

Comparison of Pro Forma and Statutory Segmental Analysis (continued)

For the year ended 31 December

US\$m	Statutory			Pro Forma		
	Before exceptional items	Exceptional items	Total 2007	Before exceptional items	Exceptional items	Total 2006
Depreciation and amortisation						
Africa	185	–	185	106	–	106
North America	584	–	584	754	–	754
South America	751	–	751	728	–	728
Australasia	526	–	526	390	–	390
Europe	43	–	43	37	–	37
Unallocated	7	–	7	8	–	8
Total (continuing operations)	2,096	–	2,096	2,023	–	2,023
Discontinued operations:						
North America	31	–	31	78	–	78
Total	2,127	–	2,127	2,101	–	2,101
EBIT						
Africa	498	(25)	473	333	–	333
North America	2,227	275	2,502	1,634	–	1,634
South America	3,863	–	3,863	3,716	–	3,716
Australasia	1,952	–	1,952	2,129	16	2,145
Europe	446	–	446	513	–	513
Unallocated	(194)	–	(194)	(193)	63	(130)
EBIT (continuing operations)	8,792	250	9,042	8,132	79	8,211
Discontinued operations:						
North America	89	13	102	208	–	208
Total	8,881	263	9,144	8,340	79	8,419

US\$m	Statutory 2007	Pro Forma 2006
Capital expenditure		
Sustaining:		
Africa	184	99
North America	371	178
South America	264	178
Australasia	588	324
Europe	37	30
Unallocated	11	5
Total sustaining (continuing operations)	1,455	814
Discontinued operations:		
North America	12	33
Total	1,467	847
Expansionary:		
Africa	221	352
North America	311	203
South America	278	113
Australasia	585	534
Europe	22	23
Total expansionary (continuing operations)	1,417	1,225
Discontinued operations:		
North America	1	22
Total	1,418	1,247
Total:		
Africa	405	451
North America	682	381
South America	542	291
Australasia	1,173	858
Europe	59	53
Unallocated	11	5
Total (continuing operations)	2,872	2,039
Discontinued operations:		
North America	13	55
Total	2,885	2,094

Statement of Directors' Responsibilities in Relation to the Parent Company Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

Independent Auditors' Report to the Members of Xstrata plc

We have audited the parent company financial statements of Xstrata plc for the year ended 31 December 2007 which comprise the Balance Sheet and the related notes 1 to 11. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited. We have reported separately on the group financial statements of Xstrata plc for the year ended 31 December 2007.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Business Operating and Financial Review and the Corporate Governance Statement and that part of the Directors' Remuneration Report that is unaudited. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered auditor
London, 18 March 2008

Balance Sheet

As at 31 December 2007

US\$m	Notes	2007	2006
Fixed assets			
Investments	2	12,498	11,218
		12,498	11,218
Current assets			
Debtors: amounts falling due within one year	3	98	34
Creditors: amounts falling due within one year	4	(13)	(14)
Net current assets		85	20
Total assets less current liabilities			
Provisions for liabilities	5	(102)	(58)
Attributable net assets		12,481	11,180
Capital and reserves			
Called up share capital	7,8	485	471
Share premium account	7,8	9,899	9,522
Other reserves	8	949	949
Own shares	8	(126)	(147)
Profit and loss account	8	1,274	385
Equity shareholders' funds		12,481	11,180

The financial statements on pages 264 to 278 were approved by the Board of Directors on 18 March 2008 and signed on its behalf by:

Trevor Reid
Chief Financial Officer

No profit and loss account is presented for Xstrata plc as permitted by section 230 of the Companies Act 1985. The profit of Xstrata plc for the year ended 31 December 2007 is US\$1,434 million (2006 US\$294 million). There are no recognised gains and losses attributable to the shareholders of the Company other than the profit of US\$1,434 million for the year ended 31 December 2007 (2006 profit of US\$294 million).

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with applicable UK accounting standards. Xstrata plc (the Company) has adopted the following principal accounting policies:

Investments

Equity investments in subsidiaries are carried at cost less any provision for impairments.

Financial assets – loans and receivables

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value on the trade date, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount.

Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Loans and receivables are derecognised when the Company no longer has a right to receive cash flows from the asset.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost (that would have been measured if there had been no impairment) at the reversal date.

Impairment

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

If the carrying value of a fixed asset exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. In assessing the recoverable amounts of fixed assets, the relevant future cash flows expected to arise from the continuing use of and disposal of the assets have been discounted to their present value using a market-determined discount rate.

Provisions for liabilities

Provisions are recognised when the Company has a present obligation, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation.

Notes to the Financial Statements

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date that will result in an obligation to pay more, or a right to pay less, tax in the future. In particular:

- provision is made for tax on gains arising from the disposal of fixed assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas entities only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that, it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Own shares

The cost of purchases of own shares held by the Employee Share Ownership Plan (ESOP) trust are deducted from equity. Where they are issued to employees or sold, no gain or loss is recognised in the profit and loss account. Any proceeds received on the disposal of the shares or on the transfer of shares to employees are recognised in equity.

Share-based payments

The Company makes share-based awards, including free shares and options in the Company, to certain employees and Directors of the Group. The expense recognised in the financial statements relates only to those share-based awards that are granted by the Company, to its employees and directors and to the employees of the Group who provide services to the Company.

Equity-settled awards

For equity-settled awards, the fair value is charged to the profit and loss account and credited to retained earnings, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest (taking into account the achievement of non-market based performance conditions). The fair value of the equity-settled awards is determined at the date of the grant. In calculating fair value, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions). The fair value is determined by external experts using the models outlined in note 10. At each balance sheet date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed (after adjusting for non-market performance conditions). The movement in cumulative expense is recognised in the profit and loss account with a corresponding entry within equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified over the original vesting period. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification, over the remainder of the new vesting period.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Any compensation paid up to the fair value of the awards at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new award is treated as if it is a modification of the original award, as described in the previous paragraph.

1. Accounting policies (continued)

Cash-settled awards

For cash-settled awards, the fair value is re-calculated at each balance date until the awards are settled based on the estimated number of awards that are expected to vest adjusting for market and non-market based performance conditions. During the vesting period, a liability is recognised representing the portion of the vesting period which has expired at the balance sheet date times the fair value of the awards at that date. After vesting the full fair value of the unsettled awards at each balance date is recognised as a liability. Movements in the liability are recognised in the profit and loss account. The fair value is recalculated using an option pricing model (refer to note 10).

The Group has taken advantage of the transitional provisions on adoption of FRS 20 in relation to unvested equity-settled awards and has applied the above policies only to awards granted after 7 November 2002 that had not vested prior to 1 January 2005.

Loans from subsidiaries

Loans from subsidiaries are recognised at inception at the fair value of the proceeds received net of issue costs. Subsequently they are measured at amortised cost using the effective interest method. Finance costs are recognised in the profit and loss account using the effective interest rate method.

Foreign currency transactions

Foreign currency transactions are booked in the functional currency (US\$) at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into the functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are recorded in the profit and loss account. Foreign currency non-monetary assets and liabilities are not restated at balance sheet date.

Revenue

Interest income is recognised as earned on an accruals basis using the effective interest method.

Dividend income is recognised as earned when the Company's right to receive payment is established.

Income for other services is recognised when the service has been rendered, when the amount of revenue (and associated costs) can be reliably measured and it is probable that economic benefits will flow to the Company.

Comparatives

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

Use of estimates

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

Notes to the Financial Statements

2. Investments			
US\$m	Investment in subsidiaries	Loans to subsidiaries	Total
Cost:			
At 1 January 2007	9,491	1,727	11,218
Additions – existing investments	2,544		2,544
Reductions – existing investments	–	(1,264)	(1,264)
At 31 December 2007	12,035	463	12,498
The subsidiary undertakings of the Company as at 31 December and the percentage holding of ordinary share capital are set out below:			
Name	Country of incorporation	Principal activities	% of ordinary shares held & voting rights
Principal subsidiaries			
Xstrata (Schweiz) AG	Switzerland	Holding company	100%
Xstrata Finance (Dubai) LLC	UAE	Finance company	90%
Xstrata Commodities Middle East DMCC	UAE	Marketing company	90%
Xstrata Capital Corporation AVV*	Aruba	Finance company	40%
Xstrata Zinc BV	Holland	Finance Company	75%
*The voting rights are 51%.			
The principal country of operation is the country of incorporation, and all subsidiaries are unlisted. Refer to note 35 of the consolidated financial statements for a list of significant subsidiaries, associates and joint ventures.			
3. Debtors – amounts falling due within one year			
US\$m	2007		2006
Receivables – subsidiaries	95		28
Other debtors	3		6
	98		34
4. Creditors – amounts falling due within one year			
US\$m	2007		2006
Loans from subsidiaries	7		8
Other creditors	6		6
	13		14

5. Provisions		
US\$m	Share-based Compensation Plans 2007	
At 1 January 2007	58	
Arising during the year	44	
Utilised	–	
At 31 December 2007	102	
<p>The Company has various share-based compensation plans under which options to subscribe for the Company's shares have been granted to directors and employees of the Company and employees of the Group who provide services to the Company. The intrinsic value of the options that had vested at 31 December 2007 was US\$86 million (2006 US\$17 million).</p>		
6. Dividends paid and proposed		
US\$m	2007	2006
Declared and paid during the year:		
Final dividend for 2006 – 30 cents per ordinary share (2005 – 22.4 cents per ordinary share)	290	159
Interim dividend for 2007 – 16 cents per ordinary share (2006 – 11.6 cents per ordinary share)	153	92
	443	251
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December):		
Final dividend for 2007 – 34 cents per ordinary share (2006 – 30 cents per ordinary share)	326	281
<p>Dividends declared in respect of the year ended 31 December 2007 will be paid on 16 May 2008. Own shares held in the ESOP have waived the right to receive dividends.</p>		

Notes to the Financial Statements

7. Capital	
US\$m	
Authorised:	
875,000,000 ordinary shares of US\$0.50 each as at 1 January 2006	438
14,234,948,397 ordinary shares of US\$0.50 each increase on 30 June 2006	7,117
15,109,948,397 ordinary shares of US\$0.50 each as at 31 December 2006	7,555
13,609,948,397 ordinary shares of US\$0.50 each cancellation	(6,805)
1,500,000,000 ordinary shares of US\$0.50 each as at 31 December 2007	750
50,000 deferred shares of GBP1.00 each as at 31 December 2006 and at 31 December 2007	–
1 special voting share of US\$0.50 as at 31 December 2006 and as at 31 December 2007	–
	750
Issued, called up and fully paid:	
632,502,416 ordinary shares of US\$0.50 each as at 1 January 2006	316
3,000,000 ordinary shares issued on 28 March 2006 to the ESOP	1
32,543,344 ordinary shares issued on 22 May 2006 to institutional investors	16
235,787,596 ordinary shares issued on 30 October 2006 from a shareholder rights issue	118
39,317,027 ordinary shares issued on the exercise of convertible bonds to 31 December 2006	20
943,150,383 ordinary shares of US\$0.50 each as at 31 December 2006	471
4,000,000 ordinary shares issued on 31 January 2007 to the ESOP	2
24,516,537 ordinary shares issued on the exercise of convertible bonds to 31 December 2007	12
971,666,920 ordinary shares of US\$0.50 each as at 31 December 2007	485
Share Premium:	
As at 1 January 2006	2,500
3,000,000 ordinary shares issued on 27 March 2006 to the ESOP	97
32,543,344 ordinary shares issued on 22 May 2006 to institutional investors	1,236
235,787,596 ordinary shares issued on 30 October 2006 from a shareholder rights issue	5,314
39,317,027 ordinary shares issued on the exercise of convertible bonds to 31 December 2006	375
At 31 December 2006	9,522
4,000,000 ordinary shares issued on 31 January 2007 to the ESOP	183
24,516,537 ordinary shares issued on the exercise of convertible bonds to 31 December 2007	194
As at 31 December 2007	9,899
Issue of ordinary shares	
During March 2006, 3,000,000 shares were issued to the ESOP at a market price of GBP18.72 per share.	
On 22 May 2006, 32,543,344 shares were issued to institutional investors at a market price of GBP21.00 per share.	
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 GBP12.65 per share for every 3 existing ordinary shares held. The net proceeds from the rights issue was US\$5,432 million (after US\$186 million of capital raising costs) and the number of shares in issue of Xstrata plc following the completion of the rights issue was 943,150,383.	

7. Capital (continued)

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

During 2006, 64.3% of the US\$600 million of convertible bonds were converted at the option of the holders into 39,317,027 ordinary shares in Xstrata plc. During 2007, the remainder of the US\$600 million convertible bonds issued by Xstrata Capital Corporation AVV were converted at the option of the holders into 24,516,537 ordinary shares in Xstrata plc. As a result of this conversion, 100% of the bond has been now converted.

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

Details in respect of the various classes of shares are outlined in the Directors' Report on pages 103 to 106.

8. Capital and reserves

US\$m	Share capital	Share premium account	Other reserves	Own shares	Profit and loss account	2007
Capital and reserves						
At 1 January 2007	471	9,522	949	(147)	385	11,180
Attributable profit for the year	–	–	–	–	1,434	1,434
Issue of share capital	14	377	–	(185)	–	206
Own shares purchased	–	–	–	(14)	–	(14)
Own shares sold	–	–	–	220	(164)	56
Equity-settled share-based payments	–	–	–	–	62	62
Dividends	–	–	–	–	(443)	(443)
At 31 December 2007	485	9,899	949	(126)	1,274	12,481
US\$m	Share capital	Share premium account	Other reserves	Own shares	Profit and loss account	2006
Capital and Reserves						
At 1 January 2006	316	2,500	949	(35)	322	4,052
Attributable profit for the year	–	–	–	–	294	294
Issue of share capital	155	7,022	–	(136)	–	7,041
Own shares purchased	–	–	–	(11)	–	(11)
Own shares sold	–	–	–	35	(22)	13
Equity-settled share-based payments	–	–	–	–	42	42
Dividends	–	–	–	–	(251)	(251)
At 31 December 2006	471	9,522	949	(147)	385	11,180

Own shares

Own shares comprise shares of Xstrata plc held in the ESOP.

The shares acquired by the ESOP are either stock market purchases or from share issues from the Company. The ESOP is used to co-ordinate the funding and manage the delivery of ordinary shares for options and free share awards under the Group's employee award schemes. The trustee of the ESOP is permitted to place the shares back into the market and may hold up to 5% of the issued share capital of the Company at any one time. At 31 December 2007, 3,846,691 (2006 6,173,747) shares, equivalent to 0.4% (2006 0.7%) of the total issued share capital, were held by the trust with a cost of US\$126 million (2006 US\$147 million) and market value of US\$271 million (2006 US\$308 million). The trust has waived the right to receive dividends from the shares that it holds. Costs relating to the administration of the trust are expensed in the period in which they are incurred.

Notes to the Financial Statements

9. Other income and expenses

The audit fee is US\$42,000 (2006 US\$40,000) in respect of the Company. Refer to note 10 of the consolidated financial statements for further information of Auditors' remuneration.

Refer to the Directors' Remuneration Report on pages 132 to 135 for the remuneration of directors.

10. Share-based payments

The Group operates a number of share option plans which are outlined below and result in the Company granting options and awards over its shares.

The expense recognised for share-based payments during the year ended 31 December 2007 was US\$65 million (2006 US\$63 million).

The proportion of that expense arising from equity-settled share-based awards was US\$21 (2006 US\$14 million).

Xstrata plc Long Term Incentive Plan (LTIP)

The LTIP has two elements:

- (i) A contingent award of free ordinary shares that vests after three years, subject to, and to the extent that, performance criteria determined at the time of grant have been satisfied; and
- (ii) An option to acquire ordinary shares at a specified exercise price after the third anniversary of grant, subject to, and to the extent that, performance criteria determined at the time of grant have been satisfied.

All LTIP awards that vest are subject to the satisfaction of certain performance criteria being met over a three-year performance period. The 2003 LTIP awards are only subject to the Total Shareholder Return (TSR) performance criteria. Half of the options and free share awards granted in 2004 and 2005 are conditional on TSR relative to a peer group, with the remainder conditional on the Group's real cost savings relative to targets set on a stretching scale over the three-year period. The allocation of performance criteria pertaining to the options and free share awards granted in 2006 and 2007 is summarised in the following table:

Award	Employees	Number	% TSR	% cost savings	TSR	Cost savings
2007: Options	Corporate	1,140,952	50%	50%	570,476	570,476
	Business units	2,117,638	25%	75%	529,410	1,588,228
		3,258,590			1,099,886	2,158,704
Free shares	Corporate	342,286	50%	50%	171,143	171,143
	Business units	635,287	25%	75%	158,822	476,465
		977,573			329,965	647,608
2006: Options	Corporate	1,048,144	50%	50%	524,072	524,072
	Business units	1,764,060	25%	75%	441,015	1,323,045
		2,812,204			965,087	1,847,117
Free shares	Corporate	314,444	50%	50%	157,222	157,222
	Business units	538,092	25%	75%	134,523	403,569
		852,536			291,745	560,791

10. Share-based payments (continued)

For the awards conditional on TSR, one-half of the award will vest if TSR growth is at the median of the specified peer group, the full award will vest for performance at or above the second decile with straight-line vesting between these points. No vesting will occur for below median performance. For the awards where vesting is conditional on the Group's real cost savings relative to targets set on a stretching scale: 10% of the award will vest for 1% cost savings, 70% for 2% cost savings and all awards for 3% or more cost savings, with straight-line vesting between these points. No vesting will occur if cost savings are less than 1%. Real cost savings will be measured in relation to operating costs after adjusting for the effects of inflation, excluding depreciation, commodity price linked costs, effects of currencies on translation of local currency costs and planned life of mine adjustments. No other features of the LTIP awards were incorporated into the measurement of fair value.

No consideration will be payable on the vesting of an LTIP award of free ordinary shares. On exercise of an option, a participant will be required to pay an exercise price which is based on the closing market price of an ordinary share seven trading days prior to the date of grant.

Of the below options, 2.0 million (2006 1.9 million) are accounted for as cash-settled share-based awards whilst the remainder of the LTIP awards are equity-settled.

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

Free Shares

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding as at 1 January	4,129,365 ¹	NA	3,675,667 ¹	NA
Granted during the year	977,573	NA	852,536	NA
Granted through rights issue	–	NA	436,838 ²	NA
Forfeited during the year	(54,491)	NA	(121,974)	NA
Exercised during the year	(1,804,700) ⁴	NA	(675,586) ³	NA
Expired during the year	–	NA	(38,116)	NA
Outstanding as at 31 December	3,247,747	NA	4,129,365	NA
Exercisable at 31 December	–	NA	–	NA

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

² These awards were issued as a result of the rights issue in October 2006.

³ The weighted average share price at the date of exercise of these awards was GBP17.56.

⁴ The weighted average share price at the date of exercise of these awards was GBP23.63.

The weighted average remaining contractual life for the free shares outstanding as at 31 December 2007 is 8.1 years (2006: 8.0 years).

The weighted average fair value of free shares granted during the year was US\$38.23 (2006: US\$22.25).

Share Options

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding as at 1 January	14,450,730	GBP9.26	12,191,118	GBP7.82
Granted during the year	3,258,590	GBP24.00	2,812,204	GBP16.15
Granted through rights issue	–	–	1,531,063 ¹	GBP9.25
Forfeited during the year	(182,323)	GBP13.21	(406,582)	GBP9.99
Exercised during the year	(4,332,000) ²	GBP6.49	(1,559,147) ³	GBP3.57
Expired during the year	–	–	(117,926)	GBP3.53
Outstanding as at 31 December	13,194,997 ⁴	GBP13.73	14,450,730 ⁵	GBP9.26
Exercisable at 31 December	2,402,460	GBP5.89	637,630	GBP3.22

¹ These awards were issued as a result of the rights issue in October 2006 (refer to note 7).

² The weighted average share price at the date of exercise of these options was GBP25.58.

³ The weighted average share price at the date of exercise of these options was GBP17.75.

⁴ All the share options included in this balance have been accounted for in accordance with FRS 20 Share-based Payments, except for 65,708 options issued in 2002.

⁵ All shares included in this balance have been accounted for in accordance with FRS 20 Share-based Payments, except for 81,013 options issued in 2002.

Notes to the Financial Statements

10. Share-based payments (continued)

The weighted average remaining contractual life for the share options outstanding as at 31 December 2007: 7.7 years (2006 7.9 years).

The weighted average fair value of options granted during the year was US\$13.93 (2006 US\$7.72).

The range of exercise prices for options outstanding at the end of the year was GBP3.22 to GBP24.00 (2006 GBP3.22 to GBP15.37).

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

	Date of grant 2007	Date of Grant 2006
Dividend yield (%)	1.5	1.3
Expected volatility (%)	35	31
Risk-free interest rate (%)	5.1	4.4
Earliest exercise date	15 Mar 2010	10 Mar 2009
Latest exercise date	14 Mar 2017	09 Mar 2016
Expected exercise date	27 Nov 2010	17 Nov 2009
Share price at date of grant (GBP)	24.25	17.03
Exercise price (GBP)	24.00	17.17
Free share fair value at date of grant (GBP)	19.73	16.38
Option fair value at date of grant (GBP)	6.74	4.49

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historic volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Both the free shares and the equity-settled options are equity-settled plans and the fair value is measured at the date of grant.

The fair value of the cash settled options is measured at the date of grant and at each reporting date until the liability is settled, using the Black Scholes option pricing model, taking into account the terms and conditions of the award.

Xstrata AG incentive plan

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

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding as at 1 January	14,320¹	CHF13.41	173,331 ¹	CHF27.63
Granted through rights issue	-	-	1,502 ²	CHF13.41
Exercised during the year	(14,320)⁴	CHF13.41	(147,846) ³	CHF25.64
Expired during the year	-	-	(12,667)	CHF25.64
Outstanding as at 31 December	-	-	14,320	CHF13.41
Exercisable at 31 December	-	-	14,320	CHF13.41

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

² These awards were issued as a result of the rights issue in October 2006.

³ The weighted average share price at the date of exercise of these options was CHF35.89.

⁴ The weighted average share price at the date of exercise of these options was CHF56.96.

10. Share-based payments (continued)

The weighted average remaining contractual life for the share options outstanding as at 31 December 2006 was 0.1 years.

No new shares were granted during the year.

Directors' Service Contracts

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

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

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding as at 1 January	1,242,492	GBP4.36	1,334,580	GBP4.75
Granted through rights issue	–	–	156,413 ¹	GBP3.69
Exercised during the year	(100,000)³	GBP5.68	(248,501) ²	GBP3.69
Outstanding as at 31 December	1,142,492	GBP4.25	1,242,492	GBP4.36
Exercisable at 31 December	1,142,492	GBP4.25	993,994	GBP4.03

¹ These awards were issued as a result of the rights issue in October 2006.

² The weighted average share price at the date of exercise of these options was GBP24.53.

³ The weighted average share price at the date of exercise of these options was GBP27.62.

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

The weighted average remaining contractual life for the share options outstanding as at 31 December 2007 is 5.4 years (2006 6.4 years).

No new shares were granted during the year.

The range of exercise prices for options outstanding at the end of the year was GBP3.84 to GBP5.68 (2006 GBP3.84 to GBP5.68).

Xstrata AG Directors' Incentive Scheme

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

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding as at 1 January	–	–	15,231	CHF28.64
Expired during the year	–	–	(15,231)	CHF28.64
Outstanding as at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

Notes to the Financial Statements

10. Share-based payments (continued)

Deferred Bonus

As detailed within the Directors' Remuneration Report on pages 121 to 135, the maximum bonus payable under the Bonus Plan for executive directors and the members of the Executive Committee is 300% of salary. Bonuses are payable in three tranches as follows:

- the maximum bonus, which any one participant is eligible to receive in cash, will be limited to 100% of the individual's base salary;
- any additional bonus up to a further 100% of base salary will be deferred for a period of one year; and
- any remaining bonus will be deferred for a period of two years.

The deferred elements will take the form of awards of Xstrata shares conditional on the participant remaining in employment throughout the deferral period. The number of shares awarded will be determined by reference to the market value of the shares at the date the bonus payment is determined. The deferred elements have been treated as an equity-settled share-based payment in accordance with FRS 20.

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

As dividend equivalents are receivable on the deferred amounts, the fair value of the deferral is technically equal to the value of the bonuses deferred.

The following deferred bonus awards have been made:

	2007	2006	2005
Market value of deferred bonus award (US\$m)	16	13	7
Number of shares purchased	-*	291,585	258,242

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

Directors' Added Value Plan (AVP)

The first cycle of the AVP began on 9 May 2005, the second began on 10 March 2006 and the third on 15 March 2007. A description of the performance requirements and the vesting schedule of the plan are detailed within the Directors' Remuneration Report on pages 121 to 135.

The fair value of the 2007 equity-settled share-based payment under FRS 20 was US\$19 million, estimated at 15 March 2007, using a Monte Carlo simulation model to incorporate the market based features of the plan. The equivalent valuation of the 2006 award was US\$7 million (2005 US\$7 million), estimated using a Monte Carlo simulation model.

For the 2007 plan cycle, the market capitalisation on 15 March 2007 was US\$45.2 billion, the Participation Percentage was equal to 0.3% and the share price at the measurement date was US\$46.77.

For the 2006 plan cycle, the market capitalisation on 10 March 2006 was US\$18.6 billion, the Participation Percentage was equal to 0.3% and the share price at the measurement date was US\$29.39.

10. Share-based payments (continued)

For the 2005 plan cycle, the market capitalisation on 9 May 2005 was US\$11.4 billion, the Participation Percentage was equal to 0.5% and the share price at the measurement date was US\$18.00.

	Xstrata plc	2007 Xstrata share Indices ¹	Xstrata plc	2006 Xstrata share Indices ¹
Dividend yield (%)	N/A	N/A ²	N/A	N/A ²
Expected volatility (%)	38	25	30	21
Risk-free interest rate (%)	5.2	5.2	4.4	4.4
Third anniversary of start of cycle	15 March 2010	15 March 2010	10 March 2009	10 March 2009
Fourth anniversary of start of cycle	15 March 2011	15 March 2011	10 March 2010	10 March 2010
Fifth anniversary of start of cycle	15 March 2012	15 March 2012	10 March 2011	10 March 2011

¹ There are two Xstrata Share Indices used within the valuation model; one is a market capitalisation weighted TSR index comprising 15 global mining firms (2006: 18 global mining firms) who are considered to be Xstrata's key competitors for both financial and human capital. The other is a market capitalisation price index comprising the same global mining firm constituents.

² When simulating the Xstrata Price Index, a dividend yield is included to account for the suppressing impact that a dividend payment has on the constituent share prices. A yield of 2.5% (2006 3.0%) has been used. For the simulation of Xstrata's TSR and the Index TSR a dividend yield is not required.

The expected volatility reflects the assumption that the historic volatility is indicative of future trends, which may also not necessarily be the actual outcome. There is no disclosure of the number of equity instruments granted as the AVP is not an award over a fixed number of shares.

11. Guarantees

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

Specifically, the Company has provided:

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

- unconditional and irrevocable guarantees to the holders of the convertible bond in respect of the payment of all amounts due and payable under the convertible bond. The amount due and payable under the convertible bonds at 31 December 2007 is US\$390 million (2006 US\$596 million); and
- guarantees to provide, in exchange for 375,000 (2006 589,419) preference shares of Xstrata Capital Corporation AVV, ordinary share capital in the Company on the conversion of the bonds. The number of shares to be issued under these guarantees at 31 December 2007 totals 13,575,432 (2006 38,091,969). These shares will be issued to the holder of the bonds in exchange for the preference shares in Xstrata Capital Corporation AVV they receive on conversion of the bonds.

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

In November 2006, the Group issued US\$2,250 million of capital market notes to refinance existing debt facilities. The notes are comprised of three tranches, a US\$1,000 million ten year facility at a fixed interest rate of 5.8%, a US\$750 million five year facility at a fixed interest rate of 5.5% and a US\$500 million three year facility that bears interest at a rate based on LIBOR plus 35 basis points. The fixed interest facilities were issued by Xstrata Finance (Canada) Limited and the floating rate facility was issued by Xstrata Finance (Dubai) Limited. The Xstrata Finance (Dubai) Limited issue was guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Canada) Limited. The Xstrata Finance (Canada) Limited issues were guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited.

The Group assumed a number of senior debentures on the acquisition of Falconbridge Limited (refer to notes 7 and 28 of the consolidated financial statements). Pursuant to the terms of the note indentures as amended by supplemental indentures, the Company has fully and unconditionally guaranteed in favour of the holders of the senior debentures the payment, within 15 days of when due, of all financial liabilities and obligations of Falconbridge Limited to such holders under the terms of the senior debentures.

Notes to the Financial Statements

11. Guarantees (continued)

The Group assumed preference shares on the acquisition of Falconbridge Limited (refer to notes 7 and 28 of the consolidated financial statements). Pursuant to the terms of a guarantee indenture, the Company has fully and unconditionally guaranteed in favour of the holders of the preference shares the payment, within 15 days of when due, of all financial liabilities and obligations of Falconbridge Limited to such holders under the terms of the preference shares.

In June 2007 the Group completed the pricing of two EUR500 million note issues by Xstrata Finance (Canada) Limited under its Euro Medium Term Note Programme. These comprised 500,000,000 guaranteed 4.875% notes due 14 June 2012 and 500,000,000 guaranteed 5.250% notes due 13 June 2017. The notes are fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited.

In July 2007, the Group entered into a US\$4,680 million revolving Syndicated Loan. Interest is payable on the loans at a rate which is based on LIBOR and the relevant margin, which is 27.5 basis points per annum. US\$2,160 million of the loan was entered into by Xstrata Finance (Canada) Limited and is guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited. US\$2,520 million of the loan was entered into by Xstrata (Schweiz) AG and is guaranteed by the Company, Xstrata Finance (Canada) Limited and Xstrata Finance (Dubai) Limited.

In October 2007, the Group entered into a US\$2,000 million 364 day Revolving Loan Facility. Interest is payable on the loans at a rate which is the aggregate of LIBOR and the relevant margin, which is 27.5 basis points per annum. The loan was entered into by Xstrata (Schweiz) AG and is guaranteed by the Company, Xstrata Finance (Canada) Limited and Xstrata Finance (Dubai) Limited.

In November 2007 Xstrata Finance (Canada) Limited completed a US\$500 million 30 year bond issue bearing interest at 6.90% per annum. The bond is fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited.

In December 2007, the Group entered into a guaranteed US\$1,500 million 364 day Revolving Loan Facility. Interest is payable on the loans at a rate which is the aggregate of LIBOR and the relevant margin, which is 27.5 basis points per annum. The loan was entered into by Xstrata (Schweiz) AG and is guaranteed by the Company, Xstrata Finance (Canada) Limited and Xstrata Finance (Dubai) Limited.

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Shareholder calendar 2008

Financial year-end	31 December
Annual General Meeting	6 May 2008
Dividend record date	25 April 2008
Dividend payment date	16 May 2008
Interim Results Presentation	6 August 2008

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