**-**	-
Total zinc (t) (payable metal)	**205,415**	199,139
Lead concentrate (t) third party sales (payable metal)	**-**	-
Lead concentrate (t) inter-company sales (payable metal)	**58,359**	53,696
Zinc in bulk concentrate (t) third party sales (payable metal)	**29,776**	20,278
Zinc in bulk concentrate (t) inter-company sales (payable metal)	**-**	-
Lead in bulk concentrate (t) third party sales (payable metal)	**23,091**	15,248
Lead in bulk concentrate (t) inter-company sales (payable metal)	**-**	-
Silver in bulk concentrate (koz) third party sales (payable metal)	**1,132**	997
Silver in bulk concentrate (koz) inter-company sales (payable metal)	**-**	-
Refined lead (t)	**60,922**	70,919
Silver doré (koz) inter-company sales	**6,714**	8,235
North America – CEZ **		
Refined zinc (t)	**64,983**	67,958
North America – Kidd Creek		
Refined zinc (t)	**141,638**	116,071
Peru - Antamina zinc***		
Zinc in concentrate (t) third party sales (payable metal)	**1,381**	13,696

Zinc in concentrate (t) inter-company sales (payable metal)	**43,968**	40,759
Total zinc (t) (payable metal)	**45,349**	54,455
Total zinc metal third party sales (t)	**850,581**	811,801
Total zinc in concentrate third party sales (t)	**413,914**	484,937
Total lead metal third party sales (t)	**242,107**	219,831
Total lead in concentrate third party sales (t)	**46,503**	46,676
Total silver metal third party sales (koz)	**8,198**	12,089
Total silver in concentrate third party sales (koz)	**1,808**	2,116
Average LME zinc cash price ($/t)	**3,264**	1,382
Average LME lead cash price ($/t)	**1,286**	976
Average LBM silver price ($/oz)	**11.57**	7.31

*****MRM 2005 data are included at 100%
** Xstrata Zinc's pro-rata share of CEZ sales volumes (25%)
*** Xstrata Zinc's pro-rata share of zinc sales from Xstrata's 33.75% interest in Antamina

Markets

Zinc

For the third consecutive year, production of refined zinc fell short of global demand in 2006, creating a supply deficit of around 400,000 tonnes of zinc metal. Continued strong growth in demand from Asia, combined with renewed growth in the USA and Europe, drove a 4% increase in global demand for refined zinc to around 11 million tonnes. Demand was met by a drawdown of 306,000 tonnes of LME stocks and 88,000 tonnes of stocks held elsewhere during the year. LME stocks fell to 88,500 tonnes at the end of the year, the lowest level recorded since April 1991 and less than 3 days of global consumption.

Domestic demand in China continued to grow strongly, reflecting robust economic growth and a surge in new galvanizing capacity in response to booming demand from the automotive and home appliance sectors, as well as from extensive construction and infrastructure investment.

In 2006, global zinc metal production rose in response to increased demand, continued higher prices and improved concentrate availability. Metal output increased by 6%, the highest annual growth since 2000. The largest increase in refined production was in China, where metal output increased by 14% to 3 million tonnes. Increased refined production from China, India and Kazakhstan, combined with incremental improvements at many western smelters, enabled metal supply to reach 10.7 million tonnes in 2006.

Strong market fundamentals combined with investment fund buying drove prices up strongly in the first half of the year, and, after a weaker third quarter, again in the fourth quarter peaking at $4,619 per tonne in November. The average LME zinc price increased by 137% in 2006 to $3,264 per tonne, up from an average of $1,382 per tonne in 2005.

Global zinc concentrate production responded to higher prices in 2006, increasing by 6.7% to 10.7 million tonnes. China, India and Kazakhstan accounted for the majority of global mine supply growth, principally from existing mine operations. The concentrates market remained tight during the year, resulting in a further drop in negotiated treatment charges. Benchmark treatment charges fell from $126 per tonne basis $1,000 zinc in 2005 to $128 per tonne basis $1,400 zinc in 2006, equivalent to $80 per tonne at a $1,000 zinc price basis. The tightness in the supply of zinc concentrate is anticipated to ease in 2007 as new mines come into production during the year.

With the majority of zinc stocks depleted, zinc supply is expected to experience a small deficit in 2007, as new mine supply becomes available to increase refined metal production levels and almost meet forecast global demand requirements. Demand in China, India, South East Asia and Eastern Europe will continue to support steady consumption growth. Stocks are expected to remain low supporting a continued strong price environment in 2007.

Lead

Global consumption of refined lead rose by over 4.5% to 7.95 million tonnes in 2006. China continues to exert a significant and growing influence on the global lead market, where lead usage has risen strongly in recent years, driven by surging battery production due to the country's rapidly expanding automobile and communications sectors.

Global production of refined lead increased by 5% to 7.9 million tonnes in 2006. Around half of this amount came from secondary production, mainly from battery recycling. In China, primary lead production increased by 12% while secondary production increased by 21%.

As a result, the refined lead market was in supply deficit in 2006 with lead stocks at LME warehouses remaining at very low levels during the period. At the end of 2006, LME stocks of 41,125 tonnes represented less than one week of global consumption.

During the year, the cash price for lead traded between $914 and $1,809 per tonne, to finish the year at $1,775 per tonne. The average price in 2006 was $1,287 per tonne, 31% higher than the previous year. Backwardation was again a key feature of trading throughout the year, reflecting the tight physical market.

The lead market is expected to be largely balanced in 2007 with global lead consumption anticipated to continue to grow, but at a comparable rate to 2006. China will continue to be a dominant force in both consumption and production. Despite strongly increasing domestic demand, exports of refined lead from China are expected to remain at similar levels to 2006 as domestic lead mine production responds to high price levels. Lead stocks should continue to remain at low levels and consequently the market is expected to remain fairly tight throughout 2007, supporting lead prices.

Operations

EBIT VARIANCES

	$m
EBIT 31.12.05 Statutory	**239**
Sales price*	994
Volumes	(181)
Unit cost – real	57
Unit cost – CPI inflation	(23)
Unit cost – mining sector inflation	(33)
Other income and expenses	(53)
Corporate social involvement	(2)
Depreciation and amortisation (excluding foreign exchange)	(4)
Acquisition	679
EBIT 31.12.06 Pro forma	**1,673**

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

Earnings from the Xstrata Zinc operations escalated rapidly in 2006, with EBIT rising to $1,673 million, more than seven-fold the previous year's result, primarily due to significantly higher zinc and lead prices compared to the previous year. The acquisition of Falconbridge contributed \$679 million to Xstrata Zinc EBIT.

While production of zinc metal increased slightly year-on-year, this was more than offset by lower volumes of zinc in concentrate, primarily due to lower production from the Australian zinc-lead operations. Stripping out the impact of CPI and mining sector inflation on input costs, the zinc business achieved real operating cost savings of \$57 million, mainly due to a reduction in mining costs at the Australian operations, due to underground mining being replaced by open cut operations at Mount Isa and McArthur River, and improved efficiencies in recovering by-products in the European smelters. These cost savings outweighed the negative impact of mining sector and CPI inflation, resulting in a net contribution of \$1.4 million to EBIT. On a C1 pro forma basis, consolidated cash costs increased from 38.7¢ per pound of zinc produced in 2005 to 62.4¢ per pound in 2006, mainly due to the impact of significantly higher zinc prices on realised TCs.

Zinc Lead Australia

Profitability at the Australian operations was significantly boosted by higher zinc and lead prices in 2006. EBIT rose strongly to \$480 million in 2006, almost five times higher than EBIT of \$97 million in 2005. The full impact of higher prices was tempered by lower volumes and the effect of inflation in the cost of mining inputs in Australia, in common with the rest of the sector.

Production of zinc concentrate from the Mount Isa operations declined by 9% in 2006, despite a 5% increase in ore throughput. Decreased production was due to lower recoveries at the zinc lead concentrator as volumes of transitional ore feed from the Black Star mine increased to replace ore from the Mount Isa Lead Mine following its closure at the end of 2005. Recoveries were also negatively impacted by delays associated with the commissioning of the first stage of the concentrator capacity expansion project. Batch feeding of ore commenced in the final quarter of the year to increase metallurgical control and improve recoveries. Lead in concentrate production was 28% lower at 108,600 tonnes, also due to the reduced feed grade and recoveries.

Following completion of the first stage of the concentrator capacity expansion project in 2006, capacity has improved substantially to 6.5 million tonnes per annum. Low cost ore supply from the Black Star mine will increase accordingly, to ensure full utilisation of the concentrator in 2007.

George Fisher achieved ore production of 2.6 million tonnes for the full year, a marginal improvement on 2005. Ongoing efficiency gains and a substantial improvement in shaft hoisting capacity during the year partly compensated for hoist downtime in the first quarter caused by persistent wet weather, and a reduction in accessible ore due to the unstable ground conditions experienced in sections of the mine in the second half.

Black Star produced a total of 2.1 million tonnes of ore during its first full year of production following commissioning in February 2005, a 50% improvement on the prior year. Lead in bullion reduced by 26% to 118,300 tonnes as the Mount Isa lead smelter was impacted by lower than expected concentrate production.

Underground mining operations ceased at McArthur River Mine in 2006. The volume of material mined increased by 3% over the previous year to 1.9 million tonnes, the vast majority of which was produced from the test open pit. Production of zinc and lead in concentrate was 12% and 13% lower than in 2005 respectively. This was due to lower average zinc and lead head grades of 11% and 4% respectively compared to 12% and 5% in 2005, following the depletion of the number 2 ore body, the mining of bulk stopes and the conversion to lower grade open pit mining from the test pits, and to lower recoveries in the first half. Recoveries were impacted by highly oxidised transitional ore feed to the concentrator but improved in the second half, following the installation of a new circuit cleaner.

Zinc Lead Europe

The European operations also benefited from the strong zinc and lead prices, with the plants operating at full capacity to maximise output in a robust price environment. EBIT rose to $515 million, up by 263% on 2005 and EBITDA improved to $552 million, 210% higher then the previous year.

In 2006, San Juan de Nieva smelter produced over 500,000 tonnes of melted zinc and sales rose to 472,000 tonnes, confirming its position as the largest zinc producing operation globally. Over one-fifth of the zinc concentrate treated at San Juan in 2006 came from Xstrata's Mount Isa and Brunswick mines in Australia and Canada respectively, with the proportion of concentrate sourced internally expected to increase further in 2007 to around one-third. Further improvements in energy efficiency to 25 kilowatt hours per tonne, partly compensated a 12% increase in electricity prices.

The Hinojedo roaster produced 41,600 tonnes of calcine, of which 14,300 tonnes were supplied to Nordenham smelter, together with 12,400 tonnes of zinc cathode and slab. The Arnao plant produced 16,800 tonnes of zinc oxide, 4% higher than the previous year, using residues from the San Juan plant and scrap as raw material. Annualised synergies from these initiatives amounted to €8.7 million ($10.9 million).

Saleable zinc production at the Nordenham plant increased by 9% or 13,000 tonnes, , including 4,000 tonnes from own production and 9,000 tonnes from cathode zinc, slabs from San Juan and other external sources, which was remelted and cast in added-value products. Increased production at Nordenham was achieved using 14,300 tonnes of calcine from the Hinojedo operations in Spain and 4,000 tonnes of calcine from other suppliers. The replacement of two belt fitters with one filter press to increase filtration capacity and decrease moisture content boosted lead and silver production by 20%, adding more than €1 million ($1.3 million) to revenues.

Lead production at Northfleet in 2006 remained at a similar level to 2005 at 163,000 tonnes. This production included a substantial amount of purchased lead to cover production shortfalls at Mount Isa. End of year refined stock was 12,500 tonnes. Silver production decreased by 31% compared to 2005 to 8.2 million ounces, due to lower levels of feed from Mount Isa.

Zinc Lead Americas

Zinc Americas reported a strong increase in EBIT to $678 million in 2006, $731 million higher than the prior year. EBITDA increased by $786 million, from $95 million in 2005 to $881 million in 2006. Strong commodity prices were the main contributor to this result, coupled with a slight increase in production and sales and a positive contribution from the Kidd Creek smelter, following losses in the previous year.

At the Brunswick Mine, ore processed in 2006 increased by 1% compared to 2005 to 3.6 million tonnes. A lightning strike in July that destroyed one of the main mine electrical transformers resulted in two weeks of reduced mine production. Strong metallurgical recoveries and underground operational improvements to minimise waste and improve productivity increased production by 2% year-on-year to 271,800 tonnes of zinc in concentrate. A focus on by-product metals metallurgy also resulted in significant gains in contained lead, copper and silver in concentrate.

A 5-year life of mine labour agreement was successfully negotiated with the United Steelworkers union with no lost time to industrial action. The agreement, signed in June, includes provisions for mine closure, now scheduled for 2010.

Refined lead and silver doré production at the Brunswick Smelter was slightly lower than in 2005 at 69,700 tonnes and 200 tonnes respectively due to lower volumes of feed material. Progress continued to improve feed consumption rates, sinter-acid plant availability, and to increase the proportion of higher-margin recycled and residue feed, which comprised 35% of feed material in 2006, up from 30% in 2005. .

The CEZinc refinery in Quebec produced 266,400 tonnes of cast zinc, 292,800 tonnes of cathode zinc and 477,400 tonnes of sulphuric acid. Although a record 527,300 tonnes of zinc concentrate was treated in 2006, zinc production was 2% lower than in 2005, due to higher iron and lower zinc content in the concentrate feed mix, and a breakdown of one of the electrolyte circulation pipes in the refinery during the first quarter.

The Kidd zinc hydrometallurgical plant produced 145,000 tonnes of zinc metal, a 21% improvement over 2005. Improved utilisation, and the absence of a major shutdown and the strike in 2005 were the principal contributors to the positive variance. De-bottlenecking activities successfully resulted in record leach plant throughput 57% higher than in 2005.

At the Antamina copper-zinc mine in Peru, ore production in 2006 fell by 8% due to longer haulage distances than planned. Although throughput at the concentrator remained at a constant level to the previous year, zinc concentrate production fell by 15% to 293,100 tonnes, due to lower zinc grade treated in the concentrator.

Developments

Zinc Lead Australia

At George Fisher, further improvements are planned for the second half of 2007 at a total capital cost of approximately AUD26 million in 2007, to increase shaft hoisting capacity to its maximum infrastructure capacity of 3.1 million tonnes per annum. Additional ground support, development and backfill will be undertaken throughout 2007 to enable an increase on current production levels to be achieved.

At the Black Star open cut mine at Mount Isa, the Stage 2 ore horizon will continue to be developed throughout 2007 and together with Stage 3 North, which commenced development in June 2006, will provide the bulk of ore production. Ore production from these stages is scheduled to be accelerated in early 2007 to coincide with planned increases in concentrator throughput.

The Mount Isa Zinc Lead Concentrator Re-Vamp project was approved during the first half of 2006 and the first stage of this project was commissioned in the fourth quarter, increasing throughput capacity from 5 million to 6.5 million tonnes per annum. The second stage of the $120 million project involves the commissioning of a new milling and flotation circuit to increase capacity to 8 million tonnes per annum. Orders for long lead time items have been placed and the project is on schedule for completion in the first half of 2008.

Three significant diamond drilling programmes continued to assess the growth and expansion of Black Star Open Cut, Handle Bar Hill Open Cut (George Fisher South) and George Fisher North Deep Underground. Success in these areas will realise further extensions to the life of mine for the Mount Isa zinc-lead operations.

In October 2006, the final approvals required to convert the former underground mine at McArthur River to an open cut operation were received from the Northern Territory and Federal Australian governments. The development will include expanding the mine's footprint and diverting 5.5 kilometres of the seasonal McArthur River around the open pit, to enable production to continue for a mine life of an additional 25 years. MRM conducted a comprehensive environmental assessment of the proposed open pit development which commenced in March 2003.

Preliminary civil works have commenced on site to expand the existing test pit operations in order to maintain current production levels while work on the full open pit development proceeds under a two year programme. The majority of the total capital cost of AUD110 million ($82 million) is expected to be incurred in 2007, with the open pit currently expected to be fully operational from 2009.

The capacity of the concentrator at McArthur River Mine will be increased from annual throughput of 1.8 million tonnes of ore to 2.5 million tonnes of ore, at a low capital cost of $37 million. The expansion will enable annual production of zinc-lead concentrate to increase from approximately 320,000 tonnes to approximately 430,000 tonnes of zinc-lead concentrate, including the potential to produce a bulk concentrate with lower lead content, which can be processed in conventional smelters.

Additional production will be achieved with no increase to the mine's overall footprint, through the installation of two newly-developed Xstrata Technology M10,000 IsaMILLs to improve energy efficiency and enable additional production from existing power generation facilities. The expansion is expected to commission in mid 2008 and will be fully operational by the end of the third quarter of 2008.

In April 2006 the restart of the Pilara mine and mill at Lennard Shelf was announced, owned through a 50/50 joint venture with Teck Cominco. The estimated capital cost of the restart is AUD23 million and the mine is expected to produce 70,000 to 80,000 tonnes of zinc metal contained in concentrate annually. The first concentrate is scheduled to be produced in February 2007 with a mine life of approximately four years. Lennard Shelf is located in the Kimberley region of Western Australia.

Zinc Lead Europe

The construction of a silver flotation plant in San Juan de Nieva smelter was completed, on time and on budget, in July 2006 at a cost of €12 million ($15 million). In 2006, the plant produced 3,000 tonnes of silver concentrate.

In 2006, efficiency was improved at Nordenham through the installation of a gypsum removal stage which has decreased anode consumption by 40%. A pre-feasibility study into optimizing the Northfleet site plant configuration is currently under way and is expected to be finalised in early 2007.

Zinc Lead Americas

Construction commenced on the Perseverance deposit in Northern Quebec with an expected capital cost of C$130 million. The mine is scheduled to be in production in late 2008 and will have an annual production of 228,000 tonnes of zinc concentrate and 35,000 tonnes of copper concentrate. Mine life is expected to be five years.

Efforts are ongoing at the Brunswick mine to continue energy-related cost savings in 2007, following a reduction in overall energy requirements of 4% in 2006. In light of strong metal prices, a concerted effort to add resources to the mine reserve base will continue throughout the year.

At CEZ, a strategic plan to increase plant throughput was initiated with productivity improvement in the roaster area. The purification residue treatment was completely changed to eliminate arsenic and improve copper cake quality. Capital investments of C$22 million ($19.5 million) will be made in 2007, including investments to increase plant capacity to 280,000 tonnes per annum.

As set out in the Xstrata Copper section, an incremental expansion to the Antamina concentrator was approved in November 2006 to increase concentrator throughput capacity by 10% and is scheduled for commissioning in January 2008. A two year ore resource enhancement drilling programme and a three year regional exploration programme will commence at Antamina in 2007.

Xstrata Technology

FINANCIAL AND OPERATING DATA

	Year ended 31.12.06	Year ended 31.12.05
Technology		
Revenue	**120**	77
EBITDA	**26**	14
Depreciation & amortisation	**(4)**	(4)
EBIT	**22**	10
Capital expenditure	**2**	1
Net assets	**46**	45
Capital employed	**46**	45

Xstrata Technology

Xstrata Technology had another strong year in 2006, reflecting both high industry project demand, and the continued market growth of its energy efficient technologies. Sales increased for each product within the Xstrata Technology group, boosting revenue by 55% to $120 million and EBIT increased to $22 million.

Albion Process™

Xstrata Technology has continued to work with Core Resources to market the Albion Process atmospheric leach technology commercially. A second Albion Process Technology licence was issued to Deva Gold Ltd to treat a gold-bearing pyrite concentrate from the Certej project in Romania. There was strong demand for Albion Process testwork, with 11 new work programmes initiated in 2006.

The non-core Hydrometallurgy Research Laboratories were sold to Core Resources in November 2006.

IsaMILL™

The IsaMILL continued to establish itself as a revolutionary new grinding technology. Installations were completed for Phelps Dodge and Anglo Platinum, and new orders received from five different companies in Australia, South Africa, Canada, New Zealand and Laos. This technology is significantly increasing the energy efficiency of minerals processing in a wide range of applications, and is expected to continue to achieve good growth as the product becomes established across a range of markets.

ISASMELT™

The ISASMELT business continued to increase sales, with new projects won in Kazakhstan (two smelters), China, Zambia and Peru, the commissioning of the Mopani smelter in Zambia, and the commissioning of Southern Peru's ILO smelter in early 2007. ISASMELT has established itself as the new standard copper smelting process due to its low cost, high efficiency, and record of rapid plant start-ups, which results from the comprehensive technical transfer model used by Xstrata Technology. ISASMELT plants will be treating over 6 million tonnes per annum of copper feed materials early in 2007. The Vedanta ISASMELT at Tuticorin in India exceeded its design capacity of 300,000 tonnes per annum of copper during the year, and is often reported to be the world's lowest cost copper smelter.

Jameson Cell™

The Jameson Cell high intensity flotation machine continued to achieve strong take-up for coal operations, especially in Australia and China. The product was also successful in penetrating base metals markets, where it can provide low cost circuit expansions or efficiency improvements. A large cell was commissioned for Zinifex at Century, and another installed for Teck Cominco at Red Dog in Alaska for commissioning in 2007.

Tankhouse Technology (including ISAPROCESS™)

The group recorded its most successful year, delivering expansion, conversion and equipment supply projects to meet the high demand to increase world refined copper capacity.

Major refinery conversion projects were completed at Saganoseki and Tamano in Japan. Other major projects during the year included the Pasar refinery conversion/expansion in the Philippines, Piedras Verdes design and equipment supply in Mexico, cathode plate supply to Guixi tankhouse expansion in China, Nkana Cobalt technology and equipment supply in Zambia, design services to the Kazzinc project in Kazakhstan.

In August, Xstrata acquired the Kidd Process technology group as part of the acquisition of Falconbridge Limited. By combining the strengths of both technologies, Xstrata Tankhouse Technology Group now offers greater depth of tankhouse design, equipment selection, start-up and commissioning services. The order book for 2007/2008 is already heavily committed with major projects in China, Africa, Eastern Europe, USA, Brazil, Chile and Kazakhstan.

OPERATIONS DATA

Name of Operation		Ownership	Annual Production Capacity (Full plan/time basis)	100% Production 2006	100% Production 2005	Accounting Status	Location
Xstrata Alloys							
Boshoek plant		79.5%	240kt	193kt	196kt	Joint venture	Boshoek, South Africa
Lion plant		79.5%	360kt	44kt	-	Joint venture	Steelpoort, South Africa
Lydenburg plant		69.6%	396kt	379kt	374kt	Joint venture	Lydenburg, South Africa
Rustenburg plant		79.5%	430kt	316kt	383kt	Joint venture	Rustenburg, South Africa
Wonderkop plant		79.5%	553kt	249kt	333kt	Joint venture	Marikana, South Africa
Boshoek opencast mine		79.5%	360kt	-	34kt	Joint venture	Boshoek, South Africa
Chrome Eden mine		79.5%	96kt	-	-	Joint venture	Pilansberg, South Africa
Horizon mine		79.5%	180kt	74kt	52kt	Joint venture	Pilansberg, South Africa
Kroondal mine		79.5%	1,920kt	1,363kt	1,422kt	Joint venture	Rustenburg, South Africa
Kroondal opencast mine		79.5%	540kt	264kt	441kt	Joint venture	Rustenburg, South Africa
Thorncliffe mine		79.5%	1,440kt	1,202kt	1,210kt	Joint venture	Steelpoort, South Africa
Helena mine		79.5%	600kt	228kt	-	Joint venture	Steelpoort, South Africa
Waterval mine		79.5%	480kt	-	445kt	Joint venture	Rustenburg, South Africa
Rhovan	V_2O_5	100%	23,300k lbs	21,651k lbs	20,166k lbs	Subsidiary	Brits, South Africa
	FeV	100%	7,800k kg	4,907k kg	4,592k kg		

Swazi Vanadium FeV	100%	2,400k kg	-	345k kg	Subsidiary	Maloma, Swaziland
Maloma mine	75%	540kt	432kt	272kt	Subsidiary	Maloma, Swaziland
Char Technologies	100%	116kt	96kt	97kt	Subsidiary	Witbank, South Africa
African Carbon Manufacturers	100%,	147kt	112kt	123kt	Subsidiary	Witbank, South Africa
African Carbon Producers	100%,	188kt	132kt	174kt	Subsidiary	Witbank, South Africa
African Fine Carbon	100%	150kt	94kt	122kt	Subsidiary	Middelburg, South Africa
African Carbon Union	74%	117kt	88kt	102kt	Subsidiary	Witbank, South Africa
Mototolo	50%	240koz	23koz	-	Joint venture	Steelpoort, South Africa
Xstrata Aluminum						
Primary Plant – New Madrid	100%	253.6kt	253.6kt	245.5kt	Subsidiary	New Madrid, Missouri USA
Norandal Rolling Mills - Huntingdon East & West - Newport - Salisbury	100% 100% 100%	158.8kt 16.3kt 43.1kt	156.9kt 16.1kt 42.1kt	143.4kt 16.3kt 40.2kt	Subsidiary Subsidiary Subsidiary	Huntingdon, Tennessee USA Newport, Arkansas USA Salisbury, North Carolina USA
Alumina Refinery – Gramercy	50%	1,250kt	1,178.9kt	1,176.6kt	Joint venture	Gramercy, Louisiana USA
Bauxite Mine – Jamaica	50%	5,400 kt	4,888kt	3,745kt	Joint venture	St. Ann, Jamaica
Xstrata Coal						
Americas						

Cerrejón	33.3%	31,000kt	28,430kt	n/a	Joint venture	Colombia
Australia						
Cumnock	84%	1,100kt	1,038kt	1,091kt	Subsidiary	Hunter Valley
Liddell	67.5%	3,000kt	2,980kt	2,742kt	Joint venture	Hunter Valley
Macquarie Coal JV - West Wallsend - Westside	80% 80%	2,400kt 700kt	2,210kt 780kt	2,313kt 666kt	Joint venture Joint venture	Newcastle Newcastle
Mt Owen	100%	6,500kt	5,574kt	5,955kt	Subsidiary	Hunter Valley
Narama	50%	2,500kt	2,490kt	2,465kt	Joint venture	Hunter Valley
Oakbridge Group - Baal Bone - Beltana - Bulga -	74.1% 68.3% 68.3%	2,500kt 5,000kt 6,000kt	1,981kt 4,877kt 5,579kt	2,680kt 4,936kt 5,100kt	Subsidiary Joint venture Joint venture	Western Coal Fields Hunter Valley Hunter Valley
Ulan - Ulan Underground - Ulan Open cast	90% 90%	3,500kt 1,700kt	2,482kt 2,863kt	2,963kt 2,511kt	Joint venture Joint venture	Western Coal Fields
United	95%	2,400kt	2,276kt	2,672kt	Joint venture	Hunter Valley
Oaky Creek	55%	8,700kt	7,325kt	6,761kt	Joint venture	Bowen Basin
Newlands - Thermal - Coking	55% 55%	7,700kt 1,200kt	6,374kt 1,097kt	7,973kt 410kt	Joint venture Joint venture	Bowen Basin
Collinsville - Thermal - Coking	55% 55%	3,600kt 1,700kt	2,976kt 1,666kt	3,138kt 1,390kt	Joint venture Joint venture	Bowen Basin
Rolleston	75%	8,000kt	4,901kt	1,011kt	Joint venture	Bowen Basin
South Africa						
iMpunzi Division - Phoenix - Tavistock	74% 74%	1,000kt 2,200kt	1,014kt 2,244kt	1,009kt 2,044kt	Subsidiary	Witbank Witbank

Mpumalanga Division - Spitzkop - Tselentis	74% 74%	1,400kt 1,900kt	762kt 1,858kt	733kt 1,943kt	Subsidiary Subsidiary	Ermelo Breyten
Tavistock TESA JV - ATC - ATCOM	74% 74%	1,700kt 2,400kt	1,616kt 1,950kt	1,448kt 2,148kt	Subsidiary Subsidiary	Witbank Witbank
Tweefontein Division - Boschmans - Goedgevonden - South Witbank - Waterpan - WitCons	74% 74.5% 74% 74% 74%	2,800kt 1,100kt 2,000kt 500kt 1,800kt	2,842kt 1,047kt 2,134kt 2,188kt 1,200kt	2,152kt 956kt 1,855kt 504kt 1,826kt	Subsidiary Joint venture Subsidiary Subsidiary Subsidiary	Witbank Witbank Witbank Witbank Witbank
Mines operated by JV partners - Douglas/Middelburg	16%	25,500kt	21,406	22,988kt	Joint venture	Witbank / Middelburg
Xstrata Copper						
Argentina						
Alumbrera	50%	40mt ore 190kt Cu in conc 550koz Au in conc 50koz Au in dore	36.4mt 180.1kt Cu 567.7koz Au 73.4koz Au	36.6mt 187.3kt Cu 517.8koz Au 59.5koz Au	Subsidiary	Catamarca, Argentina
Australia						
Mount Isa	100%	6.5mt ore 190kt Cu in conc 240kt Cu in anode	6.2mt 194kt Cu 213kt Cu	5.6mt 177kt Cu 220kt Cu	Subsidiary	North West Queensland, Australia
Ernest Henry	100%	11mt ore 115kt Cu in conc 120koz Au in conc	10.8mt 84kt Cu 106koz Au	11.4mt 129kt Cu 167koz Au	Subsidiary	North West Queensland, Australia
Townsville Refinery	100%	280kt Cu cathode	209kt Cu	219kt Cu	Subsidiary	North Queensland, Australia
Canada						
CCR	100%	370kt Cu cathode	368.3tkt Cu	304.2kt Cu	Subsidiary	Quebec, Canada
Horne	100%	180kt Cu in anode	185.0kt Cu	147.0kt Cu	Subsidiary	Quebec, Canada
Kidd Creek	100%	50kt Cu in conc 150kt Cu in anode	50.4kt Cu 127.9kt Cu	42.7kt Cu 111.2kt Cu	Subsidiary	Ontario, Canada
Chile						
Altonorte	100%	290kt Cu in anode	282.0kt Cu	297.4kt Cu	Subsidiary	Antofagasta Region, Chile

Collahuasi	44%	48mt ore 400kt Cu in conc 60kt Cu cathode	54mt 380.2kt Cu 59.8kt Cu	40.7mt 366.3kt Cu 60.7kt Cu	Subsidiary	Tarapacá Region, Chile
Lomas Bayas	100%	13.5mt ore 65kt Cu cathode	14.4mt 64.3kt Cu	12.9mt 63.1kt Cu	Subsidiary	Antofagasta Region, Chile
Peru						
Antamina*	33.75%	35mt ore 380kt Cu in conc	33.2mt 384.2kt Cu	35.9mt 374.6kt Cu	Joint-Venture	Ancash Region, Peru
Tintaya	100%	10mt ore 85kt Cu in conc 35kt Cu cathode	10.7mt 78.3kt 36.7kt	6.1mt 73.9kt 35.5kt	Subsidiary	Espinar Province, Peru
Xstrata Nickel						
Canada						
Montcalm	100%	875kt ore 11kt nickel in concentrate	891kt ore 11kt nickel in concentrate	750kt ore 9kt nickel in concentrate	Subsidiary	Ontario, Canada
Sudbury	100%	3.0mt ore 130kt nickel-copper matte	2.3mt ore 112kt nickel-copper matte	2.2mt ore 114kt nickel-copper matte	Subsidiary	Ontario, Canada
Raglan	100%	1.1mt ore 26kt Ni in concentrate	1.1mt ore 24kt Ni in concentrate	1.0mt ore 23t nickel in concentrate	Subsidiary	Quebec, Canada
Dominican Republic						
Falcondo	85.3%	4.0mt ore 28.5kt Ni in FeNi	4.1mt ore 30kt Ni in FeNi	3.9mt ore 29kt Ni in FeNi	Subsidiary	Bonao, Dominican Republic
Norway						
Nikkelverk	100%	86kt Ni 39kt Cu 5.2kt cobalt	82kt Ni 40kt Cu 4.9kt Co	85kt Ni 39kt Cu 5.0kt Co	Subsidiary	Kristiansand, Norway
Xstrata Zinc						
Australia						
Lennard Shelf	50%	55kt Zn in conc 13kt Pb in conc	On care & maintenance	On care & maintenance	Joint venture	Western Australia
McArthur River	100%	1.8mt ore 146kt Zn in conc	1.8mt ore 136kt Zn	1.7mt ore 154kt Zn	Subsidiary	Northern Territory, Australia

Mount Isa	100%	6.5mt ore 305kt Zn in conc 170kt Pb in bullion 300t Ag in bullion	4.6mt 210kt Zn 118kt Pb 195t Ag	4.4mt 231kt Zn 160kt Pb 353t Ag	Subsidiary	North West Queensland, Australia
Canada						
Brunswick Mine	100%	3.6 mt ore 275 kt Zn in conc 80 kt Pb in conc 210 t Ag in conc 8 kt Cu in conc	3.6mt 272kt 79kt 219kt 9kt	3.5mt 266kt 75kt 204t 6kt	Subsidiary	New Brunswick, Canada
Brunswick Smelting	100%	110 kt refined lead 450 t silver doré	69.7 kt Pb 212 t Ag	77.0kt Pb 254t Ag	Subsidiary	New Brunswick, Canada
CEZ Refinery	25%	275kt Zn	266.4kt Zn	272.4kt Zn	Associate	Quebec, Canada
General Smelting	100%	25kt Zn and Pb foundry products	9,544t	13,318t	Subsidiary	Quebec, Canada
Kidd Creek Refinery	100%	144kt Zn	144kt Zn	114kt Zn	Subsidiary	Ontario, Canada
Germany						
Nordenham	100%	151kt Zn 145kt saleable Zn	151kt Zn 145kt saleable Zn	148kt Zn 141kt saleable Zn	Subsidiary	Nordenham, Germany
Peru						
Antamina (joint with Xstrata Copper)	33.75%	30mt ore 230kt Zn	156kt Zn	184kt Zn	Joint venture	Ancash, Peru
Spain						
San Juan de Nieva	100%	503kt Zn 482kt saleable Zn	503kt Zn 482kt saleable Zn	501kt Zn 482kt saleable Zn	Subsidiary	Asturias, Spain
Hinojedo	100%	47kt calcine 31kt SO2	47kt calcine 31kt SO2	45kt calcine 30kt SO_2	Subsidiary	Cantabria, Spain
Arnao	100%	24kt ZnO	24kt ZnO	16kt Zn	Subsidiary	Asturias, Spain
UK						
Northfleet	100%	180kt primary Pb	162 kt primary Pb	161kt Pb	Subsidiary	Northfleet, UK

FINANCIAL INFORMATION

Consolidated Income Statement

For the year ended 31 December 2006

US$m	(Unaudited) Before exceptional items	(Unaudited) Exceptional items †	(Unaudited) Total 2006	(Audited) Before exceptional items	(Audited) Exceptional items†	(Audited) Total 2005
Revenue	17,632	-	17,632	8,050	-	8,050
Cost of sales*	(8,886)	-	(8,886)	(3,880)	-	(3,880)
Distribution costs	(1,141)	-	(1,141)	(910)	-	(910)
Administrative expenses*	(502)	-	(502)	(180)	-	(180)
Share of results from associates	4	-	4	23	-	23
Acquisition costs	-	-	-	-	(10)	(10)
Profit on sale of available for sale financial assets	-	63	63	-	-	-
Profit on sale of operations	-	16	16	-	-	-
Restructuring and closure costs	-	(50)	(50)	-	-	-
Profit before interest, taxation, depreciation and amortisation	7,107	29	7,136	3,103	(10)	3,093
Depreciation and amortisation:						
- Cost of sales	(1,212)	-	(1,212)	(549)	-	(549)
- Administrative expenses	(32)	-	(32)	(29)	-	(29)
Impairment of assets:						
- Cost of sales	-	-	-	(5)	-	(5)
- Administrative expenses	-	(1,378)	(1,378)	-	-	-
Profit before interest and taxation	5,863	(1,349)	4,514	2,520	(10)	2,510
Finance income	112	170	282	36	88	124
Finance costs	(646)	(235)	(881)	(128)	(44)	(172)
Profit before taxation	5,329	(1,414)	3,915	2,428	34	2,462
Income tax (expense)/benefit	(1,574)	11	(1,563)	(551)	8	(543)
Profit from continuing operations	3,755	(1,403)	2,352	1,877	42	1,919
Profit on sale of discontinued operations	-	-	-	-	4	4
Profit for the year	3,755	(1,403)	2,352	1,877	46	1,923
Attributable to:						
Equity holders of the parent	3,350	(1,403)	1,947	1,660	46	1,706
Minority interests	405	-	405	217	-	217
	3,755	(1,403)	2,352	1,877	46	1,923
Earnings per share (US$)						
- basic (continuing operations)	4.34	(1.82)	2.52	2.42	0.06	2.48
- basic	4.34	(1.82)	2.52	2.42	0.07	2.49
- diluted (continuing operations)	4.07	(1.68)	2.39	2.20	0.06	2.26
- diluted	4.07	(1.68)	2.39	2.20	0.07	2.27
Dividends (US$m)						
- declared and paid			251			154
- proposed			281			150
Dividend per share (USc)						

- declared and paid	34.0	22.4
- proposed	30.0	22.4

† 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

Consolidated Balance Sheet

As at 31 December 2006

US$m	(Unaudited) 2006	(Audited) 2005
Assets		
Non-current assets		
Intangible assets	7,767	1,430
Property, plant and equipment	30,087	8,086
Biological assets	15	13
Inventories	75	71
Trade and other receivables	84	57
Investments in associates	179	44
Available-for-sale financial assets	160	2,325
Derivative financial assets	57	9
Other financial assets	299	56
Pension asset	5	3
Prepayments	23	15
Deferred tax assets	22	7
	38,773	12,116
Current assets		
Inventories	3,540	891
Trade and other receivables	2,826	1,138
Derivative financial assets	11	17
Other financial assets	2	34
Prepayments	204	99
Cash and cash equivalents	1,860	524
	8,443	2,703
Total assets	47,216	14,819

Consolidated Balance Sheet (continued)

As at 31 December 2006

US$m	(Unaudited) 2006	(Audited) 2005
Equity and liabilities		
Capital and reserves - attributable to equity holders of Xstrata plc		
Issued capital	471	316
Share premium	9,522	2,500
Own shares	(154)	(616)
Convertible borrowings - equity component	78	119
Other reserves	4,582	3,054
Retained earnings	4,503	2,192
	19,002	7,565
Minority interests	720	572
Total equity	19,722	8,137
Non-current liabilities		
Trade and other payables	69	10
Interest-bearing loans and borrowings	12,946	1,533
Convertible borrowings	525	858
Derivative financial liabilities	172	61
Provisions	1,890	457
Pension deficit	140	24
Deferred tax liabilities	5,124	1,339
Other liabilities	16	10
	20,882	4,292
Current liabilities		
Trade and other payables	3,110	946
Interest-bearing loans and borrowings	1,990	744
Derivative financial liabilities	78	233
Provisions	289	114
Income taxes payable	1,104	342
Other liabilities	41	11
	6,612	2,390
Total liabilities	27,494	6,682
Total equity and liabilities	47,216	14,819

Consolidated Cash Flow Statement

For the year ended 31 December 2006

US$m	Notes	(Unaudited) 2006	(Audited) 2005
Profit before taxation (continuing operations)		3,915	2,462
Adjustments for:			
Profit before tax from discontinued operations		-	4
Finance income		(282)	(124)
Finance cost		881	172
Share of results from associates		(4)	(23)
Profit on sale of available-for-sale financial assets		(63)	-
Profit on sale of discontinued operations		-	(4)
Net profit on disposal of property, plant and equipment		(3)	(16)
Impairment of assets		1,378	5
Depreciation		1,221	571
Amortisation		23	7
Share-based compensation plans		91	31
Increase in trade and other receivables		(224)	(334)
Increase in other assets		(154)	(80)
Increase in inventories		(178)	(125)
Increase in trade and other payables		159	236
Increase/(decrease) in provisions		(34)	8
Other non-cash movements		(20)	(10)
Cash generated from operations		6,706	2,780
Income tax paid		(1,022)	(380)
Interest paid		(498)	(116)
Interest received		87	24
Dividends received - associates		10	8
Dividends received - other		3	9
Net cash flow from operating activities		5,286	2,325
Purchase of property, plant and equipment		(1,469)	(858)
Proceeds from sale of property, plant and equipment		32	11
Purchase of intangible assets		(16)	(9)
Purchase of available-for-sale financial assets		(3)	(1,472)
Proceeds from sale of Available-for-sale financial assets		190	-
Payments to joint venture partner		-	(7)
Repayments from joint venture partner		-	7
Acquisition of subsidiaries, net of cash acquired		(17,064)	(60)
Acquisition of joint ventures, net of cash acquired		(1,715)	
Disposal of subsidiaries, net of cash disposed		24	25
Net cash flow used in investing activities		(20,021)	(2,363)
Issue of share capital		6,684	-
Purchase of own shares		(11)	(522)
Disposal of own shares		1,134	25
Proceeds from interest bearing loans and borrowings		22,807	1,295
Interest bearing loans and borrowings issue costs		(85)	(17)
Repayment of interest bearing loans and borrowings		(14,035)	(349)
Payment of finance lease liabilities		(28)	(8)
Dividends paid to equity holders of the parent		(251)	(154)
Dividends paid to minority interests		(202)	(148)
Redemption of minority interests		(95)	-
Net cash flow from/(used in) financing activities		15,918	122
Net increase/(decrease) in cash and cash equivalents		1,183	84
Net foreign exchange difference		13	(14)

Cash and cash equivalents at 1 January	521	451
Cash and cash equivalents at 31 December	1,717	521

Consolidated Statement of Recognised Income and Expenses

For the year ended 31 December 2006

US$m	(Unaudited) 2006	(Audited) 2005
Income and expenses recognised directly in equity:		
Actuarial gains on defined benefit pension plans	71	1
Gains on valuation of available-for-sale financial assets	1,892	398
Reversal of revaluation surplus on available-for-sale financial assets	(2,205)	-
Revaluation of property, plant and equipment	1,528	-
Loss on cash flow hedges	(78)	(314)
Foreign currency translation differences	244	(581)
	1,452	(496)
Transfers to the income statement:		
Cash flow hedges	125	128
Gains on sale of available-for-sale financial assets	(63)	-
Recycled foreign currency translation net (gains)/losses	47	(67)
	1,561	(435)
Tax on items taken directly to or transferred from equity	15	(6)
Net income / (expense) recognised directly in equity	1,576	(441)
Profit for the year	2,352	1,923
Total recognised income and expense for the year	3,928	1,482
Attributable to:		
Equity holders of the parent	3,523	1,268
Minority interests	405	214
	3,928	1,482

Notes

The accounting policies adopted in the preparation of the financial information are consistent with those applied to the year ended 31 December 2005 except for the following new and amended standards and International Financial Reporting Interpretations Committee interpretations:

- IFRS 1 ‘Amendments relating to IFRS 6’
- IFRS 4 & IAS 39 ‘Amendments – Financial guarantee contracts’
- IFRS 6 ‘Amendments relating to IFRS 6’
- IAS 21 ‘Amendments to IAS 21 – The effects of changes in foreign exchange rates – net investment in foreign operations’
- IAS 39 ‘Amendment - Fair value option’
- IAS 39 ‘Amendment – Cash flow hedge accounting for forecast intra-group transactions’
- IFRIC 8 ‘Scope of IFRS 2’
- IFRIC 9 ‘Re-assessment of embedded derivatives’

The adoption of these did not have a material impact on the financial information for the year ended 31 December 2006.

The unaudited financial information for the year ended 31 December 2006 and audited financial information for the year ended 31 December 2005 contained in this document does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the year ended 31 December 2006 has been extracted from the financial statements of Xstrata plc which will be delivered to the Registrar of Companies in due course. The auditors have issued an unqualified opinion on the Group’s statutory financial statements for the year ended 31 December 2005, which have been filed with the Registrar of Companies.

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, goodwill 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.

Comparatives

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

Acquisitions

Business combinations

Cerrejón

On 20 April 2006, the Group acquired a 33 1/3% interest in the Cerrejón thermal coal operation in Colombia (Cerrejón) for a cash consideration of US$1,719 million from Glencore International AG.

The provisional fair values of the identifiable assets and liabilities of the 33 1/3% interest in Cerrejón as at the date of acquisition were:

US$m	IFRS carrying value	Fair value adjustments	Provisional fair value to Group
Intangible assets	142	(142)	-
Property, plant and equipment	323	1,365	1,688
Financial assets	14	56	70
Inventories	44	-	44
Trade and other receivables	36	49	85
	559	1,328	1,887
Trade and other payables	(30)	(49)	(79)
Provisions	(8)	5	(3)
Deferred tax liabilities	(77)	(400)	(477)
Income taxes payable	(17)	-	(17)
Financial liabilities	(5)	(55)	(60)
Net assets	422	829	1,251
Goodwill arising on acquisition			464
			1,715
Consideration:			
Net cash acquired			(9)
Acquisition costs			5
Cash paid			1,719
			1,715

These fair values are provisional due to the complexity of the acquisition. The review of the fair value of the assets and liabilities acquired will continue for 12 months from the acquisition date.

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.

Tintaya

On 21 June 2006, the Group acquired 100% of the Tintaya copper mine in Peru (Tintaya) for a consideration of US$852 million (including working capital adjustments and deferred purchase consideration) from BHP Finance International Limited.

The provisional fair values of the identifiable assets and liabilities of Tintaya as at the date of acquisition were:

US$m	IFRS carrying value	Fair value adjustments	Provisional fair value to Group
Property, plant and equipment	303	488	791
Prepayments	1	-	1
Inventories	90	-	90
Trade and other receivables	143	(4)	139
	537	484	1,021
Trade and other payables	(33)	-	(33)
Provisions	(50)	(44)	(94)
Deferred tax liabilities	(9)	(130)	(139)
Income taxes payable	(33)	-	(33)
Net assets	412	310	722
Goodwill arising on acquisition			125
			847

Consideration:	
Net cash acquired with the subsidiary	(5)
Cash paid	816
Contingent consideration	36
	847

These fair values are provisional due to the complexity of the acquisition. The review of the fair value of the assets and liabilities acquired will continue for 12 months from the acquisition date.

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.

Falconbridge Limited

Falconbridge Limited (Falconbridge), a company in which the Group held a 19.9% interest in at 31 December 2005, was a diversified Canadian mining company listed on the Toronto and New York stock exchanges. On 2 August 2006 the Group acquired an additional 4.4% of Falconbridge's issued and outstanding common shares. On 15 August 2006, a further 67.8% of Falconbridge was purchased for CAD62.50 per share to bring its total beneficial ownership to 92.1%. The remainder of the issued and outstanding common shares were purchased during the period to 1 November 2006 for CAD62.50 per share. The total cash cost of the acquisition, including amounts paid in 2005, was US$18,819 million.

Control of Falconbridge was obtained on 15 August 2006 and for the purposes of the acquisition accounting, the share purchases during the year have been treated as occurring simultaneously.

The provisional fair values of the identifiable assets and liabilities of Falconbridge as at the date of acquisition were:

US$m	IFRS carrying value	Fair value adjustments	Provisional fair value to Group
Intangible assets	113	154	267
Property, plant and equipment	6,437	12,255	18,692
Inventories	2,340	(34)	2,306
Trade and other receivables	1,380	(8)	1,372
Investments in associates	39	95	134
Available-for-sale financial assets	140	-	140
Derivative financial assets	56	-	56
Other financial assets	125	-	125
Prepayments	61	-	61
	10,691	12,462	23,153
Trade and other payables	(1,827)	23	(1,804)
Interest-bearing loans and borrowings	(3,765)	(35)	(3,800)
Derivative financial liabilities	(125)	-	(125)
Provisions	(848)	(391)	(1,239)
Pension deficit	(235)	-	(235)
Deferred tax liabilities	(393)	(2,688)	(3,081)
Income tax payable	(326)	(13)	(339)
Net assets	3,172	9,358	12,530
Minority interests	(45)	-	(45)
Net attributable assets	3,127	9,358	12,485
Goodwill*	-	2,859	2,859
Net attributable assets including goodwill	3,127	12,217	15,344

Total consideration:	
Net cash acquired with the subsidiary	(879)
Acquisition costs	68
Cash paid for 19.9% acquired in 2005	1,715
Cash paid for 80.1% acquired in 2006	17,036
	17,940

Goodwill arising on acquisition on 19.9% interest in Falconbridge in 2005:	
Cash paid	1,715
Less fair value of the 19.9% share of the attributable net assets acquired**	(1,715)
Goodwill	-
Goodwill arising on acquisition on 80.1% interest in Falconbridge in 2006:	
80.1% of net cash acquired with the subsidiary	(704)
Acquisition costs	68
Cash paid	17,036
	16,400
Less 80.1% share of the attributable net assets acquired	(12,291)
Goodwill on 80.1% acquisition***	4,109
Goodwill from above*	2,859
Total goodwill	6,968

* This 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.

** In accordance with IFRS, this represents 19.9% of the fair value of the net assets at the date of acquisition in 2005.

*** Included in this goodwill are certain intangible assets that cannot be individually separated or reliably measured from the acquisition due to their nature. These items include the expected value of synergies and an assembled workforce.

These fair values are provisional due to the complexity of the acquisition. The review of the fair value of the assets and liabilities acquired will continue for 12 months from the acquisition date.

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. The Group's geographical segments are determined by the location of the Group's assets and operations.

Business segments

The following tables present revenue and profit information regarding the Group's business segments for the years ended 31 December 2006 and 2005.

For the year ended 31 December

US$m	Before exceptional items	Exceptional items	2006	Before exceptional items	Exceptional items	2005
Revenue						
External parties:						
Coal – Thermal	3,019	-	3,019	2,864	-	2,864
Coal – Coking	598	-	598	536	-	536
Coal	3,617	-	3,617	3,400	-	3,400
Chrome	748	-	748	798	-	798
Platinum	12	-	12	-	-	-
Vanadium	199	-	199	318	-	318
Copper	7,007	-	7,007	2,008	-	2,008
Nickel	1,678	-	1,678	-	-	-
Zinc Lead	3,721	-	3,721	1,449	-	1,449
Aluminium	530	-	530	-	-	-
Technology	120	-	120	77	-	77
Revenue (continuing operations)	17,632	-	17,632	8,050	-	8,050

US$m	Before exceptional Items	Exceptional items	2006	Before exceptional items	Exceptional items	2005
Profit before interest, taxation, depreciation and amortisation (EBITDA)						
Coal – Thermal	947	16	963	1,066	-	1,066
Coal – Coking	300	-	300	278	-	278
Coal	1,247	16	1,263	1,344	-	1,344
Chrome	141	-	141	169	-	169
Platinum	11	-	11	-	-	-
Vanadium	111	-	111	181	-	181
Copper	3,349	-	3,349	1,131	-	1,131
Nickel	788	-	788	-	-	-
Zinc Lead	1,477	-	1,477	303	-	303
Aluminium	123	-	123	-	-	-
Technology	26	-	26	14	-	14
Unallocated	(170)	13	(157)	(62)	(10)	(72)
Segment EBITDA (continuing operations)	7,103	29	7,132	3,080	(10)	3,070
Share of results from associates (net of tax, continuing operations):						
Coal	2	-	2	2	-	2
Copper	-	-	-	16	-	16
Zinc Lead	2	-	2	-	-	-
Unallocated	-	-	-	5	-	5
EBITDA (continuing operations)	7,107	29	7,136	3,103	(10)	3,093
Profit on sale of discontinued operations:						
Forestry	-	-	-	-	4	4
Total	7,107	29	7,136	3,103	(6)	3,097

US$m	Before Exceptional Items	Exceptional items	2006	Before Exceptional items	Exceptional items	2005
Depreciation and amortisation						
Depreciation:						
Coal	356	-	356	266	-	266
Chrome	23	-	23	24	-	24
Vanadium	6	-	6	6	-	6
Copper	495	-	495	209	-	209
Nickel	162	-	162	-	-	-
Zinc Lead	149	-	149	63	-	63
Aluminium	25	-	25	-	-	-
Technology	1	-	1	1	-	1
Unallocated	4	-	4	2	-	2
Depreciation (continuing operations)	1,221	-	1,221	571	-	571
Amortisation:						
Coal	1	-	1	1	-	1
Copper	4	-	4	-	-	-
Nickel	12	-	12			
Zinc Lead	1	-	1	1	-	1
Technology	3	-	3	3	-	3
Unallocated	2	-	2	2	-	2
Total (continuing operations)	23	-	23	7	-	7
Total:						
Coal	357	-	357	267	-	267
Chrome	23	-	23	24	-	24
Vanadium	6	-	6	6	-	6
Copper	499	-	499	209	-	209
Nickel	174	-	174	-	-	-
Zinc Lead	150	-	150	64	-	64
Aluminium	25	-	25	-	-	-
Technology	4	-	4	4	-	4
Unallocated	6	-	6	4	-	4
Depreciation and amortisation (from continuing operations)	1,244	-	1,244	578	-	578
Impairment of assets						
Chrome	-	-	-	3	-	3
Copper	-	598	598	2	-	2
Zinc Lead	-	780	780	-	-	-
Total impairment of assets (continuing operations)	-	1,378	1,378	5	-	5

US$m	Before exceptional Items	Exceptional items	2006	Before exceptional items	Exceptional items	2005
Profit before interest and taxation (EBIT)						
Segment result:						
Coal – Thermal	640	16	656	833	-	833
Coal – Coking	250	-	250	244	-	244
Coal	890	16	906	1,077	-	1,077
Chrome	118	-	118	142	-	142
Platinum	11	-	11	-	-	-
Vanadium	105	-	105	175	-	175
Copper	2,850	(598)	2,252	920	-	920
Nickel	614	-	614	-	-	-
Zinc Lead	1,327	(780)	547	239	-	239
Aluminium	98	-	98	-	-	-
Technology	22	-	22	10	-	10
Unallocated	(176)	13	(163)	(66)	(10)	(76)
Segment EBIT (continuing operations)	5,859	(1,349)	4,510	2,497	(10)	2,487
Share of results from associates (net of tax, continuing operations):						
Coal	2	-	2	2	-	2
Copper	-	-	-	16	-	16
Zinc Lead	2	-	2			
Unallocated	-	-	-	5	-	5
EBIT (continuing operations)	5,863	(1,349)	4,514	2,520	(10)	2,510
Finance income	112	170	282	36	88	124
Finance expense	(646)	(235)	(881)	(128)	(44)	(172)
Profit before taxation	5,329	(1,414)	3,915	2,428	34	2,462
Income tax expense	(1,574)	11	(1,563)	(551)	8	(543)
Profit from continuing operations	3,755	(1,403)	2,352	1,877	42	1,919
Profit on sale of discontinued operations:						
Forestry	-	-	-	-	4	4
Total	3,755	(1,403)	2,352	1,877	46	1,923

Geographical segments

The following tables present revenue and profit information regarding the Group's geographical segments for the years ended 31 December 2006 and 2005.

For the year ended 31 December

US$m	Before exceptional items	Exceptional items	2006	Before exceptional items	Exceptional items	2005
Revenue by origin						
External parties:						
Africa	1,673	-	1,673	1,906	-	1,906
Americas North	4,408	-	4,408	-	-	-
Americas South	4,142	-	4,142	849	-	849
Australasia	4,815	-	4,815	4,086	-	4,086
Europe	2,594	-	2,594	1,209	-	1,209
Revenue (continuing operations)	17,632	-	17,632	8,050	-	8,050
Revenue by destination						
External parties:						
Africa	228	-	228	237	-	237
Americas North	3,895	-	3,895	-	-	-
Americas South	689	-	689	711	-	711
Asia	5,279	-	5,279	3,391	-	3,391
Australasia	922	-	922	655	-	655
Europe	6,532	-	6,532	2,964	-	2,964
Middle east	87	-	87	92	-	92
Revenue (continuing operations)	17,632	-	17,632	8,050	-	8,050

US$m	Before exceptional items	Exceptional items	2006	Before exceptional items	Exceptional items	2005
EBITDA						
Africa	439	-	439	620	-	620
Americas North	1,271	-	1,271	-	-	-
Americas South	2,493	-	2,493	544	-	544
Australasia	2,520	16	2,536	1,800	-	1,800
Europe	550	-	550	178	-	178
Unallocated	(170)	13	(157)	(62)	(10)	(72)
Segment EBITDA (continuing operations)	7,103	29	7,132	3,080	(10)	3,070
Share of results from associates (net of tax, continuing operations):						
Australasia	2	-	2	2	-	2
Americas North	2	-	2	-	-	-
Americas South	-	-	-	16	-	16
Unallocated	-	-	-	5	-	5
EBITDA (continuing operations)	7,107	29	7,136	3,103	(10)	3,093
Profit on sale of discontinued operations:						
Americas South	-	-	-	-	4	4
Total	7,107	29	7,136	3,103	(6)	3,097

US$m	Before exceptional items	Exceptional items	2006	Before exceptional items	Exceptional items	2005
Depreciation and amortisation						
Depreciation:						
Africa	106	-	106	107	-	107
Americas North	297	-	297	-	-	-
Americas South	392	-	392	103	-	103
Australasia	386	-	386	324	-	324
Europe	36	-	36	35	-	35
Unallocated	4	-	4	2	-	2
Depreciation (continuing operations)	1,221	-	1,221	571	-	571
Amortisation:						
Americas North	13	-	13	-	-	-
Americas South	3	-	3	-	-	-
Australasia	4	-	4	4	-	4
Europe	1	-	1	1	-	1
Unallocated	2	-	2	2	-	2
Amortisation (continuing operations)	23	-	23	7	-	7
Total:						
Africa	106	-	106	107	-	107
Americas North	310	-	310	-	-	-
Americas South	395	-	395	103	-	103
Australasia	390	-	390	328	-	328
Europe	37	-	37	36	-	36
Unallocated	6	-	6	4	-	4
Depreciation and amortisation (from continuing operations)	1,244	-	1,244	578	-	578
Impairment of assets						
Africa	-	-	-	3	-	3
Americas South	-	-	-	2	-	2
Unallocated*	-	1,378	1,378	-	-	-
Total impairment of assets (continuing operations)	-	1,378	1,378	5	-	5
* Represented by:						
Copper Americas	-	598	598	-	-	-
Zinc Lead	-	780	780	-	-	-
	-	1,378	1,378	-	-	-

US$m	Before exceptional items	Exceptional items	2006	Before exceptional Items	Exceptional items	2005
EBIT						
Segment result:						
Africa	333	-	333	510	-	510
Americas North	961	-	961	-	-	-
Americas South	2,098	-	2,098	439	-	439
Australasia	2,130	-	2,130	1,472	-	1,472
Europe	513	-	513	142	-	142
Unallocated	(176)	(1,349)	(1,525)	(66)	(10)	(76)
Segment EBIT (continuing operations)	5,859	(1,349)	4,510	2,497	(10)	2,487
Share of results from associates (net of tax, continuing operations):						
Australasia	2	-	2	2	-	2
Americas North	2	-	2	-	-	-
Americas South	-	-	-	16	-	16
Unallocated	-	-	-	5	-	5
EBIT (continuing operations)	5,863	(1,349)	4,514	2,520	(10)	2,510
Finance income	112	170	282	36	88	124
Finance expense	(646)	(235)	(881)	(128)	(44)	(172)
Profit before taxation	5,329	(1,414)	3,915	2,428	34	2,462
Income tax expense	(1,574)	11	(1,563)	(551)	8	(543)
Profit from continuing operations	3,755	(1,403)	2,352	1,877	42	1,919
Profit on sale of discontinued operations:						
Americas South	-	-	-	-	4	4
Total	3,755	(1,403)	2,352	1,877	46	1,923

Earnings Per Share

US$m	2006	2005
Continuing operations:		
Profit before exceptional items attributable to ordinary equity holders of the parent from continuing operations	3,350	1,660
Exceptional items from continuing operations	(1,403)	42
Profit attributable to ordinary equity holders of the parent from continuing operations	1,947	1,702
Interest in respect of convertible borrowings	38	41
Convertible borrowings interest rate swap fair value hedge movement	(1)	(19)
Profit attributable to ordinary equity holders of the parent for diluted earnings per share from continuing operations	1,984	1,724
Total operations:		
Profit before exceptional items attributable to ordinary equity holders of the parent from continuing operations	3,350	1,660
Exceptional items from continuing operations	(1,403)	42
Profit attributable to ordinary equity holders of the parent from continuing operations	1,947	1,702
Profit/(loss) attributable to ordinary equity holders of the parent from discontinued operations	-	4
Profit attributable to ordinary equity holders of the parent	1,947	1,706
Interest in respect of convertible borrowings	38	41
Convertible borrowings interest rate swap fair value hedge movement	(1)	(19)
Profit attributable to ordinary equity holders of the parent for diluted earnings per share	1,984	1,728

Weighted average number of shares (000) excluding own shares:		
For basic earnings per share	771,820	684,196
Effect of dilution:		
- Free shares and share options (000)	9,441	5,394
- Convertible borrowings	50,294	73,695
For diluted earnings per share	831,555	763,285

On 30 October 2006, 235,787,596 ordinary shares were issued under a rights issue which was structured as an issue of 1 new ordinary share at a price of GBP 12.65 per share for every 3 existing ordinary shares held. The theoretical ex-rights price for an ordinary share was GBP19.51. The 2005 comparative earnings per share have been restated after applying a factor of 0.8951 in order to adjust for the bonus element of the rights issue and the 2006 figures have also been adjusted for this bonus element.

Dividends Paid and Proposed

US$m	2006	2005
Declared and paid during the year:		
Final dividend for 2005 – 22.4 cents per ordinary share (2004 – 14.3 cents per ordinary share)	159	100
Interim dividend for 2006 – 11.6 cents per ordinary share (2005 – 8.1 cents per ordinary share)	92	54
	251	154

Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December):		
Final dividend for 2006 – 30 cents per ordinary share (2005 – 22.4 cents per ordinary share)	281	150

The dividends per share declared and paid prior to 30 October 2006 have been adjusted by the Rights Issue bonus adjustment factor of 0.8951.

Impairment of Goodwill

The acquisition of Falconbridge was completed in two stages. Xstrata acquired 19.9% of Falconbridge at CAD28 per share in 2005, before acquiring the remaining 80.1% in 2006 at a price of CAD62.50 per share. The average price paid per share for the 100% interest was CAD56.44. Xstrata's ability to average the purchase price paid for the second tranche of shares over the full purchase provided Xstrata with a compelling competitive advantage and was a significant factor in the success of the transaction.

Under IFRS, this advantage cannot be recognised, as goodwill is calculated separately for each transaction, regardless of the average price paid per share to acquire the 100% interest. This accounting treatment has resulted in the creation of additional goodwill of US$1.5 billion. Xstrata has completed a detailed fair value assessment of the assets acquired and, in accordance with IFRS, tested goodwill for impairment. As a consequence, the company has determined that an impairment charge of US$1,378 million is appropriate.

Finance Income

US$m	2006	2005
Bank interest	93	20
Dividends	3	9
Interest – other	16	7
Finance income before exceptional items	112	36
Foreign currency gains on bank loans	120	-
Recycled gains from the foreign currency translation reserve	50	88
Exceptional finance income	170	88
Total finance income	282	124

Finance Costs

US$m	2006	2005
Amortisation of loan issue costs	9	2
Convertible borrowings amortised cost charge	8	10
Discount unwinding	40	14
Finance charges payable under finance leases and hire purchase contracts	17	7
Interest on bank loans and overdrafts	398	43
Interest on convertible borrowings and capital market notes	142	38
Interest on minority interest loans	6	6
Interest on preference shares	12	-
Unrealised loss on interest rate swap	-	2
Interest – other	14	6
Finance cost before exceptional items	646	128
Foreign currency losses on bank loans	129	-
Recycled losses from the foreign currency translation reserve	97	27
Loan issue costs written-off on facility refinancing	9	17
Exceptional finance cost	235	44
Total finance cost	881	172

Income Taxes

Significant components of income tax expense for the years ended:

US$m	2006	2005
Consolidated income statement		
Current tax:		
Based on taxable income of the current year	1,387	499
Prior year over provision	(1)	(13)
Total current taxation charge for the year	1,386	486
Deferred taxation:		
Origination and reversal of temporary differences	144	81
Change in tax rates	(6)	(21)
Benefit from previously unrecognised tax losses, tax credits or temporary differences of a prior year that is used to reduce deferred tax expense	(4)	(1)
Benefit from entry into the Australian tax consolidation regime	-	(2)
Prior year adjustments	43	-
Total deferred taxation charge/(credit) for the year	177	57
Total taxation charge	1,563	543
Total taxation charge reported in consolidated income statement	1,563	543
Income tax attributable to discontinued operations	-	-
Total taxation charge	1,563	543

Interest-bearing Loans and Borrowings

US$m	2006	2005
Current:		
Bank overdrafts	143	3
Syndicated bank loans – unsecured	1,677	106
Term bank loan – unsecured	-	600
Bank loans - other unsecured	39	7
Capital market notes	5	14
Obligations under finance leases and hire purchase contracts	147	15
Preference shares	-	-
Bank loan issue costs	(21)	(1)
	1,990	744
Non-current:		
Syndicated bank loans - unsecured	7,416	971
Bank loans - other unsecured	345	6
Capital market notes	4,627	262
Minority interest loans	81	81
Obligations under finance leases and hire purchase contracts	95	214
Preference shares	304	-
Other loans	139	1
Bank loan issue costs	(61)	(2)
	12,946	1,533
Non-current:		
Convertible borrowings	527	866
Convertible borrowings issue costs	(2)	(8)
	525	858
Total	15,461	3,135
Less cash and cash equivalents	(1,860)	(524)
Net debt*	13,601	2,611

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

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

US$m	2006	2005
Cash at bank and in hand	622	154
Short term deposits	1,238	370
Bank overdrafts	(143)	(3)
	1,717	521

Supplementary Information (unaudited)

Pro Forma Consolidated Income Statement

For the year ended 31 December 2006

US$m	Before exceptional items	Exceptional items	Total 2006	Before exceptional Items	Exceptional items	Total 2005
Revenue	26,877	-	26,877	17,199	-	17,199
Cost of sales	(14,554)	-	(14,554)	(9,982)	-	(9,982)
Distribution costs	(1,264)	-	(1,264)	(1,131)	-	(1,131)
Administrative expenses	(632)	-	(632)	(292)	-	(292)
Other expenses	(60)	-	(60)	(59)	-	(59)
Other income	65	-	65	76	-	76
Share of results from associates	9	-	9	32	-	32
Profit on sale of investments	-	63	63	-	17	17
Profit on sale of operations	-	16	16			
Restructuring and closure costs	-	-	-	-	(10)	(10)
Profit before interest, taxation, depreciation and amortisation	10,441	79	10,520	5,843	7	5,850
Depreciation and amortisation	(2,101)	-	(2,101)	(1,911)	-	(1,911)
Profit before interest and taxation	8,340	79	8,419	3,932	7	3,939
Finance income	171	170	341	83	89	172
Finance costs	(1,226)	(104)	(1,330)	(880)	(44)	(924)
Profit before taxation	7,285	145	7,430	3,135	52	3,187
Income tax (expense)/benefit	(2,127)	(5)	(2,132)	(733)	8	(725)
Profit from continuing operations	5,158	140	5,298	2,402	60	2,462
Profit on sale of discontinued operations	-	-	-	-	(4)	(4)
Profit for the year	5,158	140	5,298	2,402	56	2,458
Attributable to:						
Equity holders of the parent	4,745	140	4,885	2,176	56	2,232
Minority interests	413	-	413	226	-	226
	5,158	140	5,298	2,402	56	2,458
Earnings per share (US$)						
- basic (continuing operations)	5.13	0.15	5.28	2.52	0.06	2.58
- basic	5.13	0.15	5.28	2.52	0.06	2.58

Notes to the Pro Forma Consolidated Income Statement

The pro forma financial information has not been audited by Ernst & Young LLP.

The 2006 Pro Forma Income Statement and segmental information for the Group is prepared to illustrate the effect the Falconbridge Group, Cerrejón and Tintaya acquisitions, rights issue, the May 2006 new shares issue and related debt draw downs, would have had if they had taken place on 1 January 2006.

The 2005 Pro Forma Income Statement and segmental information for the Group is prepared to illustrate the effect the Falconbridge Group, Cerrejón and Tintaya acquisitions, rights issue, the May 2006 new shares issue and related debt draw downs, would have had if they had taken place on 1 January 2005. The pro forma financial information for the year ended 31 December 2005 has been extracted from the Xstrata plc Rights Issue prospectus dated October 2006 and updated to reflect amendments to Tintaya's 2005 income statement, the financing structure of the Group and a change in the method in applying deferred tax to acquisition fair value adjustments to reflect the intention to realise the assets' value through use.

The pro forma information for 2005 and 2006 excludes certain exceptional items relating to the Falconbridge acquisition, so as not to distort the results of the Group by these one off items. The exceptional items excluded include the goodwill impairment and certain restructuring costs.

Reconciliation of Pro Forma and Statutory Financial Statements

US$m	Before exceptional items	Exceptional items	Total 2006	Before exceptional Items	Exceptional items	Total 2005
Revenue						
Statutory revenue	17,632	-	17,632	8,050	-	8,050
Cerrejón pre-acquisition revenue	140	-	140	441	-	441
Tintaya pre-acquisition revenue	329	-	329	410	-	410
Falconbridge Group pre-acquisition revenue	8,776	-	8,776	8,298	-	8,298
Total	26,877	-	26,877	17,199	-	17,199
EBITDA						
Statutory EBITDA	7,107	29	7,136	3,103	(10)	3,093
Cerrejón pre-acquisition EBITDA	71	-	71	242	-	242
Tintaya pre-acquisition EBITDA	218	-	218	221	-	221
Falconbridge Group pre-acquisition EBITDA	2,957	(601)	2,356	2,288	17	2,305
Falconbridge fair value and pro forma adjustments	88	651	739	(11)	-	(11)
Total	10,441	79	10,520	5,843	7	5,850
EBIT						
Statutory EBIT	5,863	(1,349)	4,514	2,520	(10)	2,510
Cerrejón pre-acquisition EBIT	45	-	45	177	-	177
Tintaya pre-acquisition EBIT	175	-	175	139	-	139
Falconbridge Group pre-acquisition EBIT	2,632	(601)	2,031	1,807	17	1,824
Falconbridge fair value and pro forma adjustments	(375)	2,029	1,654	(711)	-	(711)
Total	8,340	79	8,419	3,932	7	3,939
Profit						
Statutory profit	3,755	(1,403)	2,352	1,877	46	1,923
Cerrejón pre-acquisition profit	30	-	30	121	-	121
Tintaya pre-acquisition profit	136	-	136	78	-	78
Falconbridge Group pre-acquisition profit	1,619	(403)	1,216	1,072	10	1,082
Fund raising and cost of acquisitions adjustments	(167)	-	(167)	(185)	-	(185)
Fair value and pro forma adjustments	(215)	1,946	1,731	(561)	-	(561)
Total	5,158	140	5,298	2,402	56	2,458

Pro Forma Segmental Analysis

For the year ended 31 December

US$m	Before exceptional items	Exceptional items	Total 2006	Before exceptional Items	Exceptional items	Total 2005
Revenue						
External parties:						
Coal	3,757	-	3,757	3,841	-	3,841
Chrome	748	-	748	798	-	798
Platinum	12	-	12	-	-	-
Vanadium	199	-	199	318	-	318
Copper	12,508	-	12,508	6,927	-	6,927
Nickel	3,364	-	3,364	2,161	-	2,161
Zinc Lead	4,774	-	4,774	1,997	-	1,997
Aluminium	1,395	-	1,395	1,080	-	1,080
Technology	120	-	120	77	-	77
Revenue (continuing operations)	26,877	-	26,877	17,199	-	17,199
EBITDA						
Coal	1,320	16	1,336	1,588	-	1,588
Chrome	141	-	141	169	-	169
Platinum	11	-	11	-	-	-
Vanadium	111	-	111	181	-	181
Copper	5,399	-	5,399	2,697	-	2,697
Nickel	1,386	-	1,386	721	-	721
Zinc Lead	1,946	-	1,946	398	-	398
Aluminium	286	-	286	158	-	158
Technology	26	-	26	14	-	14
Unallocated	(185)	63	(122)	(83)	7	(76)
EBITDA (continuing operations)	10,441	79	10,520	5,843	7	5,850
Profit on sale of discontinued operations:						
Forestry	-	-	-	-	4	4
Unallocated	-	-	-	-	(8)	(8)
Total	10,441	79	10,520	5,843	3	5,846

Depreciation and amortisation						
Coal	383	-	383	332	-	332
Chrome	23	-	23	27	-	27
Vanadium	6	-	6	6	-	6
Copper	871	-	871	845	-	845
Nickel	455	-	455	388	-	388
Zinc Lead	273	-	273	212	-	212
Aluminium	78	-	78	83	-	83
Technology	4	-	4	4	-	4
Unallocated	8	-	8	14	-	14
Total (continuing operations)	2,101	-	2,101	1,911	-	1,911

US$m	Before exceptional items	Exceptional items	Total 2006	Before exceptional Items	Exceptional items	Total 2005
Profit before interest and taxation (EBIT)						
Coal	937	16	953	1,256	-	1,256
Chrome	118	-	118	142	-	142
Platinum	11	-	11	-	-	-
Vanadium	105	-	105	175	-	175
Copper	4,528	-	4,528	1,852	-	1,852
Nickel	931	-	931	333	-	333
Zinc Lead	1,673	-	1,673	186	-	186
Aluminium	208	-	208	75	-	75
Technology	22	-	22	10	-	10
Unallocated	(193)	63	(130)	(97)	7	(90)
EBIT (continuing operations)	8,340	79	8,419	3,932	7	3,939
Profit on sale of discontinued operations:						
Forestry	-	-	-	-	4	4
Unallocated	-	-	-	-	(8)	(8)
Total	8,340	79	8,419	3,932	3	3,935

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 2006 and 2005.

For the year ended 31 December

US$m	Before exceptional items	Exceptional items	Total 2006	Before exceptional Items	Exceptional items	Total 2005
Revenue by origin						
External parties:						
Africa	1,673	-	1,673	1,906	-	1,906
Americas North	10,399	-	10,399	5,779	-	5,779
Americas South	7,396	-	7,396	4,219	-	4,219
Australasia	4,815	-	4,815	4,086	-	4,086
Europe	2,594	-	2,594	1,209	-	1,209
Revenue (continuing operations)	26,877	-	26,877	17,199	-	17,199
Revenue by destination						
External parties:						
Africa	243	-	243	237	-	237
Americas North	8,935	-	8,935	5,114	-	5,114
Americas South	1,180	-	1,180	1,099	-	1,099
Asia	6,801	-	6,801	4,701	-	4,701
Australasia	923	-	923	655	-	655
Europe	8,694	-	8,694	5,281	-	5,281
Middle east	101	-	101	112	-	112
Revenue (continuing operations)	26,877	-	26,877	17,199	-	17,199
EBITDA						
Africa	439	-	439	621	-	621
Americas North	2,674	-	2,674	1,059	-	1,059
Americas South	4,444	-	4,444	2,267	-	2,267
Australasia	2,519	16	2,535	1,802	-	1,802
Europe	550	-	550	177	-	177
Unallocated	(185)	63	(122)	(83)	7	(76)
EBITDA (continuing operations)	10,441	79	10,520	5,843	7	5,850
Profit on sale of discontinued operations:						
Americas South	-	-	-	-	4	4
Unallocated	-	-	-	-	(8)	(8)
Total	10,441	79	10,520	5,843	3	5,846

US$m	Before exceptional items	Exceptional items	Total 2006	Before exceptional Items	Exceptional items	Total 2005
Depreciation and amortisation						
Africa	106	-	106	111	-	111
Americas North	832	-	832	731	-	731
Americas South	728	-	728	692	-	692
Australasia	390	-	390	327	-	327
Europe	37	-	37	36	-	36
Unallocated	8	-	8	14	-	14
Total (continuing operations)	2,101	-	2,101	1,911	-	1,911

EBIT						
Africa	333	-	333	510	-	510
Americas North	1,842	-	1,842	328	-	328
Americas South	3,716	-	3,716	1,575	-	1,575
Australasia	2,129	16	2,145	1,475	-	1,475
Europe	513	-	513	141	-	141
Unallocated	(193)	63	(130)	(97)	7	(90)
EBIT (continuing operations)	8,340	79	8,419	3,932	7	3,939
Profit on sale of discontinued operations:						
Americas South	-	-	-	-	4	4
Unallocated	-	-	-	-	(8)	(8)
Total	8,340	79	8,419	3,932	3	3,935