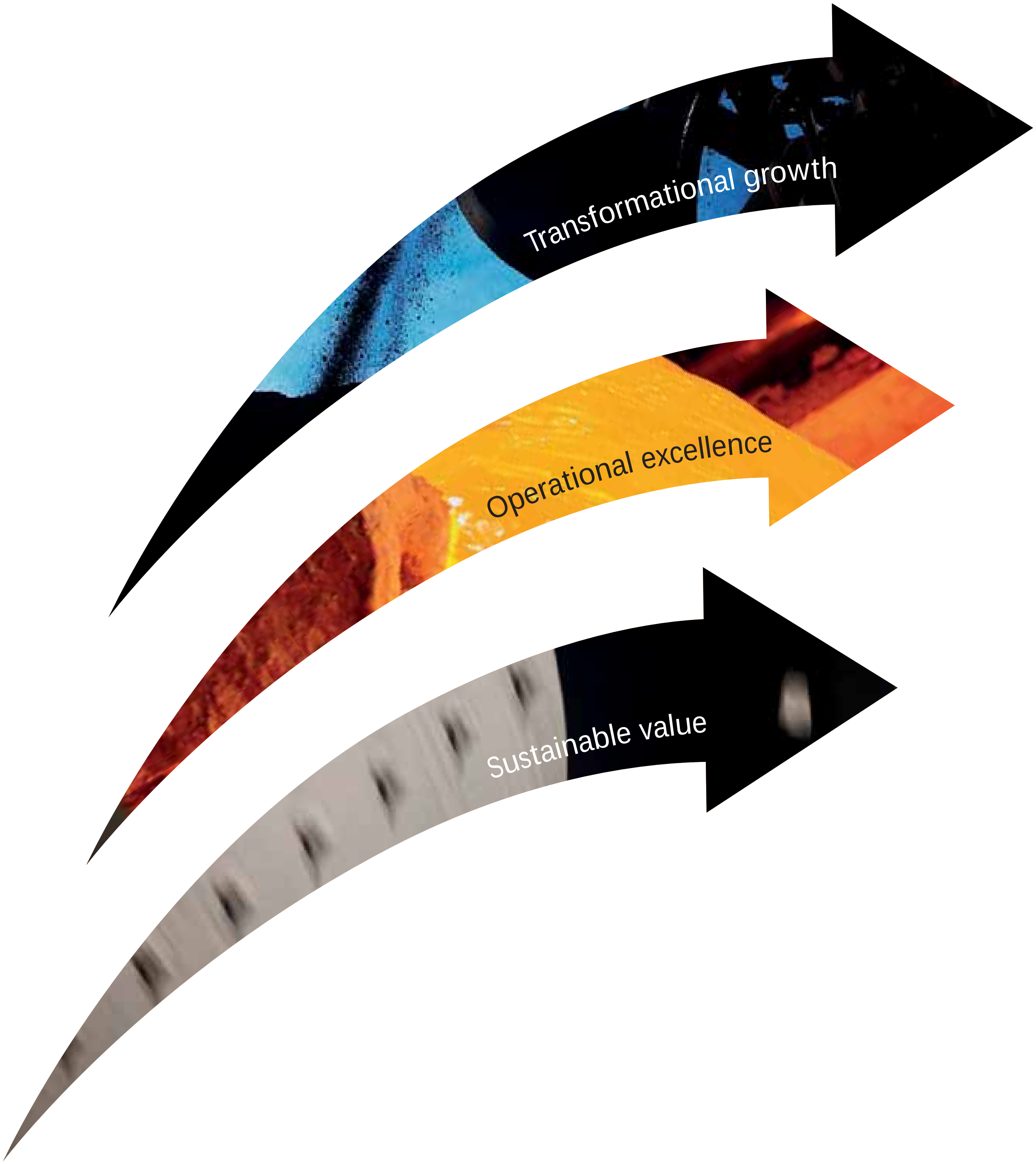


xstrata

Annual Report 2010

Mission statement

We will grow and manage a diversified portfolio of metals and mining businesses with the single aim of delivering industry leading returns for our shareholders.

We can achieve this only through genuine partnerships with employees, customers, shareholders, local communities and other stakeholders, which are based on integrity, co-operation, transparency and mutual value-creation.

Who we are

Xstrata is a global diversified mining group, listed on the London and Swiss Stock Exchanges, with its headquarters in Zug, Switzerland.

What we do

Our businesses maintain a meaningful position in seven major international commodity markets: copper, coking coal, thermal coal, ferrochrome, nickel, vanadium and zinc, with additional exposure to gold, cobalt, lead and silver. The Group also comprises a growing platinum group metals business, iron ore projects, recycling facilities and a suite of global technology products, many of which are industry leaders. Xstrata's operations and projects span 20 countries.

How we operate

We believe that operating to leading standards of health, safety and environmental management, contributing to the development of sustainable communities and engaging with our stakeholders in two-way dialogue, regardless of our location, enhances our corporate reputation and is a source of competitive advantage. We balance social, environmental, ethical and economic considerations in how we manage our businesses.

How we create value

We create sustainable value for our shareholders by delivering transformational growth and by applying operational excellence to our portfolio.

Contents

Sustainable development

For the second year, we have combined information about our non-financial and financial policies and performance to provide a comprehensive overview of the Group's business and activities. We recognise that excellence in safety, environmental, ethical and social performance is a source of competitive advantage and is critical if we are to achieve our primary aim of delivering industry-leading returns to our shareholders over the long term.

Integrated reporting reflects our ongoing efforts to embed our sustainable development policy and principles into our decision-making and the way we operate at every level of the organisation.

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

	Page numbers
Governance and framework	7-8, 24-25, 112, 115-118
Approach and policies	7, 10-11, 24-25, 26-27
Employees	25, 27, 41, 47
Health and safety	10-11, 25, 27, 40, 45-46
Environment	25, 39-40, 44-46
Community	25, 27, 41, 45
Key performance indicators	38-41

We also produce a detailed Sustainability Report which is published in April 2011. This provides additional discussion on our policies, activities and performance, and is available on our website: www.xstrata.com/sustainability

For more information

Visit our corporate website: www.xstrata.com

Cross-reference within this document for related information.

2010 highlights

Financial highlights

- Operating profit up 75% to $7.7 billion as restructuring activities undertaken during 2009 positioned Xstrata to benefit from a more favourable operating environment
- Record real cost savings of $541 million achieved (3.4% of the cost base), the ninth consecutive year of cost reductions
- Strong cash generation of just under $10 billion
- Gearing reduced to 15% from 26% and net debt by 38% to $7.6 billion, despite total capital expenditure of $6.1 billion during the year
- Final dividend of 20 cents per share proposed for payment in May 2011, reflecting a return to pre-financial crisis levels* and confidence in the medium-term outlook

* On a rights-adjusted basis.

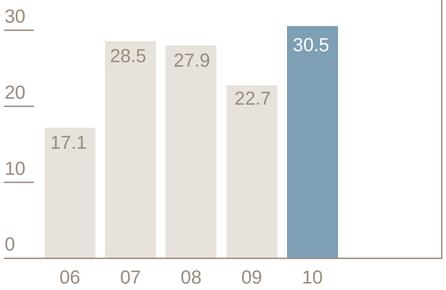
Operational highlights

- Strong operational performance with record annual production volumes for coking coal, semi-soft coking coal and mined and refined nickel
- Three major new mines successfully commissioned: Nickel Rim South, Goedgevonden and Blakefield South
- 20 major expansions and new mines currently in construction, including 10 projects approved during 2010
- 20% annual reduction in total recordable injury frequency rate; sector leader in the Dow Jones Sustainability Index for the fourth year running

Xstrata Copper's Ernest Henry mine, Queensland, Australia.

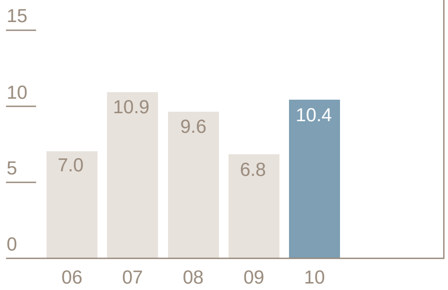
Revenue
$bn

$30,499m +34%
2009 $22,732m



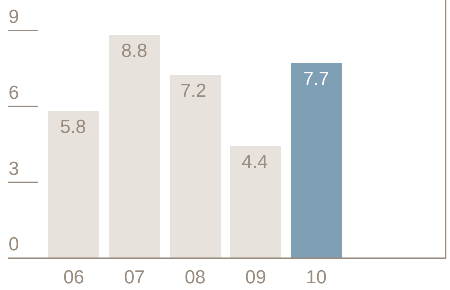
Operating EBITDA*
$bn

$10,386m +53%
2009 $6,788m



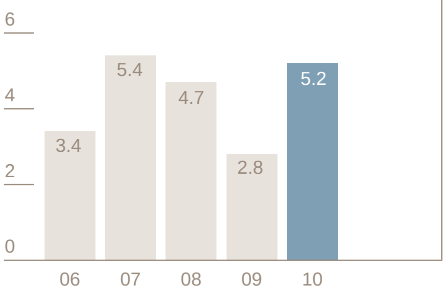
Operating profit*
$bn

$7,654m +75%
2009 $4,369m



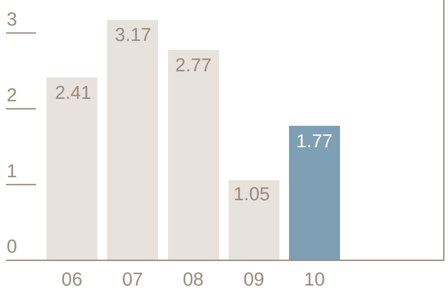
Attributable profit*
$bn

$5,152m +86%
2009 $2,773m



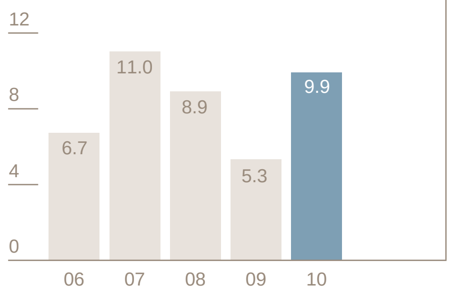
Earnings per share (basic)***†**
$

$1.77 +69%
2009 $1.05



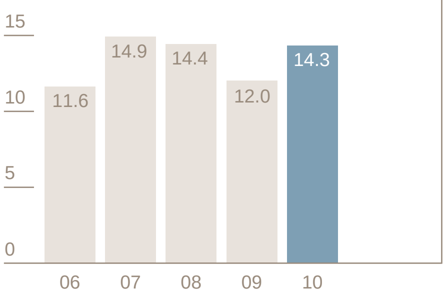
Cash generated from operations
$bn

$9,949m +88%
2009 $5,304m



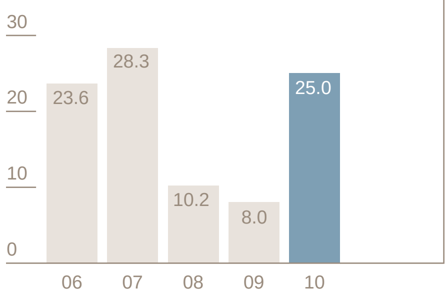
Net assets per share**
$

$14.34 +19%
2009 $12.04



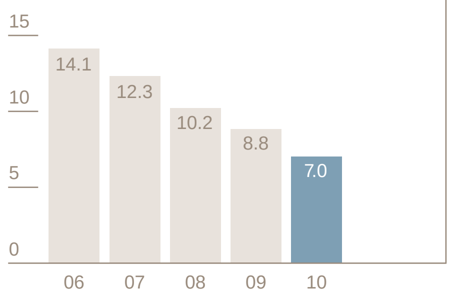
Dividends per share†
US¢

25.0¢ +212%
2009 8.0¢



Total recordable injury frequency rate††
per million hours worked

7.0 20%
2009 8.8 improvement



* Excludes exceptional items.
** Excluding own shares.
† 2006-2008 adjusted for rights issue in 2009.
†† Including contractors.

What we do

Area of operation

Assets by region US$m
(% of Group total)

Revenue by region US$m
(% of Group total)

North America

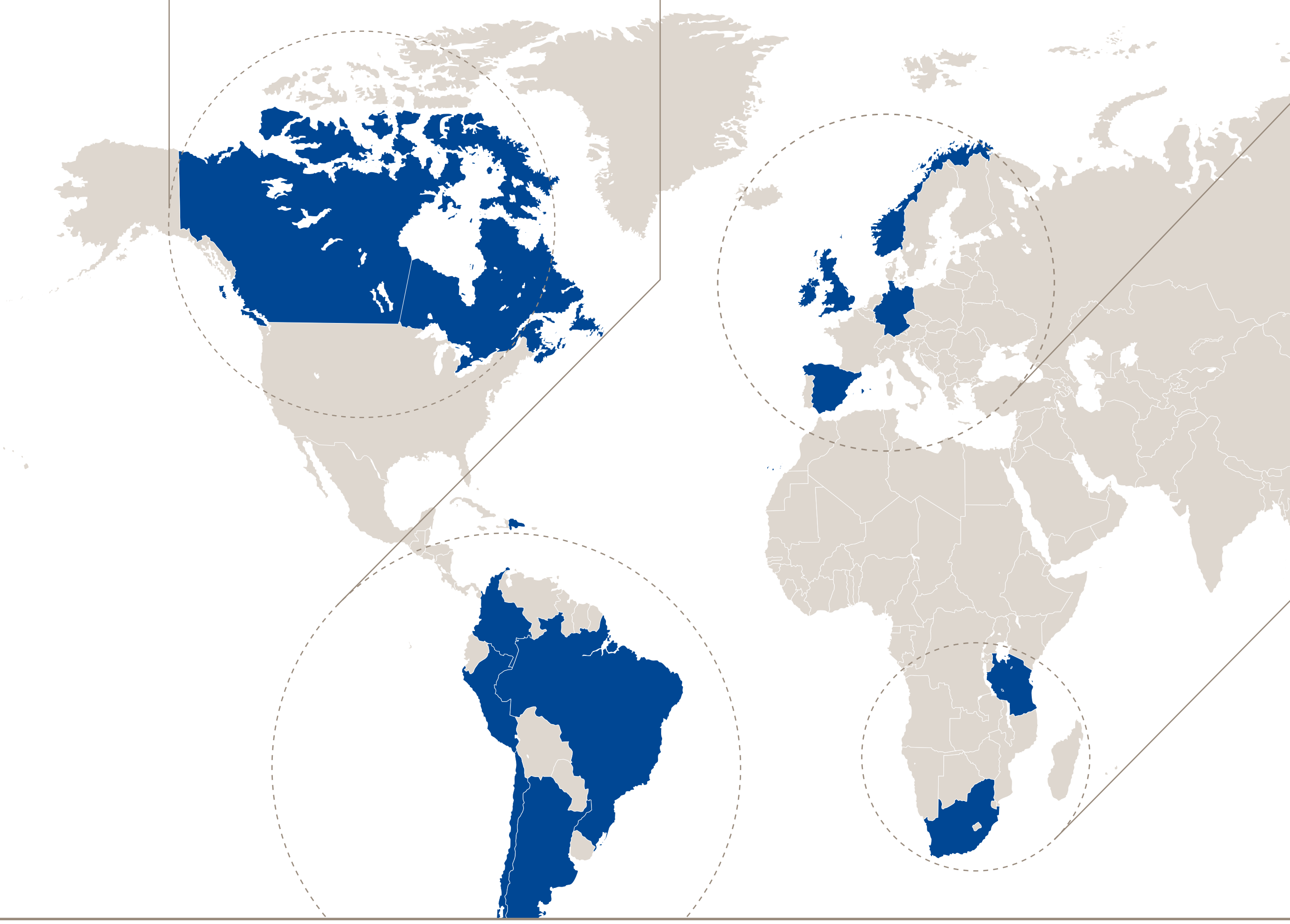
Assets	6,257	10%
Revenue	6,504	21%

Canada: copper, nickel, zinc and lead mining and smelting operations and Xstrata Process Support
USA: recycling operations

South America

Assets	19,702	30%
Revenue	8,744	29%

Chile: copper mining and smelting operations and projects
Peru: copper and copper-zinc operations, copper growth projects
Colombia: thermal coal operation
Argentina: copper operation and project
Dominican Republic: ferronickel mining and processing operation



Commodity business (%)

Operating profit US$m
(% of Group total)*

Revenue US$m
(% of Group total)

Number of employees
(excluding contractors)

Alloys

Operating profit	353	5%
Revenue	1,894	6%
Number of employees	8,337	

Xstrata Alloys is the world's largest producer of ferrochrome, a leading producer of primary vanadium and has a growing platinum group metals business. Xstrata Alloys also owns carbon operations which supply key raw materials to its ferrochrome smelters. Xstrata Alloys' operations are based in South Africa.

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Copper

Operating profit	3,820	50%
Revenue	14,004	46%
Number of employees	11,483	

Xstrata Copper is the fourth largest global copper producer, with mining and processing facilities and growth projects located in Australia, Chile, Peru, Argentina and Canada. It also manages a recycling business (Xstrata Recycling) with offices in North America, Europe and Asia. Xstrata Copper's world-leading portfolio of growth projects includes Las Bambas in Peru, Tampakan in the Philippines, El Pachón in Argentina and Frieda River in Papua New Guinea.

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* Includes unallocated expenditure.

Europe

3,072 5%
3,404 11%

Spain: zinc smelter
Norway: nickel refinery
Germany: zinc smelter
UK: lead refinery
Ireland: zinc exploration project

Africa

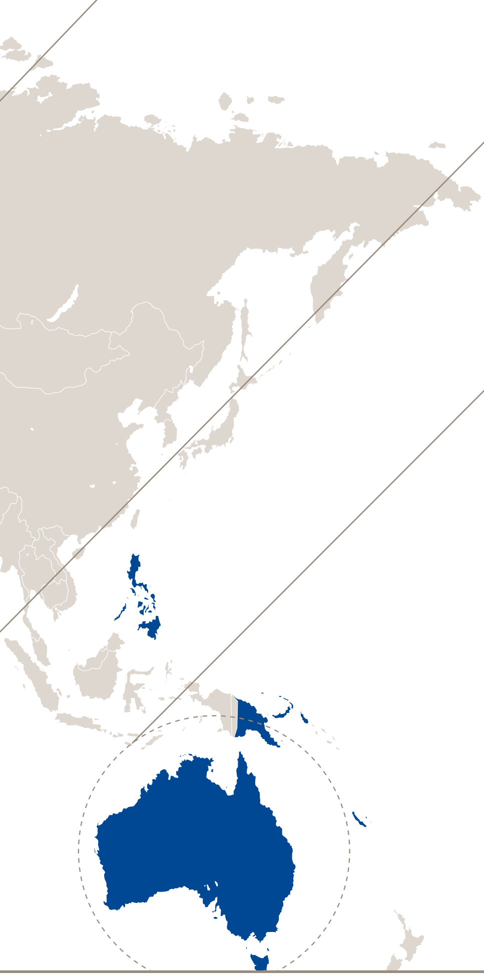
11,456 17%
2,909 10%

South Africa: ferrochrome, vanadium, platinum and coal operations
Tanzania: nickel exploration project
Mauritania: iron ore project
Republic of Congo: iron ore project

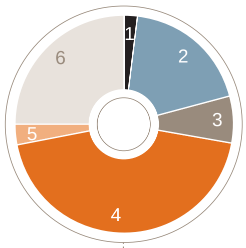
Australasia

24,818 38%
8,938 29%

Australia: copper, zinc and lead mining and smelting operations; separate coal mines and nickel operations and Xstrata Technology
New Caledonia: nickel project
Philippines: copper project
Papua New Guinea: copper project

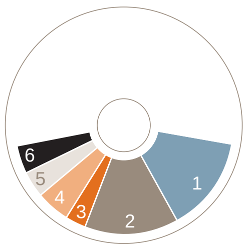


Revenue by destination 2010
(%)



		%
1	Africa	2
2	North America	19
3	South America	7
4	Asia	44
5	Australasia	3
6	Europe	25

Revenue by destination Asia split 2010
(%)



		%
1	China	14
2	Japan	14
3	India	3
4	Korea	5
5	Taiwan	4
6	Other Asia	4

Coal

2,216 29%
7,788 26%

10,473

Xstrata Coal is the world's largest exporter of thermal coal and a significant producer of premium-quality hard coking coal and semi-soft coal. Headquartered in Sydney, Australia, Xstrata Coal has interests in over 30 operating coal mines in Australia, South Africa and Colombia and an exploration project in Nova Scotia, Canada.

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Nickel

503 7%
2,738 9%

3,340

Xstrata Nickel, headquartered in Toronto, Canada, is the fifth largest global nickel producer and one of the world's largest producers of cobalt. Xstrata Nickel's operations include mines and processing facilities in Canada, operations in Australia, a ferronickel mine and processing facility in the Dominican Republic and a refinery in Norway. Xstrata Nickel's portfolio of growth projects includes Kabanga in Tanzania and Koniambo in New Caledonia.

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Zinc

917 12%
3,922 13%

4,645

Xstrata Zinc is one of the world's largest miners and producers of zinc. Xstrata Zinc's operations span Spain, Germany, Australia, the UK and Canada, with an interest in the Antamina copper-zinc mine in Peru.

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Technology Services

26
153

167

Xstrata Technology Services provides proprietary technologies and specialist services in the areas of mining, mineral processing and metals extraction to major mining companies worldwide and to Xstrata's own operations to improve efficiency and reduce operating costs.

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Chairman's statement

"Against a more encouraging macro-economic backdrop, Xstrata delivered its second best financial performance since its IPO"

Willy Strothotte
Chairman

2010 offered Xstrata's businesses a markedly improved operating environment compared to the previous year, despite the impact on confidence of sovereign debt concerns in the early part of the year and uncertainty about the potential impact of inflation on emerging economies' growth in the latter part of the year. Against this more encouraging macro-economic backdrop, and aided by the numerous restructuring and cost saving initiatives implemented during the previous year, Xstrata delivered its second best financial performance since its IPO nine years ago.

Commodity markets

Throughout the financial crisis and ensuing global downturn, Xstrata's Board and management continued to hold the view that the secular trends underpinning the positive prospects for commodities remained intact and would, in time, reassert themselves. Demand growth fuelled by urbanisation and industrialisation in highly populated developing markets and the structural issues that restrict new supply of many major commodities continued to provide support for commodity prices, notwithstanding events that weighed on global confidence during the year and had a short-term impact on commodity markets.

The conviction that the financial crisis was a severe but temporary interruption of a positive secular trend underpinned Xstrata's executive management's decision, supported by the Board, to continue to invest in Xstrata's major organic growth projects during 2009, thereby ensuring Xstrata was quickly able to position itself for growth in anticipation of the global economy recovering. I am pleased to report that the decision to do so has enabled the Group to maintain its ambitious growth trajectory, and Xstrata's major growth projects remain set to deliver a substantial 50% increase in overall volumes on a copper-equivalent basis over 2009 levels by the end of 2014, providing robust returns at conservative commodity prices and, importantly, an average reduction in unit costs of 20%.

The volatility in prices evident in 2010 will, in the Board's view, persist over the medium term as a result of more prudent supply chain management by customers leading to lower inventories and greater spot market activity, an increase in shorter term, quarterly pricing agreements for many commodities, the impact of commodity markets becoming an investment class in their own right, and high levels of capacity utilisation on the supply side. The impact of financial flows on exchange traded metals is clearly visible in the almost immediate response of the commodities market to changes in market sentiment. Financial investment in commodities now represents a semi-permanent, but highly volatile, source of demand.

Xstrata's diversified portfolio is geared towards early and mid-stage LME-traded commodities such as copper, nickel and zinc, and bulk negotiated commodities of thermal coal, coking coal and ferrochrome. With end-user construction, infrastructure and electricity generation sectors accounting for some 50% of Xstrata's revenues, the Group remains in a strong position to continue to benefit from demand from the industrialising economies of China, India, Brazil and others.

Strategy

In 2010, the Board focused its attention on the substantial capital investment programme underway across our business, examining the management processes in place to identify and manage the risks inherent in such an extensive expansion programme, and scrutinising the 10 projects brought to the Board for approval to commence construction. The Board continues to assess each project brought for approval against stringent criteria in terms of the anticipated return on investment at conservative long-run prices, reduction in operating costs compared to current production, and in the light of anticipated market conditions, in addition to evaluating the business's ability to manage the associated risks.

The accelerating pace of delivery of organic growth created a strong sense of momentum in 2010 and into early 2011. It is encouraging to see Xstrata already delivering volume growth and cost savings from the three major projects completed during the year, and demonstrable progress on projects at every stage of development.

The combination of low gearing, over $8 billion in undrawn bank facilities, high-quality access to the debt markets and strong cash flow generation means Xstrata is well-placed to fund the $18 billion of expansionary capital expenditure that has been committed for currently approved and soon-to-be approved projects over the next three years of its ambitious expansion, as well as retaining the agility to opportunistically take advantage of value accretive acquisitions.

With a robust balance sheet that continues to provide the flexibility to withstand short-term price pressures and maintain our ambitious capital expenditure programme, and the Board's confidence in the medium-term outlook, I am pleased that we have been able to return Xstrata's final dividend to pre-financial crisis levels. This substantial increase, which underlines the Board's commitment to a progressive dividend policy, will form the level from which the dividend policy will grow in the future.

During the year, members of the Board's Health, Safety, Environment and Community Committee were able to see the impressive progress of the Koniambo nickel project at first hand during a visit to the module yard in Qingdao in China, where components of Koniambo's metallurgical plant were constructed, followed by a visit to the Koniambo site itself in New Caledonia. The project's disciplined approach to safety, its integration into and close collaboration with the local community and its systematic approach to project management give the Board great confidence in the successful execution of this substantial project.

Xstrata also made further progress on its medium-term goal to build a substantial iron ore business in 2010. The fundamentals for iron ore are attractive and provide additional diversification of Xstrata's portfolio. Xstrata's proven expertise in bulk commodities, together with its track record in infrastructure and project development, means the Group is well positioned to successfully develop its iron ore projects. Following the acquisition of controlling interests in junior mining companies with assets in Mauritania and Republic of Congo (Brazzaville), Xstrata now has a firm foothold in the market, with projects that offer both near and long-term development potential.

Sustainability

Xstrata's Sustainable Development Policy, Business Principles, supporting suite of standards and assurance process, ensure a rigorous approach is taken at every site and project. As Xstrata moves further into an intensive phase of developing large-scale mining projects and exploring the potential of longer-term projects that lie in new and more complex geographies, it is imperative that we continue to work in this way and apply our best-in-class environmental management and community relations if we are to successfully deliver our organic growth strategy.

Mining involves a capital-intensive, long-term investment commitment. We have a recognised obligation to ensure our activities have a positive impact in terms of jobs, training, education and social and financial benefits that endure over the long term. To do so, we must work in partnership with host governments and communities within a stable regulatory environment that facilitates the substantial investment required to develop and sustain mining operations and that recognises the full contribution of mining activities to the socio-economic well-being of a region or nation. Striking the right balance between the legitimate desire of government to extract financial benefit for their countries from mining companies and the equally legitimate requirement of shareholders to be compensated for the risks borne in developing and operating mines is complex and requires open consultation and a spirit of genuine partnership.

Xstrata continues to support the communities associated with its operations and 2010 was no exception, with more than $84 million invested in projects in the areas of health, education, community development, art and culture, job creation and enterprise development. Several countries in which we operate faced severe weather-related catastrophes. In January, the Group donated $500,000 to the International Red Cross Haiti Appeal, established to provide emergency aid and relief to those affected by the devastating earthquake, as Xstrata Nickel's Falcondo operation is situated in the Dominican Republic bordering Haiti. In March, Xstrata donated $1 million following a major earthquake in Chile, comprising $500,000 to the Chilean Red Cross and a further $500,000 to support relief efforts being undertaken by an Antofagasta-based industry body. Xstrata Copper provided a variety of in-kind support, including food parcels for impacted employees, supporting a rescue and reconstruction team and facilitating helicopters for the rescue effort. Xstrata Copper also provided support for the rescue of the Chilean miners who were recovered safely on 13 October after 69 days trapped underground at a mine operated by San Esteban.

During late 2010, the Australian state of Queensland suffered some of the worst flooding in decades, leaving many homeless and infrastructure paralysed. As a significant Queensland employer and a major contributor to the affected region's economic growth via its coal, copper and zinc operations, it was fitting that Xstrata supported and assisted these communities through a AUD2 million contribution to the Queensland Premier's Disaster Relief Appeal to help the state's recovery.

The safety and wellbeing of our workforce remains paramount. Whilst in 2010 the businesses saw an overall strong improvement in the reduction of total recordable injuries, I am very saddened to report that three people lost their lives while working at Xstrata's managed operations or projects. Improvement in safety performance and the prevention of fatalities remains the utmost priority for Xstrata's Board and management, and we continue to work to ensure we implement the learnings from every actual and potential critical incident, as well as from best practices within our own and other industries.

Sustainability information is integrated within this report, including a range of non-financial key performance indicators in the Strategy section. A comprehensive Sustainability Report is also published separately from the Annual Report each year laying out key sustainability risks, strategy and performance against set targets, which is available from Xstrata's website.

Governance and risk management

As announced in early March, I will step down as Chairman of Xstrata plc at the Annual General Meeting (AGM) on 4 May 2011. Sir John Bond has been invited to join the Board and will stand for election as Chairman and independent non-executive director. At this

Chairman's statement *continued*

juncture, it is timely for me to reflect on my nine-year tenure as Chairman of Xstrata plc. It has been an immense privilege to have served as Chairman through the Group's evolution from a small mining company into a global diversified mining major that benefits from a prolific organic growth pipeline, top tier asset base, global reputation in sustainable development and an enviable track record in value-creating growth for its shareholders.

I commend Xstrata's employees and management team for their passion, commitment, entrepreneurial spirit and expertise during my tenure and I am pleased to hand over the Chairman's role to such a highly capable and well-respected successor as Sir John Bond.

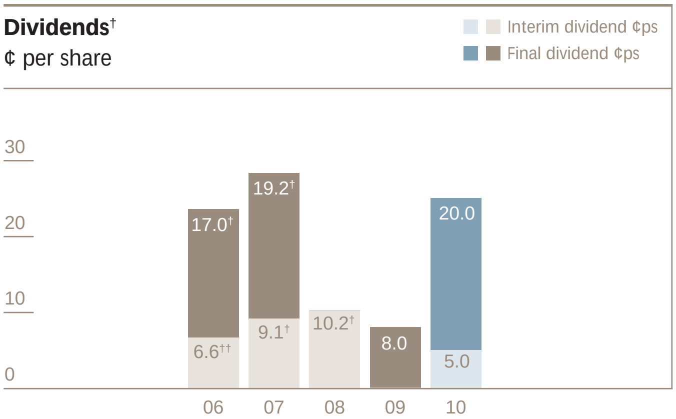
The Board has always been mindful of ensuring a balance of relevant experience in its composition. During 2010, Paul Hazen retired from the Board, and Dr. Con Fauconnier was elected a director of the company. Con has held numerous executive and Board positions at international mining companies, including as former CEO of Kumba Resources Limited, a South African iron ore producer. During the year Peter Hooley assumed the role of Chairman of the Audit Committee. Whilst all members of the Board are financially literate, Peter, a former CFO of global healthcare product supplier Smith and Nephew plc, is considered to have the recent and relevant financial experience required by the 2010 UK Corporate Governance Code.

Xstrata's devolved management structure is underpinned by a robust governance framework. The Group's value-driven approach to risk management includes a comprehensive risk management structure and system that is embedded across its businesses. Each year, the Board approves business plans that include the results of annual risk reviews at an operational, commodity business and Group level. In 2010, the overall Board assumed direct responsibility for risk management from the Audit Committee, following feedback from the 2009 Board evaluation and the Board's recognition of the evolving risk profile of Xstrata's intensive phase of project development.

In line with our commitment to undertake an external evaluation of the Board every three years, an independent review was carried out in 2010, which concluded that the Board was effective and provided strategic challenge and evident leadership.

The financial crisis of 2008 and 2009 prompted extensive reappraisal of governance systems worldwide as regulators sought to assess the robustness of corporate governance regimes in the wake of the disaster. A new UK Corporate Governance Code was published in mid-2010 which recommended that in the interests of greater accountability, all directors of FTSE 350 companies should be subject to annual re-election by shareholders. In accordance with the Code, the remaining ten directors of the Board will stand for re-election at the AGM. Xstrata is committed to the highest standards of personal and professional ethical behaviour. We have a long-standing Statement of Business Principles and governance framework to help all Xstrata employees, contractors and associated partners manage the potential ethical risks in our business.

A global Code of Conduct has been developed to provide additional guidance on implementing Xstrata's Business Principles and to encompass the revised requirements set out by the UK Bribery Act.



† Adjusted for the 2009 rights issue.

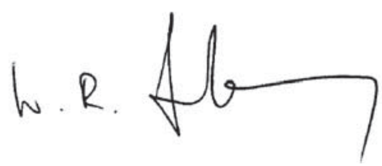
A global Bribery, Fraud and Corruption Policy that updates our existing Fraud Policy and procedures has been developed, along with Third Party Due Diligence Standards and training standards. Xstrata's Business Principles are well embedded into the business. The steps taken in 2010 will provide further assurance to the Board and external stakeholders that the spirit and letter of our Business Principles are being implemented around the world.

A comprehensive corporate governance report is published on pages 110 to 118 of this report.

Conclusion

Xstrata emerged through 2010 to deliver an impressive performance that was underpinned by prudent cost control, operational excellence and undeterred development of its growth pipeline. The record real cost savings achieved by our commodity business units in 2010 were truly commendable and demonstrate the Group's ongoing focus on improving the quality of our operations. The pipeline of significant growth projects which Xstrata has successfully nurtured through the financial crisis will, in addition to increasing volumes by 50% by 2014, also collectively reduce operating costs by over 20% on average, accelerating the transformation of the Group and cementing its position in the lower end of the cost curve relative to its peers in each major commodity.

The Group enters 2011 on a strong financial footing, well positioned to optimise its competitive position and market-leading position in key commodities. The Board remains confident of Xstrata's ability to continue to deliver excellent shareholder returns.



Willy Strothotte
Chairman

Chief Executive's report

"Xstrata is in the midst of a fundamental transformation through the development of our organic growth pipeline"

Mick Davis
Chief Executive

A strong operational performance in 2010 contributed to an exciting year for Xstrata. We made substantial progress in bringing a number of our organic growth projects into production and advanced the development of both late and early stage opportunities in our pipeline. Three major new mines were successfully commissioned during the year, adding low cost coal and nickel production from Goedgevonden, Blakefield South and Nickel Rim South. A further 10 projects were approved and are now in implementation, while a range of earlier stage opportunities continued to progress through pre-feasibility and feasibility studies.

The opportunities seized during the difficult market conditions of 2009 to restructure higher cost businesses, improve productivity and strengthen the balance sheet, together with ongoing initiatives to improve the quality and value of our underlying business, positioned Xstrata to benefit from a more favourable operating environment in 2010. Average commodity prices rose substantially over the prior year, reflecting improved market sentiment, particularly in the second half, as macro-economic concerns over European sovereign debt issues eased and strong physical demand emanated from the developing economies. EBITDA rose to $10.4 billion and attributable profit increased by 86% to $5.2 billion or $1.77 on a per share basis.

Further improvements to value and quality of portfolio

One of the defining features of Xstrata today is the significant improvement in the quality of our portfolio brought about by our operating teams over the last nine years.

Year-on-year cost savings have become a hallmark of our operational performance and a key indicator of the steady improvement in the competitiveness and value of our operations. At the end of 2010, our teams had realised a record $541 million of cost savings in real terms, representing 3.4% of the operating cost base. Consistent annual cost savings at each reporting period since our IPO nine years ago have transformed the cost competitiveness of our commodity businesses, each of which is now positioned in the lower half of its respective industry cost curve. On average, Xstrata has trimmed operating costs by 1.5% per annum since 2003. Our extensive organic growth programme currently underway is progressively bringing about another step change in cost competitiveness over the next three years.

Our businesses once again successfully expanded our resource base to preserve or enhance the longevity and value of our operations. A substantial increase to copper mineral resources was announced at the Collahuasi joint venture in Chile in July, bringing the total estimated mineral resource to 7.1 billion tonnes of copper at an average grade of 0.82% copper. This represents 58 million tonnes of contained copper metal, underpinning the potential to expand Collahuasi into a one million tonnes per annum producer. Significant copper resource upgrades were also achieved at the Antapaccay project in Peru, the El Pachón project in Argentina, the Frieda River project in Papua New Guinea and at the Las Bambas project in Peru during the year, providing a solid base for our development plans at each of these projects. In February 2011, we announced a further substantial increase in mineral resources at the Frieda River project in Papua New Guinea, more than doubling measured and indicated resources over the previously published estimate.

Strong operational performance in 2010

In 2010, Xstrata achieved record production of coking coal and nickel while volumes of mined copper, chrome and lead in concentrate rose compared to the previous year. Xstrata Zinc Australia and Xstrata Nickel delivered on the promise of increased volumes and reduced operating costs, a direct result of the restructurings undertaken in late 2008 and 2009. Indeed, every one of Xstrata's commodity businesses reported real unit cost savings compared to the prior year as lower cost production was commissioned and initiatives to improve productivity took effect.

At Xstrata Zinc, recent capital-efficient expansions at Mount Isa and McArthur River Mine delivered a 10% increase in volumes from the Australian zinc operations and further reduced unit costs. Operational productivity improvements across our zinc operations contributed $208 million to operating profit in 2010, including $163 million of sustainable cost savings. In total, Xstrata Zinc C1

Chief Executive's report *continued*

cash costs on an integrated mine and smelter basis have been reduced by 40% over the last two years from 50.8¢ per pound in 2008 to less than 31¢ per pound at the end of 2010. This is a remarkable achievement, attained despite the significant, unfavourable headwind of a weakening US dollar against producer currencies. A feasibility study into a further expansion of McArthur River Mine aims to reduce operating costs by a further 20% and is expected to be tabled for approval this year.

Xstrata Nickel also starts 2011 in a superior position following the restructurings undertaken in 2008 and 2009 to close high cost, end of life operations while continuing to invest in the development of new, low cost production from Nickel Rim South and Koniambo. The world-class Nickel Rim South operation reached nameplate capacity six months ahead of schedule in October and, together with the reopening of the Fraser Mine and further expansions at Raglan and Xstrata Nickel's Australian mines, enabled Xstrata Nickel to achieve record mined and refined nickel production in 2010, despite the closure of a number of higher cost operations in 2009. C1 cash costs have been dramatically reduced from a starting position amongst the higher cost producers in the industry of over $5 per pound in 2008 to a sustainable cost position towards the lower end of the second quartile of the industry cost curve today. In 2010, C1 costs were reduced ahead of expectations to $2.16 per pound, thanks to the significant by-product credits generated by Nickel Rim South. The Falcondo operation in the Dominican Republic will resume production profitably at a reduced rate of approximately 50% of full capacity during the first quarter, further benefiting volumes, while we continue to work towards the permanent conversion of the operation's fuel source to convert Falcondo into a sustainable, lower cost producer.

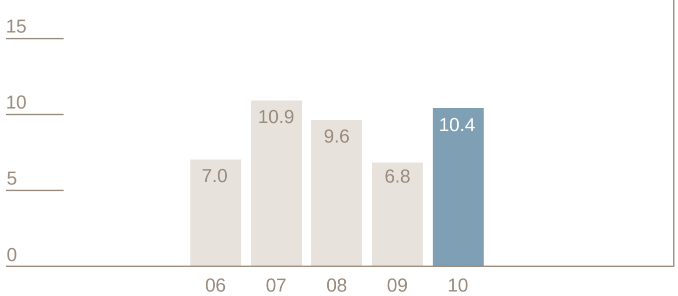
Xstrata Coal's operations encountered adverse weather conditions in the early part of the year and again from December, including unprecedented flooding in Queensland. While the full impact on production in 2011 is being assessed and depends in part on the speed of recovery in the logistics chain and future rainfall, current spot prices have responded to the inevitable supply constraints. Excluding the impact of difficult weather conditions across its portfolio and protracted strike action at Tahmoor, Xstrata Coal delivered $181 million of real cost savings, primarily due to a 44% increase in production from the Oaky Creek complex, a reduced strip ratio and cost savings initiatives at Cerrejón, and the successful commissioning of the new Goedgevonden open cut mine in South Africa.

Xstrata Copper continued to offset successfully the significant cost impact of lower grades at some of the older operations and stronger local currencies. The overall cost profile of the business also benefited from the permanent closure in May of the Kidd Metallurgical site in Canada. In total, net cost savings of $52 million were achieved, despite a $47 million cost impact from lower grades. This is a highly creditable cost performance which enabled C1 cash costs to be reduced to 89.4¢ per pound. The substantial increases in copper resources announced during the year bring Xstrata's total estimated in-situ copper resources to almost 90 million tonnes, supporting our industry-leading copper growth pipeline of projects that will increase copper production by over 50% in the next three years, with significant further growth potential thereafter from earlier stage projects.

At Xstrata Alloys, a recovery in market conditions together with our strategy to retain skilled employees throughout the downturn enabled the efficient restart of idled capacity, increasing chrome production by just under 50%. Initiatives to improve energy efficiency at our smelters and to reduce the amount of higher priced coking coal required in the furnaces further reduced operating costs, offsetting some of the cost pressures attributable to the persistently strong South African rand against the US dollar which has continued into 2011 and the significant rise in the cost of electricity.

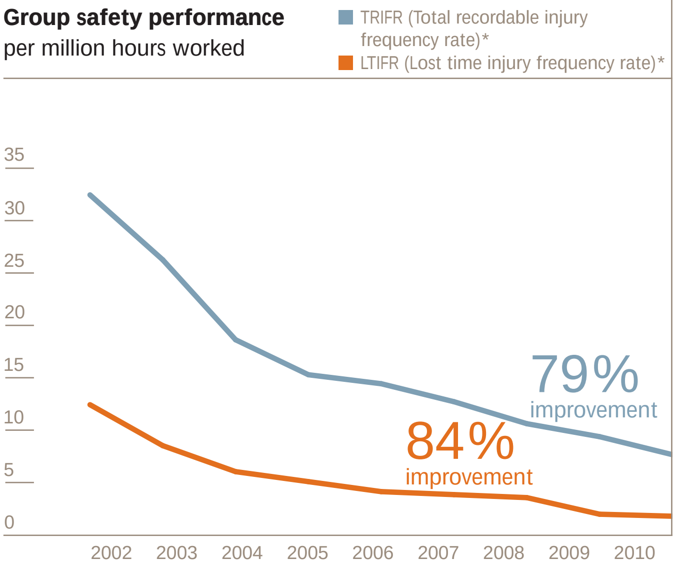
Safety and environmental performance are equally important indicators of management and operational performance. In 2010, Xstrata plc was recognised as the industry leader in the Dow Jones Sustainability Index for the fourth consecutive year, and for the first time all managed operations achieved our target of operating without any moderate or more serious (category three or above) environmental incidents. Our businesses also continued to make good progress in reducing the frequency of all injuries sustained, reducing the rate of total recordable injuries, including contractors, by 20% year-on-year to seven per million hours worked, a 79% improvement over the last eight years. While we should justifiably be proud of this ongoing improvement in injury rates, the greatest challenge we face is in eliminating fatalities from our business. We did not achieve our goal in 2010 and three people lost their lives at managed operations. Already in 2011, four fatalities have occurred at Xstrata operations. Every Xstrata employee or contractor has the rightful expectation that they will arrive and leave work in good health and free of injury and I am deeply saddened by this loss of life. My management team and I are resolved that we will do everything in our power to address the underlying causes of any critical or near-miss incidents at our operations, with the ultimate objective of operating without harm to our people.

Operating EBITDA*
$bn



* Excludes exceptional items.

Group safety performance
per million hours worked



* Including contractors.

Entry into iron ore

Just over a year ago, we took a first step towards our medium-term goal of building a substantial iron ore business. In November 2009, Xstrata obtained an option to acquire a stake in the early stage Zanaga iron ore project in the Republic of Congo, where a pre-feasibility study is currently underway. As announced in February 2011, Xstrata has agreed to exercise its option to acquire a 50% plus one share interest in Jumelles, the owner of the Zanaga project and a subsidiary of Zanaga Iron Ore Company Limited, in exchange for funding a feasibility study.

In August 2010, Xstrata announced an agreed offer to acquire Sphere Minerals, an Australian-listed junior mining company with three iron ore projects in Mauritania, a country with an established history of iron ore exports. The projects include potential near-term production from the Askaf project and longer-term growth potential from the large-scale Guelb El Aouj project, which will provide exposure to the attractive iron ore market, further diversifying Xstrata's portfolio. Xstrata currently owns in excess of 75% of the company and integration of the Sphere operations into Xstrata is well advanced. These projects are currently managed through our coal business, sharing the substantial expertise available in bulk mining, successful project development and logistics.

Robust financial position further strengthened in 2010

Strong cash generation from our operations of just under $10 billion contributed to a significantly improved balance sheet. In addition, Glencore International AG exercised its option to acquire the Prodeco coal operations in the first half of 2010, providing a cash inflow of $2.25 billion plus the net balance of earnings and cash invested in the operation by Xstrata – an annualised return of around 25% over the original purchase price. Consequently, net debt was reduced by 38% compared to 2009 to $7.6 billion. Gearing fell to 15% (on a net debt to net debt plus equity basis) compared to 26% at the end of 2009, despite total capital expenditure of $6.1 billion, including $4.3 billion of expansionary capital.

As Xstrata progressively commits to the substantial capital required over the next several years to deliver growth from the portfolio, financial flexibility becomes increasingly important. In 2010, our bank facilities were extended through a $4 billion syndicated loan on favourable terms including the removal of financial covenants from our lending agreements. With increased headroom of some $8.7 billion, a stable investment grade credit rating and ongoing strong cash generation from our operations, I am comfortable that Xstrata is well positioned to meet the capital requirements of our extensive growth ambitions, while preserving sufficient flexibility to identify and rapidly act on opportunities to create further value, should they arise.

Delivering the next transformation of Xstrata

Xstrata is now in the midst of a fundamental transformation of our portfolio through the development of our organic growth pipeline. Organic growth is not new for Xstrata – our teams have already successfully delivered 14 new or expanded mines, alongside the higher profile acquisitions that were a vital element of the Group's initial stages of transformation. Nonetheless, the scale and number of projects being developed by our teams today represent a step change in our growth strategy and will transform Xstrata's volumes and unit costs profoundly.

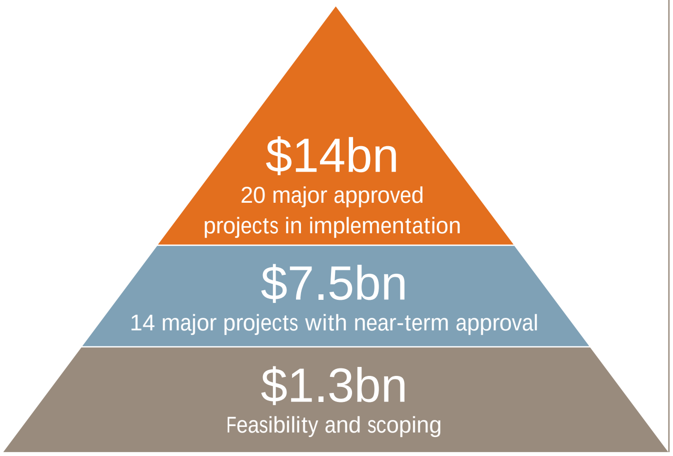
By the end of 2014, volumes will be increased by 50% over 2009 production and the introduction of lower cost capacity is anticipated to deliver a reduction of over 20% in average operating costs. I expect our approved and near-term projects to deliver an average return of around 22% predicated on conservative long-run commodity prices.

Momentum in delivering growth from our portfolio gathered pace during the year, with the delivery of three major projects and the approval of $10 billion of growth projects during 2010. In total, 20 major expansions or new mines are currently in construction, representing total capital expenditure of $18 billion, of which $14 billion remains to be spent. We are now entering into the most intensive phase of our organic growth programme to date. This year, activity will ramp up further with five projects due to commence production in 2011. A further $7.5 billion of capital projects will reach the approval stage during the course of this year.

The eight million tonnes per annum Mangoola thermal coal project in Australia is on budget and ahead of schedule to commission its coal handling and preparation plant in the first half of 2011, together with the Newlands underground extension that will add three million tonnes per annum of thermal coal at full production. The ATCOM East thermal coal mine in South Africa will also commence production in the latter part of the year, ramping up to four million tonnes of saleable production per annum.

Construction commenced on the $1.3 billion Ulan West and $1.4 billion Ravensworth North coal projects following their approval

Xstrata project pipeline
(capital expenditure)



during the year, to deliver 6.7 million tonnes of thermal coal from 2014 and eight million tonnes of thermal and semi-soft coking coal from 2012 respectively.

Xstrata Copper now has five major projects in construction to deliver a 50% increase in copper volumes by the end of 2014. The $1.47 billion Antapaccay expansion to the Tintaya copper mine in southern Peru was approved in July 2010 as part of an integrated regional strategy to progressively increase copper production from southern Peru to 500,000 tonnes by the end of 2014. In the six months since the project was approved, facilities for the construction camp have been completed to accommodate the current 1,600 workers on site, increasing to 4,500 people by the end of 2011. The on-site construction for the foundations of the crusher and the three large grinding mills is progressing on schedule and all the major components for the mills are already in Peru, ready to be installed. Commissioning is on track for the second half of 2012. The successful execution of Antapaccay lays the foundations for the greenfield $4.2 billion Las Bambas project, also approved during the year. Las Bambas will share key infrastructure with Antapaccay, achieving operational and capital synergies and enabling skills to be transferred on completion of the Antapaccay project to the construction of Las Bambas.

The $1.3 billion expansion to the Antamina copper-zinc operation in Peru to increase capacity to 130,000 tonnes per day is on track to commence commissioning at the end of this year, while an expansion to the Lomas Bayas operation is progressing well to extend the life of the operation to 2024. Ernest Henry mine's conversion to a major underground shaft operation to extend the life of the operation remains on schedule, and first magnetite was recently produced from the associated magnetite concentrate plant which will create an export by-product from the operation.

The Koniambo nickel project in New Caledonia remains on track to commence production next year before ramping up to full production in 2014. During 2010, the project achieved a number of key milestones, including the completion of dredging for the port, construction of the power station stack and the successful construction and delivery of the modules required to construct the metallurgical complex from the engineering yard in China. All modules had been installed by January 2011. On-site construction of the metallurgical facility and power station is currently underway and will be complete in the early part of next year, to allow testing and commissioning to commence. The project is now entering its peak construction phase with some 3,500 employees and contractors currently on-site.

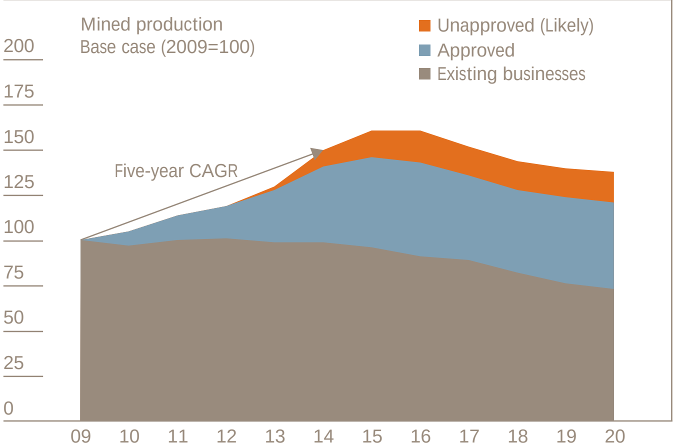
The expansion of George Fisher zinc-lead mine will increase production by 29% to 4.5 million tonnes of ore per annum and the Black Star Deeps projects will extend the life of the operation to 2016. Both projects were approved during 2010 and, together with feasibility studies into an expansion of the Handlebar Hill mine and the development of the high-grade Lady Loretta deposit, aim to exploit Xstrata's extensive zinc resource base at Mount Isa, the largest zinc resource in the world.

Zinc-lead resources at Xstrata's McArthur River mine are the third largest in the world and a project to double current production at McArthur River Mine is due for approval this year. The project involves a 15-year extension to the current mine life at the expanded production rate, and envisages the application of Xstrata's proprietary hydrometallurgical technology to enable bulk concentrates to be processed at one or more of Xstrata's smelters. In Canada, the Bracemac-McLeod project to replace Perseverance mine was approved in July and initiatives continue to extend the life of the Brunswick operations.

Initial production is expected from the western decline shaft of the Eland underground platinum operation during the first quarter of this year, followed by initial production from the eastern decline in the second quarter. Once Eland reaches full production towards the end of 2015, production of platinum will double to 300,000 ounces per annum. A second phase expansion to the Lion ferrochrome smelting complex in South Africa is underway, using proprietary energy-efficient technology, while construction of the Tswelopele mega-pelletizing plant is well advanced to further improve operating efficiency and reduce costs.

Work on earlier stage growth projects is equally significant. The next generation of projects to replenish our pipeline is currently in the feasibility or scoping stage and offers the potential to deliver sustained volume growth once the current suite of projects reach full production. Capital will be spent over the next five years to complete conceptual, pre-feasibility and feasibility studies into this next cadre of projects, including the large-scale Tampakan copper-gold operation in the Philippines, the massive Wandoan coal project, and El Pachón copper project in Argentina. Amongst the various conceptual studies underway, a concept study into a substantial expansion to the world-class Collahuasi copper operation to produce one million tonnes of copper per annum is due to be completed in early 2011.

Xstrata volume growth*
(production data)



* On a copper equivalent basis with 2009 based at 100.

As we ramp up our programme of organic growth, expansionary capital spending will rise accordingly to reach peak levels of around $6.8 billion this year and next. In addition to the five projects that will reach initial production this year, major projects including the Koniambo greenfield nickel project, the Antapaccay expansion to our Tintaya copper mine in southern Peru and the Ulan West coal mine in Australia will be contributing volume and cost improvements to Xstrata's performance by the end of 2012. Our decision to continue investing in the development of our organic options through the downturn of late 2008 and 2009 will permit Xstrata to introduce new volumes into a market with strong supply-demand fundamentals.

De-risking of projects to ensure successful delivery

Xstrata's project pipeline is the product of many years' planning and preparation as projects are nurtured through numerous approval stages, feasibility, environmental and social studies. A vital component of the extensive feasibility and planning process is to eliminate or mitigate the risks involved in each individual project and the cumulative risks across the pipeline, including through conducting extensive detailed designs early on, realising potential synergies between projects, optimising sequencing and ensuring that the requisite skills and equipment will be available to avoid expensive over-runs or delays once each project has been approved.

The entrepreneurial spirit we foster throughout the Group is clearly evident in the approach our management teams have taken to de-risking our growth pipeline. At Xstrata Nickel, a modular approach has been adopted at the Koniambo project to use best value engineering expertise and minimise the risks of additional on-site activity in constructing a power plant and metallurgical complex. Xstrata Alloys and Xstrata Zinc are using proprietary technology in their development projects to optimise the cost performance and scope of metallurgical operations. Xstrata Copper signed a strategic alliance with Bechtel to secure the skills and personnel required to deliver its major growth projects currently in development and, together with engineering partners, developed a standard concentrator design to fast-track the construction and delivery of the concentrator infrastructure required at the projects currently being developed. At each of our projects, we have engaged communities early in the process to address any areas of concern from the outset and to work together with community members to deliver sustainable benefits from our presence in the region, with the ultimate aim of maintaining a social licence to operate.

The decentralised management structure that is a core differentiator of Xstrata, in my view, underpins our entrepreneurial approach to project execution, just as it has in our day-to-day operations and approach to M&A. Our businesses are able to adopt innovative solutions to specific project challenges and respond more nimbly to local issues, unencumbered by the constraints imposed by a single, rigid approach to project development and the limited resources and capacity which often befall centralised project teams. Once proven, innovative ways of responding to particular risks or technical issues are widely disseminated and shared across the Group to ensure that all of our businesses enjoy the benefits of successful innovation. Under our structure, projects are developed by the same commodity business management teams that will eventually be responsible for running the operations, ensuring maximum accountability throughout the process and enabling operational management to develop longer term, more strategic relationships with key stakeholders.

Commodity market fundamentals underpin growth strategy

From inception, Xstrata's growth strategy has been based on a conviction, now widely held, that the supply-side of our industry is fundamentally constrained and will struggle to meet burgeoning demand from populous industrialising nations over the medium term. Following a period of interruption during the downturn, this secular trend was again in evidence in 2010, as the impact of falling grades, longer haulage distances, labour disputes and technical problems at existing, ageing operations led to mine underperformance across the industry, while the timing of the onset of new sources of supply fell short of market expectations in most key commodities.

These issues are particularly acute in the copper industry, where a growing deficit is apparent and the development of new copper projects remains challenging due to skilled labour and engineering shortages, more onerous environmental and planning regulatory requirements, community dissent or increased political risk. Challenging conditions in the geographies in which a large proportion of new copper projects are located are likely only to exacerbate this trend. Capital costs continue to rise as mining sector inflation re-emerges in the light of increasing capital expenditure amongst the major mining companies.

In the thermal coal industry, transport infrastructure constraints continue to impact on new supply from Australia and South Africa, where supply growth remains highly dependent on government and private sector investment in rail and port infrastructure. Meanwhile, Indonesian supply, historically the primary source of supply growth, faces dwindling quality and shorter mine lives than Australia, South Africa or Colombia. China is now firmly established as a net importer of coal, with domestic production constrained by increasingly stringent environmental regulations, logistical constraints and the restructuring of a fragmented industry to closer, smaller, inefficient and unsafe operations.

While supply constraints are less pronounced, nickel producers similarly face underperformance issues, in particular from technical difficulties in commissioning or ramping up high pressure acid leaching operations for the laterite deposits which now account for more than half of new supply growth. While nickel in pig iron remains a flexible source of new supply to plug any deficit once prices rise above operating costs, higher coking coal prices, wage inflation, currency appreciation and increased energy costs are putting upwards pressure on these producers' breakeven costs.

On the demand side, the story may by now be a familiar one to those who follow our sector, but it is nonetheless profound for the future growth in demand for Xstrata's products. China, India, Brazil and other developing Asian economies will continue to fuel the lion's share of growth in global commodity demand over the medium term. Over 300 million people will move to cities in China alone over the next 15 years, while rising GDP per capita in China, India and other developing nations is giving rise to inevitable increases in the intensity of metal and energy demand as those countries move up from their positions at the bottom of the global intensity curve.

Export coal demand is rapidly increasing in China, and India has emerged as a major importer of export thermal and coking coal to fuel rising energy and steelmaking demands. Demand for imported thermal coal in 2010 has risen by some 51% and 25% year-on-year in China and India respectively.

Xstrata's existing portfolio and growth projects are ideally positioned to benefit from these longer-term secular trends, providing industry-leading exposure to copper and mid-cycle base metal commodities and to rising energy demand from coal-fired generation. Our growth plans will see us progressively deliver substantial additional volumes of key commodities into fundamentally constrained commodity markets.

Outlook remains positive for commodity demand although risks remain

Global economic growth exceeded most expectations in 2010. Emerging economies continued to record very strong growth rates, notably China and India, where GDP grew by a little over 10% in China and an estimated 9.7% respectively compared to 2009. In the OECD, growth was bolstered by inventory restocking and ongoing government measures including stimulus spending, extended tax cuts and quantitative easing, but these short-term measures were succeeded by a stronger than expected manufacturing-led recovery in the US and Germany.

Looking ahead, leading indicators suggest that the US economy continues to find a reasonably solid track for recovery, with manufacturing activity at a seven-year high, rising retail sales, and unemployment finally starting to decline, despite continued weakness in the housing and construction sectors. In the Eurozone, January data for the manufacturing and services industries reveal the fastest pace of expansion in nine months. In particular, the German

Xstrata Copper's Lomas Bayas mine in north Chile economy continues to strengthen, driven by its large manufacturing sector and robust exports. Nonetheless, market confidence in the rate of growth in the medium term is impacted by high unemployment, persistent European sovereign debt concerns and the potential impact on growth of austerity measures.

Importantly for commodity demand growth, developing economies, and China in particular, appear set to continue to achieve wholly respectable high single digit growth rates in 2011, albeit below 2010 levels due to the impacts of inflation and the proactive actions by governments to contain economic growth within manageable levels. Further actions to curb inflation are likely in 2011, following the monetary and fiscal measures imposed by China and India in 2010, but are, in my view, a positive sign that the authorities are proactively managing inflation to avoid the negative impacts of overheating.

Chinese demand for commodities is increasingly supported by growing domestic consumption and from the urbanisation of western China as a substantial component of the government's efforts to reduce reliance on exports to the West. These factors are further supported by a resurgence of foreign direct investment in China. The twelfth five-year plan includes a target of 20% annual growth in western province infrastructure investment, and 23 major new infrastructure projects worth $100 billion were approved in 2010, all of which augurs well for ongoing growth in demand for early and mid-stage commodities.

The Board's confidence in the medium-term outlook for Xstrata is reflected in our decision to increase the final dividend to 20 cents per share. Based on average dividend policy prior to the financial crisis in 2009, in which our final dividend has typically been two-thirds of the total for each year, the implied dividend for the year would be 30 cents per share, setting a new platform from which Xstrata will continue its progressive dividend policy.

Maximum optionality to create sustainable shareholder value

We have not deviated from Xstrata's strategy to deliver industry-leading value for our shareholders by growing and diversifying our business and continuously improving the quality of our assets since Xstrata's IPO some nine years ago.

The initial stages of Xstrata's growth relied predominantly on a series of acquisitions to rapidly add scale and diversity to our portfolio. A second stage saw the judicious application of capital and operational excellence to turn around underperforming assets, together with an unrelenting focus on improving the quality and value of our operations that continues today. A third phase of Xstrata's evolution is now coming to fruition as we transform our portfolio over the next three years and beyond through the development of a number of near-term organic growth options. This transformation is no less fundamental than a major acquisition, but its execution is within our control to a far greater extent than any on-market transaction in a consolidated industry.

In the nine short years since our IPO, Xstrata finds itself with a broader and deeper range of options at its disposal to deliver growth than ever before. Our internal portfolio of growth projects is extensive and industry-leading and the next generation of projects is already being advanced to sustain the momentum we have created well beyond the next three years. We have built a recognised capability for identifying and executing disciplined acquisitions and integrating acquired assets rapidly and successfully and we remain alive to the potential to opportunistically grow our business through value-adding acquisitions at the business unit and Group levels. Against the backdrop of a world-class risk management and governance framework, our devolved management culture supports an entrepreneurial approach at every level of the organisation. Importantly, our balance sheet provides the financial capability to finance our organic growth programme while allowing us the flexibility to assess a range of other external opportunities to create value.

As announced in March 2011, Willy Strothotte will retire as Chairman of Xstrata plc at the AGM in May. I would like to thank Willy for his support, expertise and guidance during Xstrata's extraordinary evolution into a world class mining group. Willy has been an exemplary Chairman whose stewardship of the Board upheld the interests of all shareholders and who successfully navigated the complexities of the company's relationship with its major shareholder with integrity and discretion.

Sir John Bond will be appointed Chairman subject to election at the AGM. On behalf of the entire Group, I welcome Sir John to Xstrata. Sir John has an exceptional record of shareholder value creation and a distinguished career including successfully chairing two major international companies. He will make a significant contribution to the Board and ongoing success of the company during an exciting stage of its evolution.

Xstrata today is one of the world's largest diversified mining companies with a robust portfolio of long-life operations in the bottom half of their industry cost curves, diversified across numerous geographies and exposed to commodities that will continue to benefit from the ongoing urbanisation of China, India, Brazil and other emerging economies. The next stage of our transformation is now well underway, to exploit the various options embedded within our portfolio to create value through organic growth. I remain very confident in your company's prospects now and into the future.

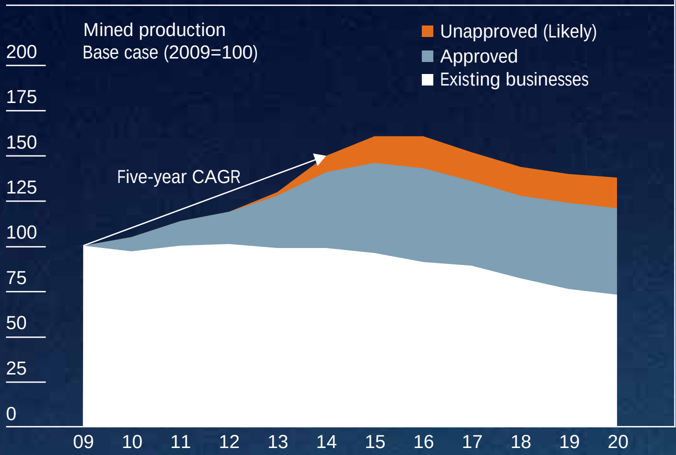
Mick Davis
Chief Executive

Strategy

The growth projects being developed are transforming Xstrata's volumes and unit costs.

By the end of 2014, volumes will be increased by 50% over 2009 production, delivering a 20% reduction in average operating costs.

Xstrata volume growth*
(production data)



* On a copper equivalent basis with 2009 based at 100.

In this section

Market overview

> "Xstrata's portfolio of exposures is diversified by commodity, geography, currency and end-user market"

Markets

Xstrata's portfolio of exposures is diversified by commodity, geography, currency and end-user market. Revenues and earnings for mining companies depend to a large extent on the prevailing prices for the commodities produced. These commodities are globally traded and, as a result, in common with its competitors, Xstrata does not control the prices it receives for commodities. Commodity prices are significantly affected by global economic conditions and, in particular, industrial production, which drives global demand for metals and energy.

In the aftermath of the global financial crisis, the pace of the world economic recovery in 2010 beat most expectations due to growth in developing markets, fiscal expansion in more mature markets and restocking. Governments in both developed and emerging economies responded decisively to the crisis, putting in place financial stimulus programmes and maintaining low interest rates. These actions helped to promote a rebound in global economic growth from late 2009, bolstering demand for commodities. In particular, the commodities sector, which suffered from an immediate and dramatic destocking throughout its value chain in late 2008 enjoyed a relatively quick recover by mid-2009 as customers initiated a restocking on the back of recovering demand for their manufactured products.

In China, the massive stimulus injected into the economy by the government at the onset of the financial crisis in late 2008 resulted in a unsustainably high rate of GDP growth in the early part of 2010. To avoid an impending rise in inflation and the consequences of a growing bubble in high-end real estate, the Chinese government put in place a series of tightening measures, including raising reserve ratios for banks and interest rates and increasing the percentage deposit required for speculative real estate investment. These initiatives were broadly successful in moderating Chinese growth rates during the course of 2010 within a more sustainable, albeit high, range. Further initiatives have been implemented in 2011 to ensure the Chinese economy sustains a manageable growth rate. Notwithstanding these initiatives and despite lower demand from their major export markets, China and India both recorded robust GDP growth rates in 2010 of around 10%.

The recovery of the US economy continued throughout 2010. While unemployment remained stubbornly high during the year, stimulus-led growth was succeeded by a slow but steady manufacturing-led recovery and fears of a double dip recession gradually receded. In Europe, growth remained sluggish throughout 2010, exacerbated by budget deficits and sovereign debt risks, although Germany's strong export sector drove a more solid recovery in that country, which has continued into 2011.

The combination of continued growth in demand from developing countries and expectations of a return to growth in OECD countries, restocking of inventories and fixed investment accounted for a dramatic rise in industrial production and global trade during 2010. The price of most commodities rallied in the second half on the back of unexpectedly strong economic growth and inventory restocking. A series of one-off weather-driven events and ongoing supply-side impacts such as industrial action and declining grades continued to constrain the supply response further contributing to improving prices for most commodities.

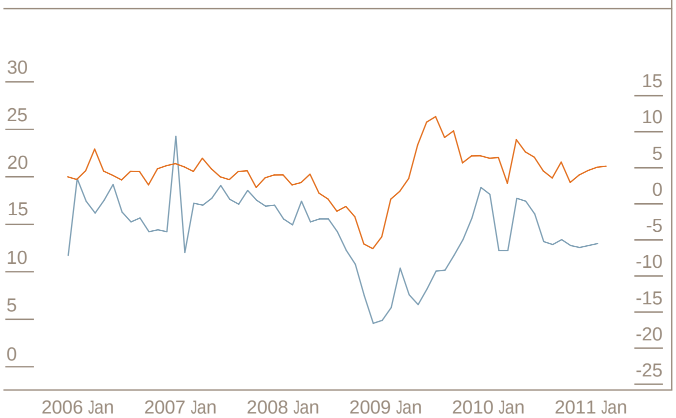
After a better than expected economic performance in 2010, the global economy ended the year on an uncertain note. High commodity prices fed back into inflation, especially in developing nations, while developed economies began to contemplate deficit reduction through severe austerity measures with potential impacts on growth and economic recovery.

Outlook

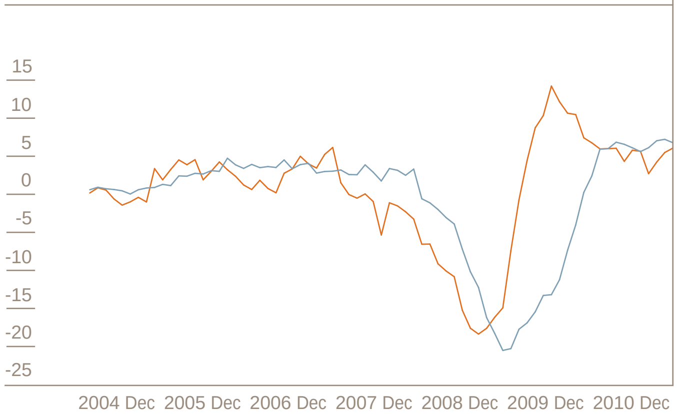
For the foreseeable future, developing markets will underpin global growth, especially demand for metals and minerals. A 'three-speed' global economy has emerged, reflecting continued healthy levels of growth in major developing markets, the US settling into a steady growth rate as its flexible economy restructures and, other than Germany, Europe taking some time to return to historic growth rates.

Xstrata's proprietary early-warning tracking indicates that industrial production and real economy leading indicators for the US, Eurozone and China are positive, with a particularly impressive rebound in US economic growth and a slower recovery in Europe, while Chinese measures to curb inflation are likely to stabilise economic growth at robust but more sustainable levels.

China
year-on-year changes

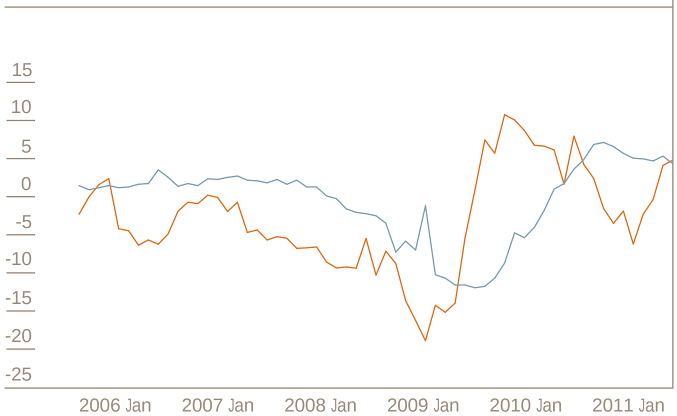


European Union
year-on-year changes



In Europe, underlying sovereign and banking vulnerabilities remain a challenge to economic recovery, and uncertainty is likely to persist given the potential for unemployment to be impacted by austerity measures, which could lead to a longer and more gradual recovery. While uncertainty is likely to prevail in the Eurozone for some time, export-orientated countries, such as Germany and France, will perform better as they take advantage of growing demand from the East, Russia and Brazil.

United States
year-on-year changes



In the US, consumer confidence was at its highest level in three years in early 2011, with manufacturing output expanding rapidly and a recovery in employment numbers finally taking hold, and the world's largest economy appears to be on a firm footing for a recovery in 2011.

Developing markets such as China, South Asia, Brazil and India are continuing to underpin demand for commodities through state support for growth, massive infrastructure spending imperatives and rapidly growing and urbanising populations. As emerging markets continue on their resource-intensive phase of economic growth, strong demand for commodities is expected to continue.

China's 2011-2015 five-year plan sets out spending plans of $2 trillion on urban infrastructure investment and $450 billion for rural infrastructure. Much of this investment is targeted at the inland provinces which lag the south-eastern provinces in development. These plans will see continued strong demand for energy generation, 70-80% of which is expected to continue to be fuelled by thermal coal, despite efforts to improve Chinese energy and carbon intensity. Infrastructure commodities such as iron ore and coking coal are also set to benefit. Demand for higher-value consumer goods will bolster demand for mid-cycle commodities including copper and stainless steel, the latter requiring ferrochrome, nickel and zinc as key inputs.

Longer term, these key emerging economies are looking to reduce their dependence on exports and develop their domestic sources of growth. Despite its 20% growth in exports in 2010, China's 2011-2015 five-year plan explicitly announces the government's desire to bring about a structural transformation of the economy from being export-led based on abundant low cost labour towards a consumption-led economy. This is a long-term objective, but the government has begun to take specific actions to facilitate this fundamental transformation of the economy.

The shift towards a consumption-led economy will require rising household incomes and improvement in the social safety net. Together with a shift towards higher-value production in the form of finished goods, a reduction in the number of new entrants into the labour pool due to an ageing population will result in higher wages – a trend already in evidence. Growing social security investment, such as expanded pensions and health care provision will encourage lower savings. The sweeping land reforms that are transferring rural land leases to private farmers are facilitating a transfer of wealth and accelerating urbanisation.

While India lags China somewhat on the path to economic development, it is increasingly becoming significant as a source of demand for metals and minerals, especially early-stage infrastructure commodities. India is projected to be the third largest global economy by 2030 and already accounts for over 10% of demand for globally traded thermal coal and 20% of traded coking coal. Demand for thermal coal is expected to grow significantly over the next five years, by around 15 to 20 million tonnes per annum and India is expected to become the second largest producer of crude steel over the same timeframe. Planned expenditure on Indian infrastructure is estimated at $514 billion in the five years to 2012. Power and telecommunication investment is particularly important for demand for copper. Investment in transportation, especially rail, will boost demand for iron ore and coking coal.

Recent global events are likely to leave their mark on the world economy in 2011. Social uprisings in North Africa and the Middle East and the consequent impact on world oil prices are further impacting inflation and, if sustained, may dampen tentative economic recovery in more vulnerable regions. More recently, the impact on global economic conditions of the massive earthquake and tsunami that hit Japan in March 2011 is still being assessed.

Overall, the outlook for commodity demand in 2011 and into the medium term remains positive, although global economic growth is likely to moderate from 2010 levels as a result of counter-inflationary measures, fiscal consolidation and the end of restocking.

The Chairman's statement (pages 6 to 8) and Chief Executive's report (pages 9 to 15) include commentary on the outlook for Xstrata's markets. More detailed commentary on each of Xstrata's key commodity markets is included in each operating review, see pages 56 to 95.

Competitive environment

Xstrata's key competitors are Anglo American plc, BHP Billiton plc and Rio Tinto plc, all of which are listed on the London Stock Exchange, and Vale SA, a Brazilian mining company. We benchmark certain key financial performance indicators against our key FTSE 100 listed competitors (collectively FTSE diversified miners), as set out in the Key performance indicators section (pages 36 to 41).

We also compete with a broader range of private and state-owned or state-sponsored entities across the globe. A global industry peer group of publicly quoted diversified and single commodity mining companies is used to benchmark Xstrata's total shareholder return performance, as well as to determine performance criteria under the Group's long-term incentive plan, and is set out below.

Competitors*

Key FTSE 100 competitors	Global peer group**
Anglo American	Alcoa Inc
BHP Billiton	Arch Coal Inc
Rio Tinto	Eramet SA
	Freeport McMoRan Copper & Gold Inc
	Grupo Mexico SA de CV
	Impala Platinum Holdings Ltd
	Korea Zinc Inc
	MMC Norilsk Nickel
	Nordeutsche Affinerie AG
	Peabody Energy Corp
	Teck Cominco Ltd
	Vale SA
	Vedanta Resources plc

* 2010 peer group.

** Includes FTSE diversified miners.

Industry and market trends

Consolidation

The consolidation witnessed in the mining sector over the past decade has resulted in a smaller number of very large public or state-owned mining companies dominating the mining industry. Following a period of consolidation in the 1990s, driven by structural overcapacity to improve the economics of the industry, consolidation was primarily driven by the pursuit of scale and diversification.

Scale is an important attribute in a capital-intensive industry, where new deposits are increasingly found in riskier and more challenging regions of the world. Increased scale enables an entity to acquire and develop several large projects simultaneously, without risking a substantial portion of the company's capital in any one region or on any one project. Scale also brings an improved ability to access capital, talent and new resources. It enhances a company's ability to capture external opportunities and to realise synergies from within the portfolio, for example, using common infrastructure for a range of neighbouring operations.

As a further driver of consolidation, the quest for diversification aims to deliver more stable returns over the cycle and an improved ability to manage risks across commodities, geographies, currencies and end-use customer segments.

During the past 18 months, a number of transactions in the mining sector have experienced difficulties in reaching completion as a result of valuation or regulatory obstacles. The pool of potential targets remains small, with many companies controlled by governments or private shareholders who are unwilling to sell. The strengthened balance sheets of existing companies and the increased activities of new players, such as China and India, have contributed to opportunities, in particular large acquisitions, facing unrealistic expectations from the equity markets.

Rise of diversified global mining major

While several business models exist within the industry, from single commodity companies, or companies focused in a particular geographic region, to those more diversified by geography or commodity exposure, the pursuit of scale and diversification has led to the rise of five major global diversified companies that lead the industry.

Increased scale, diversified currency, commodity and geographic risk, and access to and the ability to develop significant, large-scale organic growth are vital for success in the mining sector. These attributes enable the large diversifieds to deliver consistently higher shareholder returns at demonstrably reduced risk. These majors also often benefit from preferential access to new growth, substantial technical expertise, and enhanced capacity to engage effectively with stakeholders and to manage sustainable development risks and opportunities.

Massive capital expenditure programmes

As the global economy emerges from the financial crisis, the restocking of inventories undertaken by producers and consumers and the impact of one-off weather-related events on supply has driven commodity prices upwards, with many returning to pre-crisis levels. High commodity prices are generating strong cash flows for mining companies. During the past year, all of the major diversified miners have announced a return to large-scale capital expenditure programmes as a means to reinvest surplus cash and to develop value-adding opportunities.

Capital investment in the mining sector is increasing competition for, and leading to potential shortages of, skilled labour, equipment and resources. First movers will be rewarded, as will those companies with established relationships with mining equipment suppliers and industrial contractors. Execution risks escalate as companies enter new geographies and embark on large-scale greenfield expansions in challenging new environments.

M&A, share buybacks and dividends

In addition to investing in large scale capital investment programmes, many large mining companies are finding themselves underleveraged or even with large cash surpluses. Investor pressure is being exerted on these companies to return cash to shareholders through dividends and share buybacks and many mining companies have reinstated dividend payments and announced modest buyback programmes. The availability of funds and strengthened financial facilities is also likely to bring about a renewed focus on M&A activity across the sector.

New competitors from emerging markets

In recent years, new major competitors have emerged from markets such as the former Soviet Union, Kazakhstan, Brazil, India, and China, some of which are now amongst the world's largest mining companies, notably Vale. Many of these companies are state-sponsored entities or benefit from investment from home nation governments.

Secular upwards trend in demand

Xstrata's long-term scenario analysis supports the expectation of secular strength in demand for commodities and the potential to return to a strong commodity price environment based on sustained demand growth from industrialising and urbanising countries such as China, India, Indonesia and Brazil. See the Markets section (pages 18 to 20) for further commentary on the trends underpinning future commodity demand.

Constrained supply

At the same time, supply is expected to struggle to keep pace with rising demand over the medium term. Prior to the global downturn, existing mining operations were already experiencing a number of problems in attempting to maintain or increase production levels, including declining grades, unplanned outages, labour or social unrest, longer haulage distances and inflation in input prices.

During the downturn, a significant number of mining projects were delayed or postponed as companies scaled back capital investment and some higher cost or end-of-life capacity was permanently withdrawn, further impacting supply. It is estimated that approximately 2 million tonnes of future supply has been removed from the copper market and new projects are subject to frequent delays and cost overruns, particularly as the mining industry moves into more complex territories to access new resources.

The lag between new large-scale sources of supply replacing ageing existing production will bring about an environment of structural deficit expected to last through the next decade.

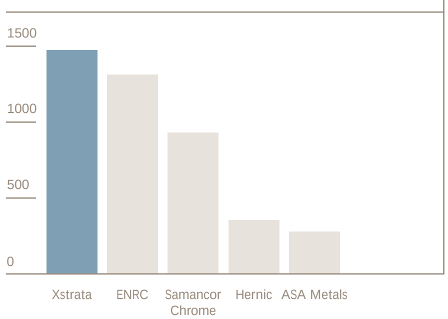
Government intervention

Governments are increasingly concerned about the amount of speculation and volatility in many basic commodities, particularly food and energy, but also metals and minerals. Governments and regulators are looking at various measures to reduce this volatility and are playing an increasingly active role in the mining industry in various forms, including regulation, protectionism, increased taxation and resource nationalism.

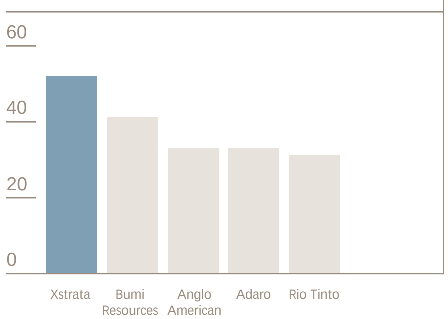
Competitive position

The Group maintains industry-leading positions amongst the top five producers in each of its key commodity markets.

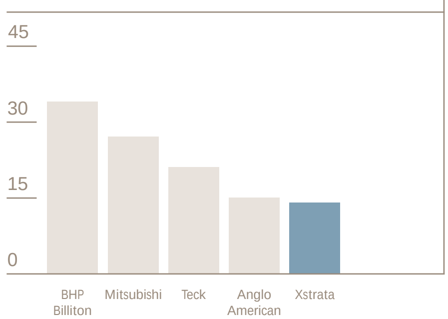
Ferrochrome producers



Thermal coal exporters



Coking coal exporters



Resource nationalism takes many different forms, including increasing royalty regimes and the tax burden on mining to controlling access to resources. All forms of resource nationalism may intensify further in the near-term as governments look to mining and other 'cash-rich' industries to help mend their fiscal deficits. Regulatory and fiscal measures will impact the relative attractiveness of individual countries and the location of long-term mining investment.

The entry of sovereign wealth funds as investors in the mining industry is likely to increase politically motivated investment in resources. Given Xstrata's expectations that new supply of mining resources will lag demand, it is likely that countries where demand for resources outstrips domestic supply will continue to seek to secure access to resources as a strategic and political imperative.

Sensitivity to political and economic change
The sector remains highly sensitive and vulnerable to the global macroeconomic outlook, in particular around the emerging countries. Any disruptions, shocks or political upheaval will have a powerful impact on sector sentiment and commodity prices. The popular uprisings currently being seen in North Africa and the Middle East are not only affecting investor sentiment but have the potential to disrupt supply chains, rapidly alter market dynamics and cause unexpected increases to input costs such as oil.

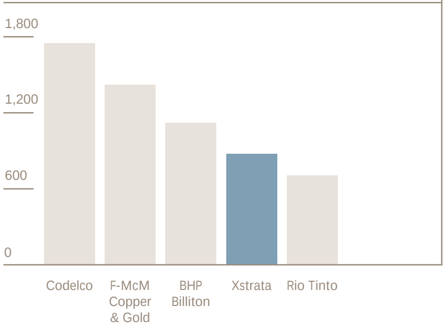
As emerging markets' growth levels return to those experienced pre-downturn, developing economies such as China and India are increasingly adopting policies that seek to control growth and limit inflation risks. As a result of the slow economic recovery of the OECD countries, it is the developing economies that will continue to drive future demand for commodities, and any potential disruption to their growth expectations will have an immediate impact on the sector.

Exchange rate dynamics
With significant amounts of quantitative easing in the US, and increasing concern around the artificial weakness of the Renminbi, many resource-based economies, such as Canada, Australia, South Africa and Brazil, have seen their currencies reach unprecedented strength. In the short-to-medium term, companies operating in these countries will see their operating costs becoming less competitive in US dollar terms and moving up the cost curves. In some cases, but not all, this will be passed through to the end user through higher commodity prices.

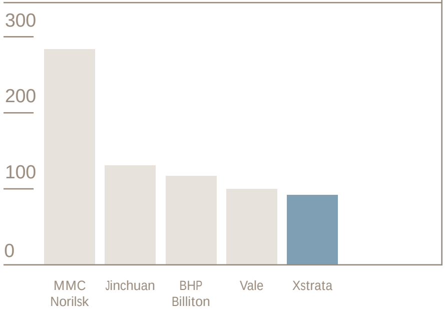
Investment fund flows
Commodities are now established as an attractive investment class in their own right, with significant growth in exchange-traded commodities and futures markets, and substantial fund flows that may influence commodity prices. This trend will lead to ongoing volatility in prices, particularly in traded commodities.

Overview
Strategy
Performance
Governance
Financials

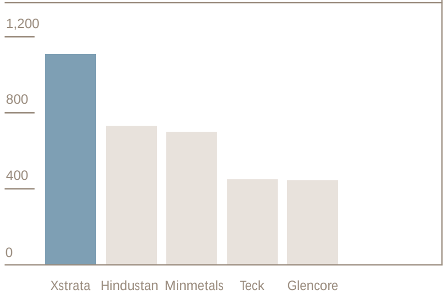
Copper producers (mined) (kt)



Nickel producers (refined) (kt)

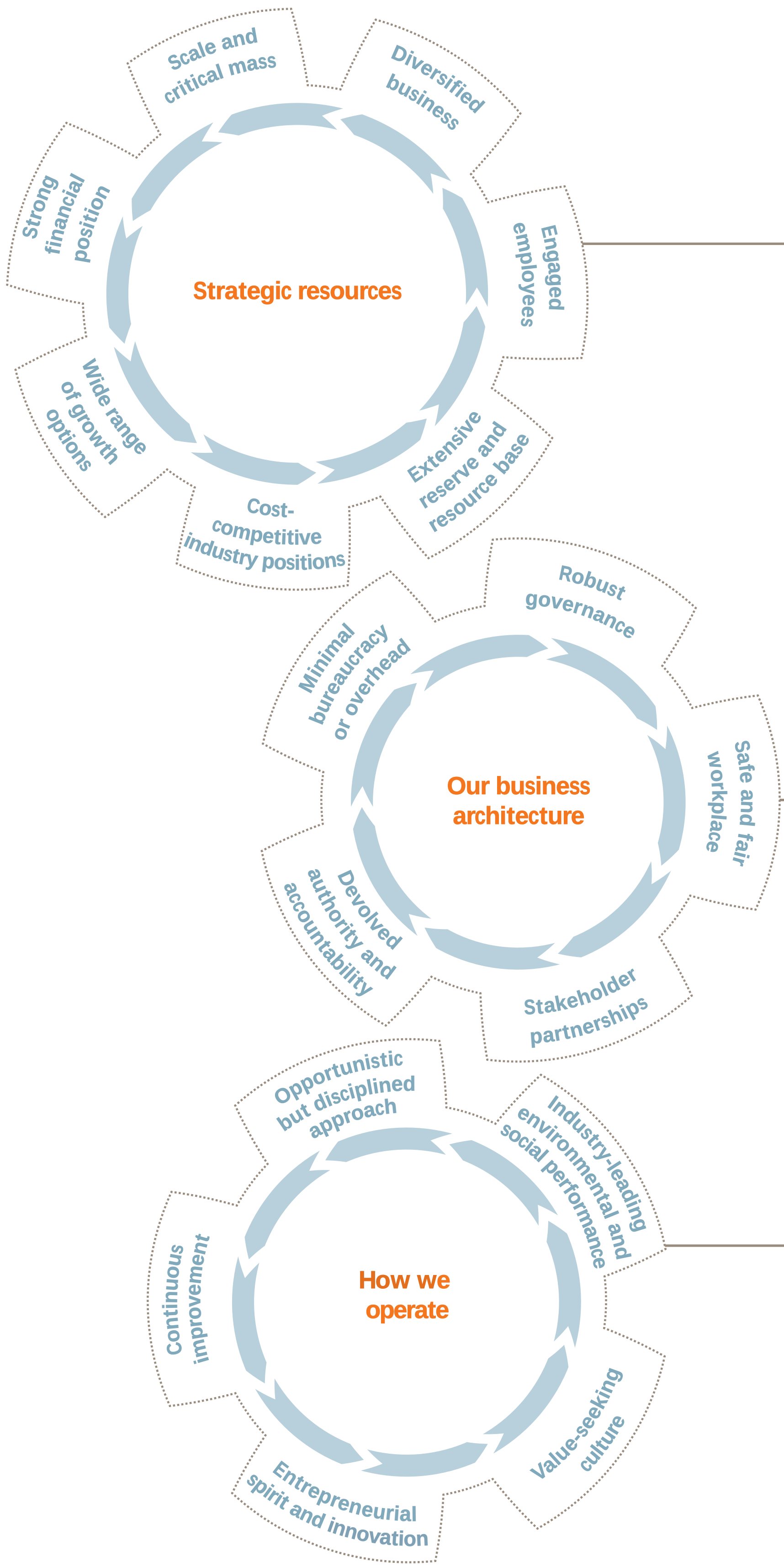


Zinc producers (mined) (kt)



Sources: Brook Hunt, CRU and AME.

Business model: How Xstrata creates value



We create long-term value for shareholders through the development of organic growth projects, the opportunistic pursuit of value-adding acquisitions and by applying operational excellence to improve the value of our assets and operate to leading standards of safety, environmental and social performance.

Scale and critical mass

Xstrata is the fourth largest diversified mining company globally, with a market value in excess of $64 billion[1]. Mining is capital-intensive and new deposits are increasingly in more challenging regions. Scale enables mining companies to invest in multiple large projects without risking a substantial portion of capital in any one region or to any one project. Scale also brings an improved ability to access capital, talent and new resources and to capture external opportunities.

Diversified business

Xstrata's portfolio is diversified by commodity, geography, currency and customer industries. Diversification aims to deliver more stable returns and an improved ability to manage risks associated with foreign exchange rate fluctuations, commodity price cycles, operating locations and end-use customer segments.

Devolved authority and accountability

Xstrata's highly decentralised business model is a key differentiator and focuses accountability and responsibility at the local level ensuring decisions are made where the best information exist. This model creates a strong sense of ownership at the local level and, within a defined governance structure, empowers operational management to take pro-active and prompt decisions on operational, community, environmental and people issues and to build meaningful partnerships with local stakeholders at a site or divisional level. Xstrata's commodity business units have responsibility for all aspects

Value-seeking culture

Xstrata seeks to embed a culture focused on the creation of value for our shareholders and mutual benefits for our stakeholders and which minimises activities that do not contribute to this aim. Each commodity business is mandated to improve the net present value of its underlying business to overcome the 'strategic gap' faced by the mining industry – namely, the wasting nature of mining companies' finite assets and the difficulty in maintaining production from existing operations due to falling grades and higher costs.

1 As at close of business on Friday 11 March 2011.

2 On a copper-equivalent basis using Xstrata long-term pricing increase based on contained metal (and coal at 60% yield to thermal) on Measured and Indicated Resources from 2006 to 2010.

Diversification provides a more stable source of cash-flow, reducing risk and, hence, cost of capital, making Xstrata more competitive for acquisitions and increasing return on investment.

Strong financial position
Xstrata is committed to maintaining a robust balance sheet and investment-grade rating, providing access to a broad range of funding sources. At year-end Xstrata had over $8 billion in undrawn credit facilities, gearing of 15% and robust operational cash flows, enabling the Group to finance its organic growth pipeline in full from internally generated funds.

Extensive reserve and resource base
The Group benefits from a substantial mineral reserve and resource base with an average mine life in excess of 50 years. Resource lives have been extended by over 60% over the last four years[2]. Xstrata publishes an annual Reserves and Resources statement available from www.xstrata.com.

Wide range of growth options
Over the past nine years, the Group has progressively developed an extensive range of brownfield and greenfield organic growth options to enable Xstrata to grow without reliance on external growth opportunities or financing. Approved and near-term projects will add 50% to 2009 volumes by the end of 2014, with substantially reduced operating costs. Beyond this, a range of earlier stage opportunities is being assessed to provide the next phase of growth. While our focus is primarily on organic growth, we also continue to assess opportunities to add value through bolt-on or transformational acquisitions.

Cost-competitive industry positions
Xstrata's commodity businesses are positioned within the lower half of their respective industry cost curves. The Group focuses on achieving real unit cost savings at each reporting period to improve the quality of our business. In 2010, Xstrata's businesses achieved record operating cost savings of $541 million.

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

of their business to the EBIT line and for the development of their organic growth projects.

Robust governance
Xstrata's decentralised business model is underpinned by a robust governance framework that incorporates stringent checks and balances at Group and commodity business levels, an emphasis on effective internal communication and comprehensive risk management and assurance processes. Xstrata's industry-leading sustainable development assurance programme evaluates the performance of every managed operation and project against our international best practice standards and policy, with results reported to the Board. A global Code of Conduct was developed in 2010 to provide additional guidance to employees and business partners on how to put Xstrata's Business Principles into practice.

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

Minimal bureaucracy or overhead
Reducing bureaucracy and overhead enables us to make decisions rapidly and act nimbly to capture opportunities. Xstrata maintains a lean corporate structure with approximately 50 people at the corporate centre. The role of the centre is well-defined, to avoid duplication with the commodity businesses.

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

Entrepreneurial spirit and innovation
Xstrata's devolved management model encourages the rational risk-taking required to foster an entrepreneurial spirit across the Group and enable our businesses and technical teams to develop innovative responses to challenges.

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

Opportunistic but disciplined approach
Xstrata's business model aims proactively to identify and execute opportunities to grow or optimise the value of our business, including through acquisitions, divestments and strategic partnerships, while maintaining a disciplined approach, focused on value.

Industry-leading environmental and social performance
We aim to manage our business to balance economic, environment and social considerations. Responsible environmental management and community engagement enable us to gain access to new resources, maintain a licence to operate, attract and retain the best people, access sources of capital, identify business opportunities and optimise our management of risks. We set aside a minimum of 1% of profit before tax each year to fund community initiatives and pro-actively consult with communities about our operations, with the aim of securing broad-based, ongoing support for our activities.

Strategy

Strategy to deliver superior shareholder value

p24 For more information on our business model

Our mission: We will grow and manage a diversified portfolio of metals and mining businesses with the single aim of delivering industry-leading returns for our shareholders.

We can achieve this only through genuine partnerships with employees, customers, shareholders, local communities and other stakeholders, which are based on integrity, co-operation, transparency and mutual value-creation.

How we achieve our strategy

Organic growth

Delivering the next phase of transformation of Xstrata's portfolio through our industry-leading pipeline of organic growth projects.

p28

Operational excellence

Continuously improving the quality of our assets through year-on-year operating cost reductions, mine life extensions and productivity improvements. Operating in line with leading practice social and environmental standards.

Mergers and acquisitions

Growing our business through the opportunistic identification and execution of value-adding bolt-on or transformational acquisitions.

Evolution of Xstrata's strategy

Initially, Xstrata's strategy was focused on the execution of transformational and bolt-on acquisitions to rapidly add diversity and scale to the Group. A second stage focused on improving the operational, safety and environmental performance of acquired assets. While we continue to pursue value creation through M&A and operational excellence, our strategy is now focused on delivering the next stage of Xstrata's growth from the range of organic growth projects within our portfolio. Each of these strategic thrusts relies on our ability to operate responsibly and to secure broad-based support for our operations from the communities in which we operate.

Strategic priorities	Progress in 2010	Key performance indicators
Develop our portfolio of significant organic growth projects to deliver new production on time and on budget	■ Three major new mines successfully commissioned in 2010 ■ 10 projects approved and entered implementation with capital spend of $10 billion, 20 projects currently in construction ■ $7.5 billion of project approvals due in 2011	■ Targeted 50% volume growth over 2009 levels by end 2014 ■ 20% reduction in operating costs by end 2014
Achieve further improvements to the net present value of our business	■ Record real cost savings of $541 million from efficiency initiatives and new, lower cost production ■ Increased copper mineral resources at Antapaccay, Collahuasi, El Pachón, Frieda River and Las Bambas	■ Real cost savings (see page 37) ■ Increase in average mine life: 50+ years in 2010 ■ Increase in total mineral resources: up 60% on 2006 levels in 2010
Improve our health and safety, environmental and social performance and, in particular, to operate a fatality-free business	■ Three fatalities at managed operations in 2010 ■ 20% reduction in total recordable injury frequency rate (including contractors) ■ Corporate social involvement of $81.3 million (cash) and $2.5 million (in-kind)	■ Zero fatalities ■ Total recordable injury frequency rate (see page 38) ■ Environmental incidents (see page 39) ■ Corporate social involvement (see page 41)
Retain key personnel and offer our people a rewarding and non-discriminatory workplace with development opportunities	■ 7.1% voluntary turnover in 2010, 11% higher than 2009 ■ Accelerated leadership development programme continued across Group ■ Career development processes in place across the Group including annual performance reviews	■ Voluntary turnover (see page 41) ■ Training spend and hours per employee (see page 41)
Maintain a robust and appropriate capital structure	■ Extension of bank facilities through $4 billion syndicated loan with no financial covenants ■ Increased headroom of $8.7 billion ■ Cash generation from operations of $9.95 billion ■ Net debt reduced to $7.6 billion	■ Gearing (net debt / net debt + equity) ■ Cash generation from operations (see page 3) ■ Net debt position
Identify and execute opportunities to create value through acquisitions, divestments, mergers or strategic partnerships	■ Acquisition of Sphere Resources (iron ore projects in Mauritania); majority ownership secured, integration underway ■ Completion of divestment of El Morro to New Gold	■ Successful integration of acquired assets, realisation of anticipated synergies (if applicable)

p36 For more information on key performance indicators

Growth pipeline

“Our near-term growth projects will increase volumes by 50% and reduce costs by around 20% by the end of 2014”

Xstrata’s commodity businesses benefit from a broad range of growth projects which have been progressed through the various stages from exploration to conceptual planning to pre-feasibility and feasibility studies over the past several years.

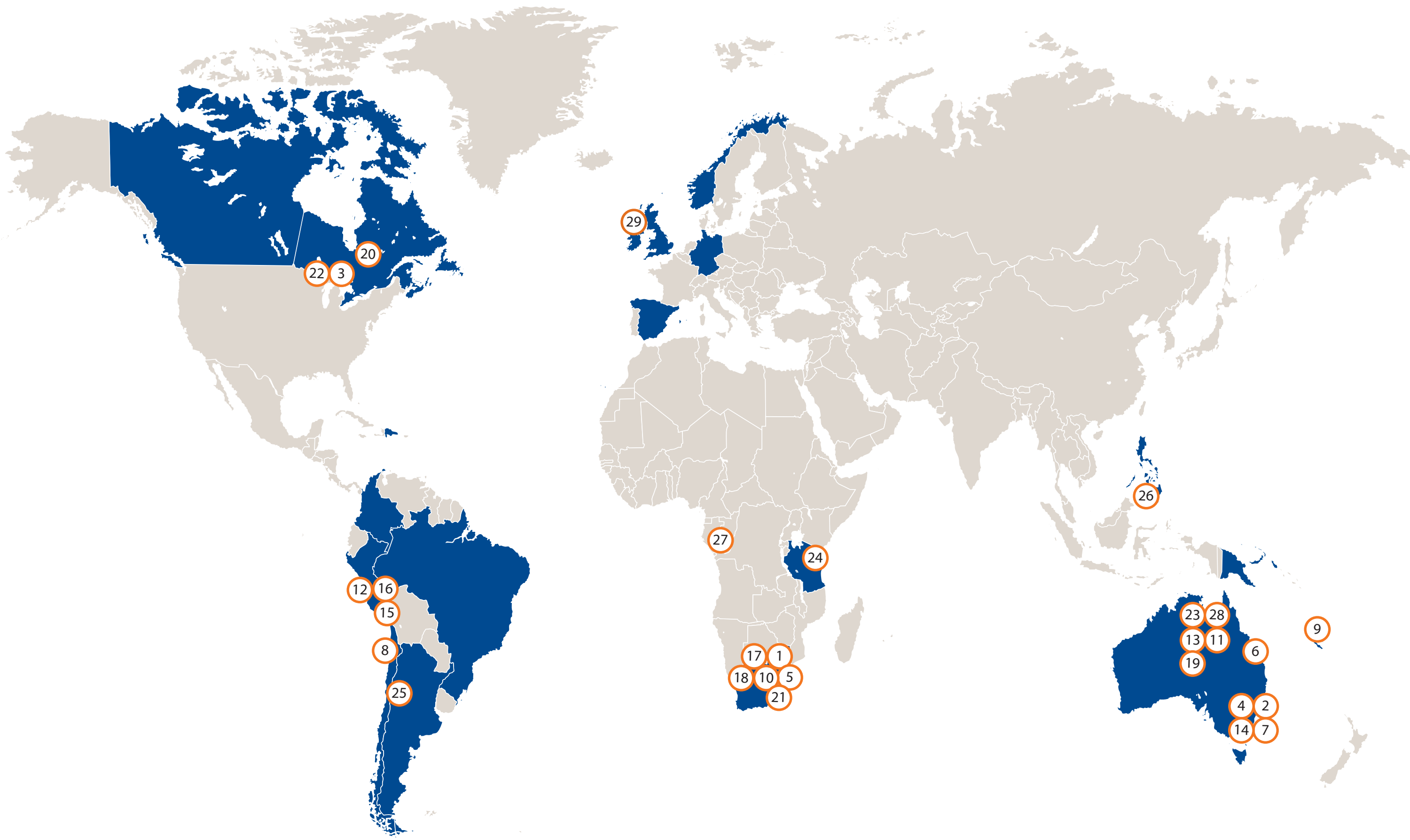
Organic growth has always been an important part of the Group’s strategy. Since our inception in 2002, Xstrata’s commodity businesses have successfully delivered 14 new or expanded mines.

In 2010, three major projects were commissioned: Goedgevonden and Blakefield South coal mines, and Nickel Rim South. Ten growth projects with capital expenditure of $10 billion were approved.

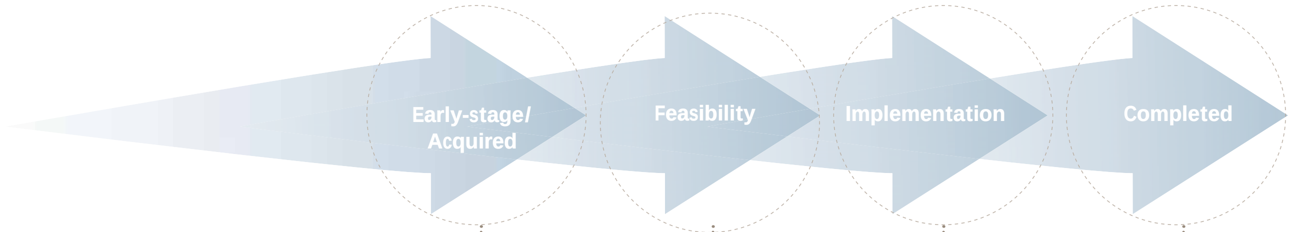
Xstrata is now entering the most active phase of its organic growth programme. Currently, 20 major expansions or new mines are in construction, representing a total capital expenditure of $18 billion, of which $18 billion remains to be spent.

By the end of 2014, the Group’s organic growth projects will increase volumes by 50% on 2009 levels and deliver a 20% reduction in average operating costs.

Strategy to deliver growth and value



Strong growth pipeline (% complete)



Growth projects

Completed 2010

No.	Project	Completion
1	Goedgevonden	2010
2	Blakefield South	2010
3	Nickel Rim South	2010

Completion due 2011-2015

No.	Project	Completion
4	Mangoola	2011
5	ATCOM East	2011
6	Newlands Northern	2011
7	Ravensworth North	2012
8	Lomas Bayas II	2012
9	Koniambo	2012
10	Eland mine & concentrator	2013
11	EHM underground & magnetite plant	2013

Approved 2010

No.	Project	Completion
12	Antamina Expansion	2011
13	Black Star Deeps	2011
14	Ulan West	2012
15	Antapaccay	2012
16	Las Bambas	2014
17	Tswelopele mega-pelletizing plant	2013
18	Lion II	2013
19	George Fisher mine expansion	2013
20	Bracemac-McLeod	2013

Near-term approval

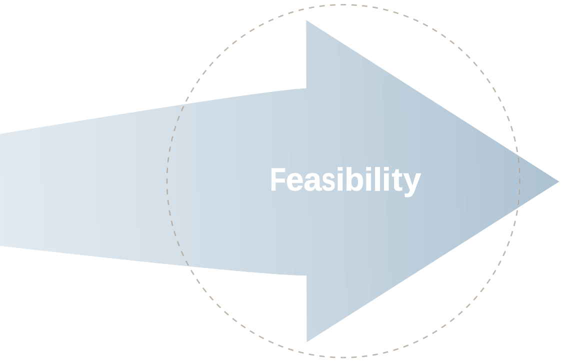
No.	Project	Completion
21	Tweefontein	2013
22	Fraser Morgan	2013
23	McArthur River Mine expansion	2014
24	Kabanga	2014
25	El Pachón	2016
26	Tampakan	2016

Early-stage

No.	Project	Completion
27	Zanaga	
28	Lady Loretta	
29	Pallas Green	

■ Coal ■ Copper ■ Nickel ■ Alloys ■ Zinc ■ Iron Ore

Growth pipeline *continued*



El Pachón *copper:*

Xstrata acquired El Pachón in 2006 as part of its acquisition of Falconbridge.

Work to date has built on feasibility work conducted by the project's previous owners, Cambior, in 1998, including updating the feasibility study with revised financial estimates reflecting current market conditions on consumables, construction and equipment, and updating the environmental and social baseline and technical studies.

Xstrata's first Mineral Resource estimate for El Pachón was published in March 2008, and a Mineral Resource increase was announced in August 2009. In December 2010, Xstrata Copper published a further 30% increase to Mineral Resources at El Pachón, which now total 1.79 billion tonnes at a copper grade of 0.51%, using a 0.2% cut-off grade.

The current work programme is focused on completing the environmental and social impact assessment and progressing geological and metallurgic studies as part of a programme to update the El Pachón feasibility study, which is due for completion in 2012.

Xstrata Copper's El Pachón project is located 3,600 metres above sea level in Argentina's San Juan Province, five kilometres from the Chilean border.

1.79 billion tonnes

at a copper grade of 0.51%

Ore at Xstrata Copper's El Pachón project, Argentina.


Inspecting ore contacts at Xstrata Zinc's McArthur River Mine, Northern Territory, Australia.


Surveying at Xstrata Zinc's McArthur River Mine, Northern Territory, Australia.

McArthur River Mine Expansion *zinc:*

McArthur River Mine is a zinc-lead-silver operation located in the north-eastern part of Australia's Northern Territory. It is the third largest zinc deposit in the world and was acquired in 2003 as part of the Mount Isa Mines portfolio.

In October 2006, the Northern Territory government approved an AUD110 million project to convert McArthur River Mine from an underground to an open pit operation which, combined with an expansion of the concentrator, would extend the mine's life by an estimated 21 years to 2027. This project increased McArthur River Mine's production volumes from 1.8 million tonnes in 2007 to 2.5 million tonnes per annum in 2010.

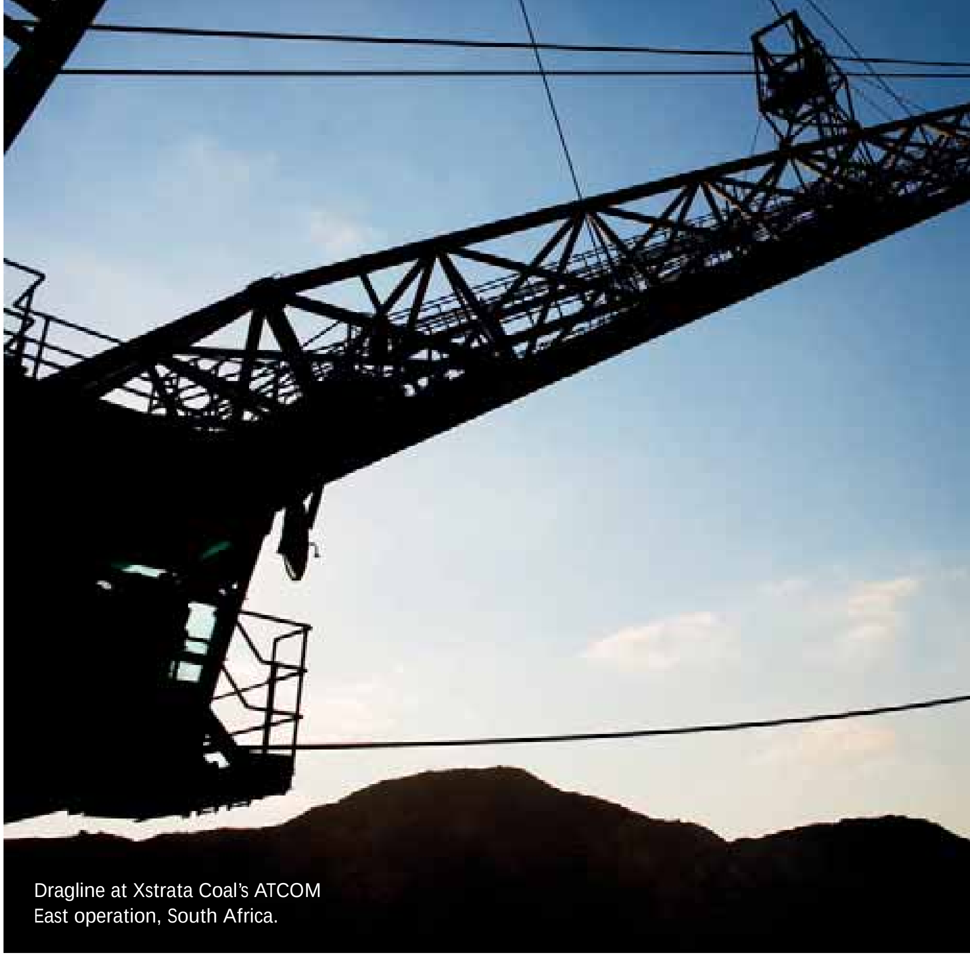
Xstrata Zinc is currently investigating an integrated development plan involving its European and Canadian smelters to increase production capacity at McArthur River Mine to around 5 million tonnes per annum by 2014. The $900 million plan aims to secure the long-term future of the operation in the face of a decline in the traditional international markets for the bulk zinc-lead concentrate produced by the mine.

Over 90% of zinc produced globally is produced by electrolytic smelters which cannot use bulk concentrate, such as that produced at McArthur River Mine. The project will involve the installation of proprietary hydrometallurgy technology that can consume McArthur River Mine's bulk concentrate at Xstrata Zinc's San Juan de Nieva smelter in Spain and the Nordenham smelter in Germany, as well as potential further improvements in the Brunswick lead smelter in Canada.


McArthur River Mine is a zinc-lead-silver operation located in the north-east of Australia's Northern Territory.

Growth pipeline *continued*

Implementation



Dragline at Xstrata Coal's ATCOM East operation, South Africa.

ATCOM East is located in the Witbank area in the Mpumalanga province of South Africa.

4 million tonnes

per annum of thermal coal achieved by 2011

ATCOM East *thermal coal:*

In October 2009, Xstrata's Board approved Xstrata Coal's ATCOM East project in South Africa, with a capital commitment of around $407 million.

ATCOM East was formerly part of the Douglas Tavistock joint venture between Xstrata Coal South Africa (16%) and BHP Billiton (84%). In March 2008, the restructuring of the Douglas Tavistock joint venture was announced and Xstrata took full ownership of its share of reserves and mobile equipment in December 2009. The restructuring has enabled Xstrata to integrate its share of the reserves into its Impunzi complex and leverage existing infrastructure.

The ATCOM East project has involved the purchasing of mining equipment, upgrading the existing coal handling and processing plant and constructing new infrastructure to handle the additional tonnage.

Construction began during the third quarter of 2009 at a site close to both ATCOM East's and ATCOM's mining areas, which will enable a reduction in transport distances and improve efficiencies. The construction phase of the project has resulted in 900 new jobs and a further 263 permanent jobs over the next 25 years once full production is reached.

Xstrata Coal is transitioning its South African operations into three large-scale, lower-cost, primarily open cut mine complexes focused around the Impunzi, Goedgevonden and Tweefontein operations.

The project was 75% complete at the end of December 2010 and will produce an average of 3.15 million tonnes per annum of thermal coal for domestic and export markets during its 26 year life.

Antapaccay *copper:*

The Antapaccay deposit is located nine kilometres from Xstrata Copper's Tintaya mine in southern Peru. Xstrata Copper acquired the Antapaccay copper-gold project through its acquisition of Tintaya in 2006.

The Xstrata plc Board announced a $1.47 billion investment in the Antapaccay project in July 2010 following approval of the environmental and social impact assessment by the Peruvian mining ministry.

The brownfield expansion to the Tintaya operation will produce an average of 160,000 tonnes of copper per annum for at least the first five years and 143,000 tonnes of copper per annum over the current estimated mine life of 22 years.

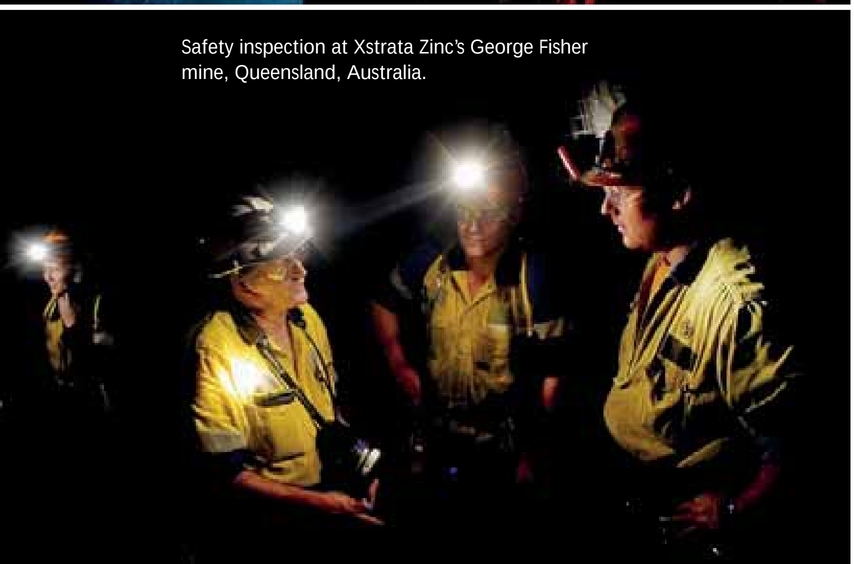
Since acquiring the project in 2006, Xstrata Copper has identified a Mineral Resource at Antapaccay of 817 million tonnes at a grade of 0.51% copper.

The Antapaccay deposit is located nine kilometres from Xstrata Copper's Tintaya mine in southern Peru. The deposit consists of two adjacent mineral structures: Antapaccay North and Antapaccay South.

22 years
expected mine life

$1.47 billion
investment at Antapaccay

Drilling at Xstrata Zinc's George Fisher mine, Queensland, Australia.



Safety inspection at Xstrata Zinc's George Fisher mine, Queensland, Australia.

George Fisher mine expansion *zinc*:

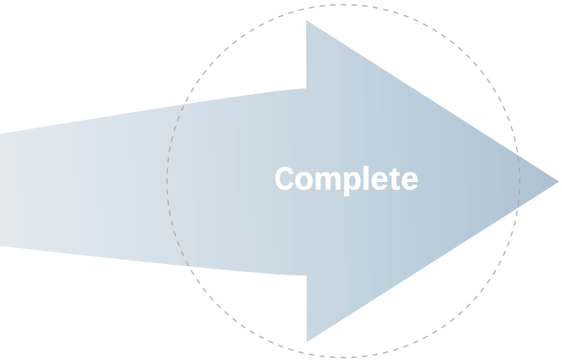
In September 2010, approval was received for the AUD274 million expansion of the underground George Fisher mine which will increase the production rate by 29% from 2013. The annual production capacity will increase from 3.5 million tonnes per annum to 4.5 million tonnes per annum and will create jobs for an additional 250 contractors in its construction and 120 employees in its operation.

The expansion, along with the AUD130 million Black Star Deeps open cut development, will ensure the full utilisation of the zinc-lead concentrator capacity in Mount Isa, which was increased to 8 million tonnes per annum in 2009.

The project involves the development of a second hoisting shaft and associated infrastructure to service the northern area of the mine using large-diameter raise boring technology. It will also include the installation of an underground crushing and ore handling facility and upgrades to power and air ventilation services. An existing shaft servicing the northern end of the mine will be lined and extended by 420 metres to a depth of 1,140 metres.

Since Xstrata acquired the asset in 2003 as part of the Mount Isa Mines portfolio, George Fisher zinc reserves have increased by 126%.

Growth pipeline *continued*



Nickel Rim South *nickel:*

Discovered in 2001, Nickel Rim South is a high-grade, poly-metallic mineral resource located nine kilometres north of the Sudbury smelter. Xstrata acquired Nickel Rim South as part of the Falconbridge acquisition in 2006.

The decision to proceed to production was made in December 2008 following an extensive underground definition drilling programme, detailed mine plan development and completion of a feasibility study.

Main shaft hoist house at Xstrata Nickel's Nickel Rim South, Sudbury, Canada.

Capital expenditure

$809 million

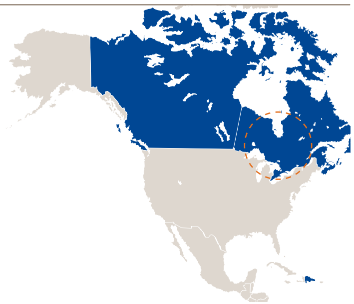
Full mine funding approved by Xstrata in November 2008.

	%
1 EPCM	**13**
2 Indirect and owner's costs	**7**
3 Direct costs	**80**

The Nickel Rim South project was officially commissioned and transitioned to full mine operation on 1 April 2010. The project was delivered on time and within budget with a world-class safety record, including a period of nearly five years and 5.7 million hours without a lost time injury, and with an environmental performance that surpassed project targets and industry standards.

Nickel Rim South reached its nameplate capacity of 1.25 million tonnes of ore per annum, a full six months ahead of schedule. It has a mine life in excess of 12 years and will produce 18,000 tonnes of nickel in concentrate per annum.

Nickel Rim South is located 335 kilometres north west of Toronto and nine kilometres from Xstrata's Sudbury smelter.



Project timeline

2001	Nickel Rim South discovery
2003	Feasibility study completed
2005	Shaft sinking commenced; surface plant completed
2007	Underground lateral development started
2008	Underground diamond drilling for deposit definition
2009	Project completed; ramp up initiated
2010	Full mine production; six months ahead of schedule

Sustainable development

Excellent safety performance with injury frequency rates below targets and well below industry norms: 5,700,000 hours without a lost time injury.

Environmental performance and design has surpassed project targets and industry standards.

In 2009, the Nickel Rim South project was awarded the Roy Curtis Project Excellence Award from Hatch.

Key performance indicators

Financial key performance indicators

Xstrata's financial performance during 2010, including key performance indicators (KPIs), is discussed in detail in the Financial Review on pages 50 to 55.

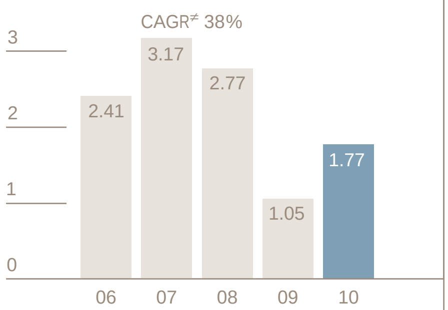
The financial KPIs selected are used by management to monitor the Group's progress in delivering its strategy of creating shareholder value by growing and managing a diversified portfolio of mining and metals businesses.

Earnings per share*
(US¢)

Earnings per share shows attributable profit (net earnings) earned per share. Xstrata's growth in earnings per share (compound annual growth rate) is shown compared to the average for Anglo American, BHP Billiton and Rio Tinto (FTSE diversified miners).

Xstrata

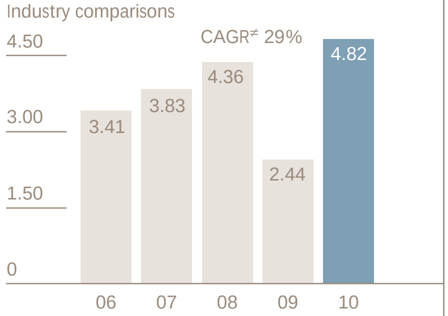
69% increase $1.77



FTSE diversifieds**

98% increase $4.82

Industry comparisons



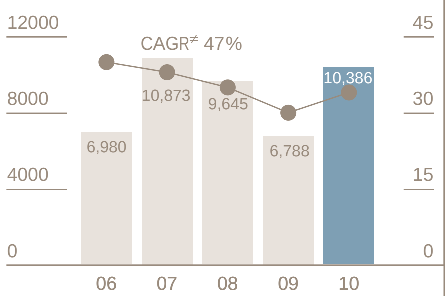
EBITDA*
($m)

Xstrata's growth in earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional items is shown compared to the average for the FTSE diversified miners. This provides an indication of the rate of earnings growth achieved.

The EBITDA margin shows EBITDA before exceptional items as a percentage of revenue. It is a measure of how efficiently revenue is converted into EBITDA.

Xstrata EBITDA margin (%)

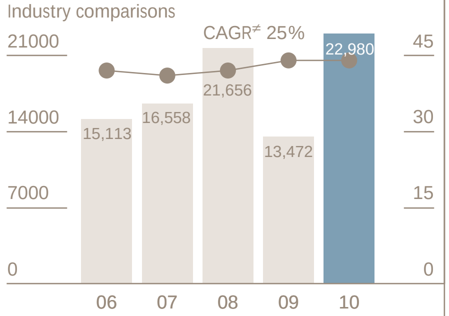
53% increase 34%



FTSE diversifieds** EBITDA margin (%)

71% increase 44%

Industry comparisons



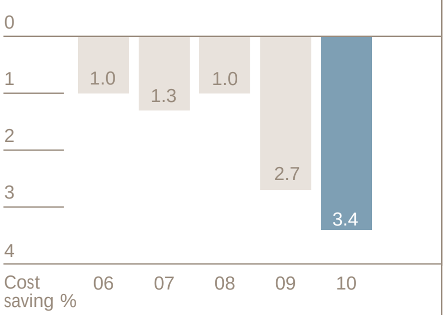
Real cost savings†
(% of operating costs)

Sustainable real cost savings are an important driver of value and a measure of our operational excellence. In 2010, Xstrata achieved real cost savings equivalent to 3.4% of the operating cost base. The analysis below shows cost savings as a percentage of an inferred cost base (revenue minus profit), to enable a comparison between companies using publicly available data.

Xstrata

1.9% Average cost reduction

3.4%

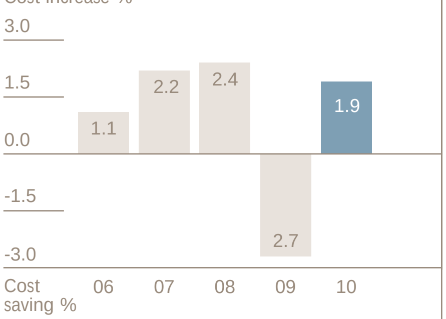


FTSE diversifields**

1.0% Average cost increase

1.9%

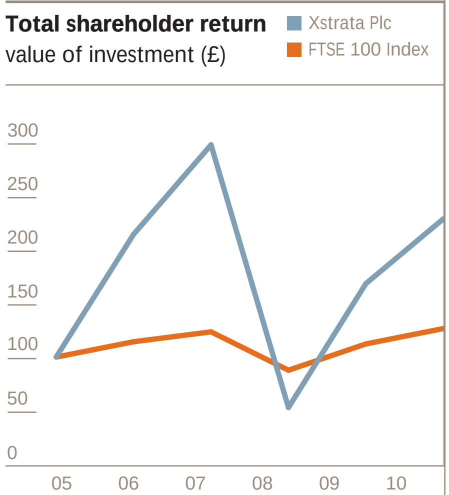
Cost increase %



Total shareholder return

Total shareholder return calculates the total return from an investment in Xstrata, calculated from the growth in share price together with the dividend income from the shares, with dividend income assumed to be reinvested. The graph shows the total return for a £100 investment in Xstrata plc, benchmarked against the FTSE 100 index of the largest UK companies.

Total shareholder return
value of investment (£)



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

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

† Based on reported cost variance contribution to annual profit variance; adjusted to include mining inflation impact.

‡ Compound annual growth rate (CAGR) 2003-2010.

Key performance indicators *continued*

Non-financial key performance indicators

In addition to monitoring the Group's financial performance, as a measure of the Company's performance against its objectives, Xstrata's Board also regularly monitors a range of non-financial KPIs to assess performance against sustainable development targets and strategic objectives.

Xstrata's Board sets and overviews the Group's industry-leading Sustainable Development (SD) Framework. The SD Framework has been mapped to international standards and comprises Xstrata's Statement of Business Principles, SD Policy, SD Standards and Assurance Programme.

Xstrata operates a highly devolved management model. Each commodity business is responsible for the implementation of the Group's SD Framework throughout its business. Performance against the SD Framework is reviewed and evaluated on a quarterly basis by the commodity businesses and progress reported to the Board's Health, Safety, Environment and Community Committee. The Committee benchmarks Xstrata's performance against other mining and extractive sector companies.

The KPIs that relate to the SD Framework include safety, environmental incidents, water and energy usage, employee turnover, training, and support for community initiatives, and are regularly reported to Xstrata's Board, Executive Committee and senior management. The Group's internal audit programme also examines health, safety, environment, ethical and community risks.

Safety
(Injury frequency rate)

We are committed to providing a safe workplace and believe that every work-related incident, illness and injury is preventable.

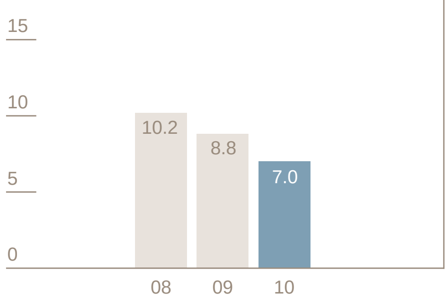
In 2010, three people (two contractors and one employee) lost their lives at Xstrata's managed operations in South Africa (2009: nine people). We value the safety of contractors in exactly the same way as our employees. We monitor the performance of all contractors and insist on full compliance with our safety standards and procedures. All of our sites implement regular and appropriate behaviour-based training, with emphasis on the identification and management of major hazards. Our managers work with their supervisors and operators in the field to identify appropriate topics to be covered in daily team talks and safety training.

We track total recordable injuries, which include lost time injuries, medical treatment injuries and restricted work injuries, as this provides a more complete measure than lost time injuries alone. The total recordable injury frequency rate and lost time injury frequency rates are reported per million hours worked and include contractors.

For the tenth consecutive year, a significant reduction was achieved in the frequency of total recordable and lost time injuries. Total recordable injuries fell by 20% and lost time injuries were 10% lower than in 2009 per million hours worked.

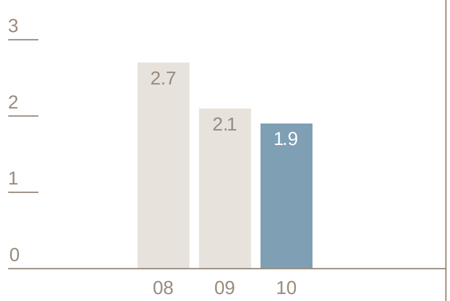
Total recordable injury frequency rate
(per million hours worked)

20%
decrease



Lost time injury frequency rate
(per million hours worked)

10%
decrease



Environmental incidents

Xstrata's operations record environmental incidents according to severity, with category 1 representing very minor incidents with negligible impact and category 4 or 5 representing major or disastrous incidents with medium-to longer-term impacts respectively. Category 3 incidents cause moderate, reversible environmental impact and require moderate remediation. Our target is to achieve zero category 3, 4 or 5 incidents, which was achieved for the first time in 2010.

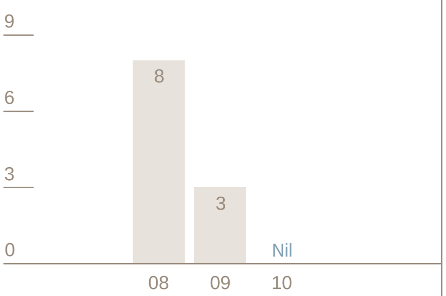
Greenhouse gases
(CO_2 equivalents (CO_2-e) million tonnes)

Greenhouse gas (GHG) emissions are measured as CO_2 equivalent tonnes (CO_2-e). Xstrata's main sources of GHGs are from electricity used, from methane released during our coal mining in some regions and from post mining fugitive methane emissions from our closed coal operations. We seek to reduce GHG emissions through improved energy efficiency and by capturing coal-seam methane to generate power wherever possible.

In 2010, Xstrata's direct (Scope 1) and indirect (Scope 2) GHG emissions from its operations rose by 7% and 20% respectively, mainly as a result of increased energy use due to higher production volumes in response to an improved demand for Xstrata's commodities. Xstrata Coal's Australian operations continue to invest in using methane from its operations for energy generation where possible. In 2010, generating capacity from our methane-fired power stations was 31MW, a similar level to that achieved in 2009. The electricity generated is either used for power by the mine or sold to the local grid.

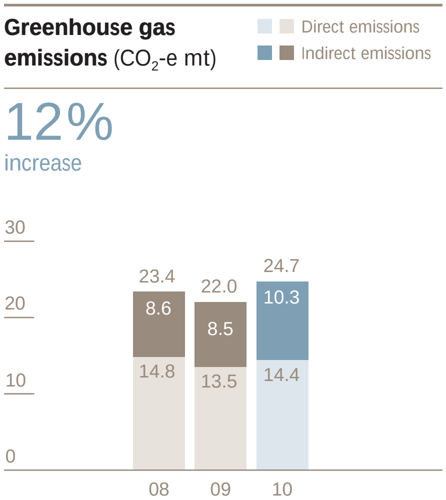
Environmental incidents
(Category 3)

100%
decrease



Greenhouse gas emissions (CO_2-e mt)

12%
increase



CO_2-e by CBU
(% of Group total)

1 Coal	40%
2 Alloys	36%
3 Copper	11%
4 Zinc	9%
5 Nickel	4%

Key performance indicators *continued*

Energy usage
(Petajoules)

Energy is measured in petajoules (PJ) and includes both electricity usage and energy from the combustion of fuel. Efficiency and energy consumption reductions drive both cost savings and emissions reductions. We aim to progressively improve energy efficiency across our business. All commodity businesses have energy efficiency plans in place and we carry out regular energy audits at operations. We measure efficiency as energy intensity – the amount of energy required to produce one tonne of product.

A number of our operations are intensive users of energy. Over half of the energy we use comes from electricity and is predominantly used to run our metallurgical operations. Diesel is the primary source of energy at our mines and is used to run the mining fleet and mobile equipment.

During 2010, our energy use was 9% higher than in 2009, as production levels increased in response to improved market conditions.

Water
(Megalitres)

Effective water management and conservation is critical to Xstrata's operations, a number of which are located in arid regions. The extraction and processing of minerals and metals uses large volumes of water and we are committed to continually improve the efficiency with which we use water.

In May 2010, Xstrata endorsed the United Nations' CEO Water Mandate, recognising we have a responsibility to make water-resources management a priority, and to work with governments, non-governmental organisations and other stakeholders to address the global water challenge.

Xstrata measures total water used and water recycled. Our operations seek to progressively increase the use of process and recycled wastewater to reduce our impact on local water supplies. Recycled water is typically used in place of fresh water for processes such as dust suppression.

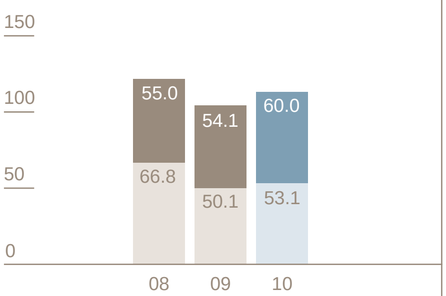
In 2010, we used 280,236 megalitres (ML) of water, 4% higher than in 2009, and the use of recycled or reused water by our sites increased by 11% as a result of increased production levels.

Our sites have in place effective water management programmes, which are tailored to its specific activities and to local environmental conditions.

Energy usage
(PJ)

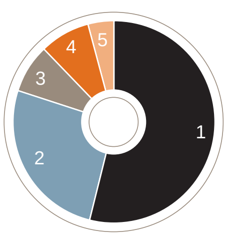
Direct energy
Indirect energy

9%
increase



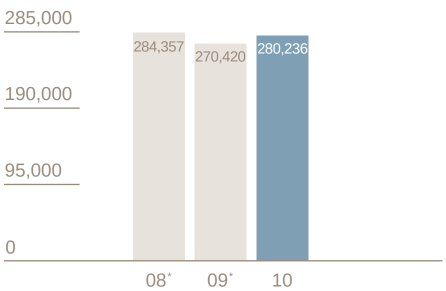
Energy source
(% of Group total)

1 Electricity	**54%**
2 Diesel	**26%**
3 Natural gas	**8%**
4 Other fuels	**8%**
5 Coal/coke	**4%**



Total water consumption
(ML)

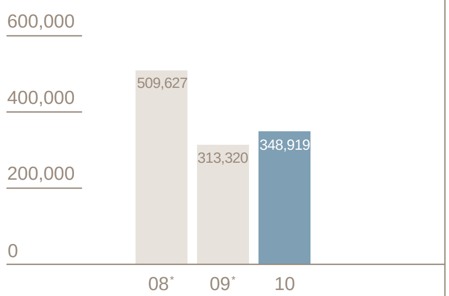
4%
increase



* Indicates restated data.

Recycled water use
(ML)

11%
increase



* Indicates restated data.

Employee turnover and training

Employee turnover is a measure of our success in retaining our people. Our long-term interests rely on our ability to attract and retain the best people, at every level, with appropriate skills. Voluntary turnover is calculated as a percentage of total permanent employees (excluding contractors).

In 2010, voluntary turnover, which excludes compulsory redundancies or performance-related terminations, was 11% higher than in 2009.

We aim to provide employees with the resources they require to progress in their careers and excel. We provide career development opportunities, access to training and skills development.

Ongoing training and education is conducted both in the workplace and at external institutions. Both training hours and training spend are shown as an average per employee including contractors and is shown for all available periods.

In 2010, the number of hours of training that each employee participated in increased compared to the previous year. The average amount spent on training per employee was lower than the previous year, mainly as a result of increased in-house training programmes as opposed to using the services of external training service providers.

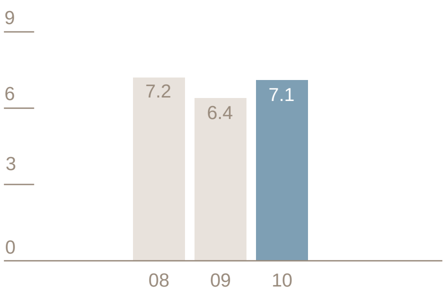
Corporate social involvement ($m)

Xstrata sets aside a minimum of 1% of annual Group profit before tax to fund initiatives that benefit local communities. We also calculate the total value of in-kind contributions such as equipment and management time. We support programmes for community development, enterprise and job creation, health, education and the environment, as well as culture and arts.

In 2010, we set aside $84 million or 1.2% of Group profit before tax and contributed a total of $83 million, including $2 million of in-kind contributions, to support initiatives that benefit the communities in which we operate. In 2010, $45 million funded social and community development projects, $16 million was spent on education initiatives, $7 million on enterprise and job creation programmes, $6 million on health projects, $4 million on culture and art activities, and $3 million on environment initiatives.

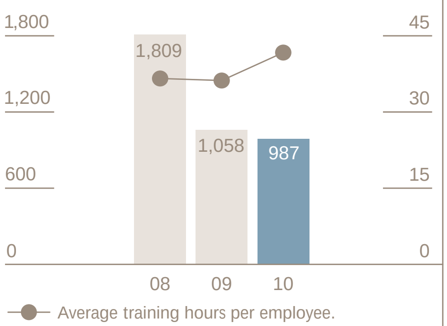
Voluntary turnover (%)

11%
increase



Average training spend and hours per employee ($/hour)

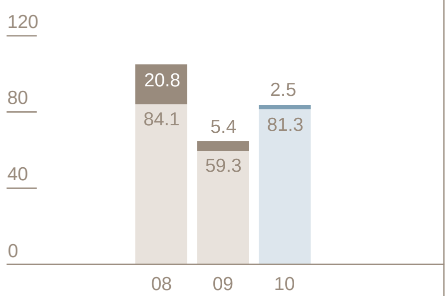
7%
decrease on spend



Corporate social involvement ($m)

Cash
In-kind

37%
increase in cash spending



Corporate social involvement by region 2010 (cash only)

1 South America	40%
2 Africa	26%
3 Australasia	21%
4 North America	11%
5 Europe	2%

Principal risks and uncertainties

> "Our approach to risk management is value-driven. A structured and comprehensive risk management system has been implemented across our businesses"

Risk is an intrinsic aspect of business and is inseparable from opportunity. The objective of our risk management system is to ensure an environment where we can confidently grow shareholder value and pursue business opportunities while developing and protecting our people, our assets, our environment and our reputation.

Xstrata has a value-driven approach to risk management and a structured and comprehensive risk management system has been implemented across the Group. Our risk management process is defined within a risk framework that has been embedded across Xstrata. The process is well understood and accepted throughout all levels of business management and an ongoing bottom-up self-assessment process is in place, with results updated to operational business units and Group risk registers.

Our risk management policy requires each commodity business and corporate function to undertake a comprehensive annual risk review as part of an ongoing process for identifying, evaluating and managing significant risks. The conclusions of this review are fully integrated into the annual business plans presented for Board approval. Progress against plans, significant changes in the business risk profile and actions taken to address controls and mitigate risks are reported quarterly to both the business and Group Audit Committees as well as to the Executive Committee and the Board.

Many risks inherent in an international mining business remain in existence from year to year; the challenge is to ensure that we manage these risks effectively in taking full advantage of opportunities. The primary risks facing Xstrata relate to operational challenges and mining activities, for example, health, safety, environmental and community risks, and commodity price and currency exposures, together with the inevitable risks associated with management's ability to deliver on investor expectations.

The risks detailed on the following pages represent the principal risks and uncertainties that may impact our ability to execute Xstrata's strategy at a Group level. These risks have been assessed according to materiality, likelihood and residual risk after controls. Further information about Xstrata's risk management processes and controls is provided in the Corporate governance report on pages 110 to 118.

Commodity price volatility

Risk

Xstrata's revenue and earnings are dependent on prevailing commodity prices which are determined by the supply of, and demand for, raw materials and are closely linked to global economic growth. Commodity prices for all products, and particularly for exchange-traded commodities, may fluctuate widely.

Impact

The impact on our operating profit of movements in the price of each of Xstrata's commodities is set out in the Consolidated operational results section of the Financial review on page 53. Commodity price trends and commentary on the outlook for each of Xstrata's commodity markets are provided in the operating review sections of this report on pages 56 to 95.

Mitigation

We manage the risk of commodity price fluctuations through maintaining a diversified portfolio of commodities, which reduces the impact of movement in any one commodity price. Typically we do not implement large-scale strategic hedging or price management initiatives. We aim to reduce costs on a continuous basis and maintain low cost, efficient operations, optimising our portfolio and returns throughout the commodity price cycle.

We maintain an investment grade credit rating and our Group Treasury policy is actively monitored and reported on each month to the Executive Committee. All of our debt is now covenant-free, reducing financial risk on the Group during periods of low prices.

Fluctuations in currency exchange rates

Risk

Xstrata's products are generally sold in US dollars, while our operations and operating costs are spread across several different countries with fluctuating currencies.

Impact

Fluctuations in exchange rates, in particular movements in the Australian dollar, Canadian dollar and South African rand against the US dollar, may have a material impact on Xstrata's financial results or affect our investment rating.

The impacts of currency exchange rate fluctuations on our operating profit, together with average exchange rates in 2010 compared to 2009, are detailed in the Consolidated operational results of the financial review.

Mitigation

We maintain a diversified portfolio of assets across several different geographies and operating currencies, reducing the impact of movement in any one commodity price. Currency cash flow hedging may be used to reduce our short-term exposure to fluctuations in the US dollar against local currencies. Foreign currency hedging information is provided in the financial review. Xstrata's financial structure, including exposure to interest payments, interest rate changes and amendments to taxation regulations, is regularly reviewed to ensure compliance with relevant regulations and to maximise financial efficiency. Xstrata maintains a robust investment grade credit rating and our Group Treasury policy is actively monitored and reported on each month to the Executive Committee.

Security of energy supplies

Risk

Increasing global demand for energy and the limited growth of new supply is impacting the price and availability of energy. Factors beyond the control of Xstrata, such as strong demand from the Asia-Pacific region, political, regulatory and economic uncertainties, and the costs associated with emissions from fossil fuels, as well as problems related to local generation and transmission of power, for example, electricity constraints in South Africa and natural gas shortages in Chile, can reduce the reliability of energy supply and increase energy prices. In some regions, Xstrata's energy supply is dependent on one major or national power generation company, for example, Eskom in South Africa.

Impact

A number of Xstrata's operations and facilities are intensive users of natural gas, electricity, oil and other fuels, and the price of energy heavily impacts operating costs. Lack of supply of energy may impact our ability to operate or threaten planned future expansions of operations or the development of new mines. Energy costs typically comprise approximately 10% of total operating costs.

Mitigation

We have an ongoing programme to assess and monitor energy-related risks, including scenario analyses. We manage this risk through implementing energy efficiency plans across our operations, assessing the risks associated with energy supply at the design phase of our projects, and regularly revisiting and revising assumptions. Where necessary, we develop proprietary energy generation facilities, for example a gas-fired power plant at Mount Isa, and feasibility studies are also being conducted into a hydro-electric power plant in southern Chile. Our businesses investigate and develop energy-efficient technologies, for example, Xstrata Alloys' proprietary Premus technology which reduces the energy consumption of ferrochrome smelting by over 20% compared to conventional processes. Long-term energy contracts are negotiated to reduce dependence on spot markets and we seek to diversify power sources and identify alternatives. We are pursuing the more complete recovery of existing resources, such as the capture of coal methane for electricity generation. We explore opportunities to use lower-carbon power sources, including renewable energy where practical.

Principal risks and uncertainties *continued*

Emissions and climate change regulation

Risk

Xstrata operates in a number of jurisdictions in which regulations or laws have been introduced or are being considered to limit or reduce emissions. The likely effect of climate change related regulation will be to increase costs for fossil fuels, electricity and transportation, restrict industrial emissions, impose added costs for emissions in excess of permitted levels, and increase costs for monitoring, reporting and accounting. Our customers and suppliers are becoming increasingly aware of their own carbon and water footprints and are selecting business partners who actively reduce their impact on climate change through changes to operational processes and transportation infrastructures.

Impact

Climate change legislation in the countries in which Xstrata operates, such as the carbon pricing proposals in Australia, Canada and South Africa, may lead to direct financial and production costs, higher energy costs or restricted energy supply, which may have a material adverse impact on our ability to maintain production and/or contain operating costs. Failing to meet and exceed best practice for monitoring and reporting emissions to land and air will have a reputational impact on Xstrata's operating capabilities. Xstrata is the world's largest producer of export thermal coal. Any material decline in the use of coal as a power source as a result of carbon taxes, emissions trading or similar legislation may have a material adverse impact on Xstrata's financial position. Climate change may also result in weather-related events or other physical threats such as disruption to transport infrastructure that may hamper production or damage assets.

Mitigation

Climate change issues are given a high priority by management and initiatives are undertaken to continually improve understanding of the Group's carbon footprint and to reduce the carbon intensity of operations and activities. We undertake studies to better understand the potential physical and weather-related risks of climate change on our operations and logistics networks and incorporate the results into our longer-term planning. We are improving the accuracy of our greenhouse gas (GHG) emissions reporting year-on-year and use the latest research to inform our methods. Our commodity businesses actively develop and implement climate change strategies that are pertinent to their business and commodities. Every plan includes clear performance targets and a timeframe in which they should be achieved. We incorporate the cost of carbon into our existing business and investment decisions.

We participate in industry and regulatory initiatives to address climate change and associated issues. Xstrata's executive management team is actively involved in the International Council on Mining and Metals Executive Working Group on climate change. Xstrata Coal, together with other coal producers, governments, scientific and academic organisations is actively investing in and advocating government support for research and development projects to reduce GHG emissions from the use of coal in power generation.

Demand for coal is expected to be supported by forecast significant increases in global demand for energy, particularly in developing countries, and by coal's relative cost position, availability and security of supply. We are committed to measuring, controlling and reducing harmful emissions to air, water and land. We monitor all emissions including dust, heavy metals, CFCs, VOCs and others. Xstrata's most significant air emission is sulphur dioxide (SO_2). Operations that emit SO_2 set annual targets to reduce their emissions and increase the proportion of emitted gas that they capture, and we publicly report progress against these targets in the Group's sustainability reports.

We actively engage with governments through industry associations and on our own behalf to discuss the potential implications of proposed legislation and to understand and manage the potential impacts on our business.

Project development

Risk

Xstrata benefits from a significant pipeline of organic growth projects in a number of countries. The development of our projects can be affected by a number of factors, some of which are outside our control. These include technical uncertainties, availability of suitable financing, infrastructure constraints, cost overruns, overstretched management and insufficient skills or resources. External organisations can cause unexpected delays due to problems obtaining, renewing or extending relevant operating, social or environmental permits or other legislative requirements. Anti-mining sentiment by local communities and/or NGOs can slow or halt project development and influence government processes.

Impact

Xstrata's ability to develop its project pipeline and replace older operations with new, lower cost supply will impact future revenues, costs and management's reputation for successful project development.

Severe shortage of the inputs required to execute projects, including labour, equipment and raw materials, can lead to an unpredictable inflationary environment impacting Xstrata's ability to control project costs.

Project development *continued*

Mitigation

Cost control remains a key consideration of any project development and Xstrata's commodity businesses have an excellent track record of delivering major capital growth projects on time and on budget. Xstrata also benefits from a broad range of project development experience within its commodity business management teams.

Rigorous planning and risk management processes are in place both leading up to a project's approval and during its development. Each of Xstrata's businesses has a comprehensive project approval process which governs project management at each stage of a project's development to commissioning and includes future scenario planning. Stage gate and other approval processes fully ensure that material risks are comprehensively assessed and, where possible, mitigated before the project can proceed to the next phase.

Under Xstrata's Sustainable Development Framework, projects are regularly audited against the specific performance standards to ensure social, environmental and ethical risks are properly identified and managed.

Detailed progress reports are provided on a regular basis for all major projects to the Group Executive Committee and early warning systems are in place to keep projects on track.

Xstrata regularly communicates and works in partnership with government bodies, communities and other stakeholders during the development of its growth projects. The project pipeline is rigorously evaluated and, if appropriate, projects are earmarked for disposal, partner introduction or postponement, depending on risk profile and an assessment of potential value. (See also Social and community risk below.)

Social and community

Risk

Xstrata's operations and the development of its project pipeline can have an impact on communities local to its sites. In some instances, our developments may involve the resettlement of communities and relocation of infrastructure. In some regions, communities may oppose mining activities for various reasons.

Impact

Without gaining broad support for our activities from local communities; our projects could face delays in development, impacting future operating profit, development costs and our corporate reputation. Lack of support for our operations can impact production and affect our profitability and/or reputation.

Mitigation

We work with the communities affected by our operations to identify and evaluate their needs and concerns at every stage of a project's life cycle, as well as the impacts our operations have or could have on them. We carry out social and human rights baseline studies and risk assessments, and engage with all communities in a transparent, culturally appropriate manner within an operation's sphere of influence. We recognise community members' rights and respect local laws, customs and cultural heritage. Decisions made during earlier phases of a project's life cycle are reviewed during each subsequent phase. We aim to avoid the need to resettle communities, but where necessary we adhere to the World Bank/International Finance Corporation Standards on Involuntary Resettlement.

Health, safety and environment

Risk

Xstrata's operations are subject to extensive health, safety and environmental (HSE) regulations and legislation, and community expectations. Xstrata must comply with existing regulations and address any new or upcoming laws, in addition to complying with Xstrata's best practice Sustainable Development Framework.

Impact

New or amended environmental, health and safety legislation or regulations may result in increased operating costs or, in the event of non-compliance, the possibility of fines, penalties or other actions that may adversely affect Xstrata's financial position. Rehabilitation costs, which are generally estimated and provided for over the life of operations and based on the best information available, may subsequently increase, impacting Group earnings.

Any breach of regulations or non-compliance with Xstrata's own best practice standards on health, safety and environmental performance and community relations may damage our reputation and, as a result, our licence to operate. Increasing and competing demands for water in water-scarce regions presents a growing risk for some of Xstrata's operations. Performance standards at acquired operations may not meet Xstrata's expected performance standards.

Mitigation

We comply in full with the laws and regulations in each country in which we operate. In addition, we operate in accordance with Xstrata's Sustainable Development Framework, aspiring to achieve the highest international standards regardless of location and without exception. Xstrata's businesses monitor legislative requirements and engage with government and regulators regularly to ensure full compliance.

Our commitment to the principles of sustainable development, which incorporates environmental, economic and social performance, is an integral part of our operating philosophy. Every managed

Principal risks and uncertainties *continued*

Health, safety and environment *continued*

operation is independently audited through our Sustainable Development Assurance Programme on a regular basis, and health, safety, environmental and social performance indicators are reported regularly to the Group Executive Committee and Board. We aim to operate a safe and healthy workplace and injury frequency rates across the Group continue to improve year-on-year. Sites located in water-scarce areas are required to develop and implement water management strategies, engage with other concerned stakeholders and set water intensity reduction targets.

Acquired operations are assessed for HSE risks and opportunities as part of the integration process and action plans implemented to address areas of underperformance.

Political and fiscal intervention

Risk

Xstrata's operations and projects span 20 countries, some of which have more complex and unstable political or social climates and consequently present higher risks. Political risks include changes in laws or regulations, taxes or royalties, expropriation of assets, infrastructure issues, currency restrictions, and renegotiation of, or changes to, mining leases and permits.

Impact

Political risk can have an adverse impact on Xstrata's profitability in certain geographic regions or at certain operations.

A change to the political, community or fiscal structure of a country could render the region unsuitable for efficient operation or result in lower investor confidence.

As governments look for additional revenue sources to repair their balance sheets and reduce deficit, the likelihood of changes to fiscal regimes has become greater. Changes to tax regimes have been proposed or implemented in Australia, Chile and Peru. In South Africa, these risks include the ability to convert existing mining licences to 'new order' mining rights under the Mineral and Petroleum Resources Development Act and Empowerment Charter.

Mitigation

We manage a broad geographic spread of assets, diversifying political risk across a number of territories. We perform a thorough risk assessment on a country-by-country basis when considering activities and investments, and we regularly review political, regulatory and social risk to ensure that risks have been properly identified and managed to within acceptable levels. We work in partnership with our employees and local communities for mutual benefit, earning and maintaining a social licence to operate. Investment terms and joint venture or other partnership agreements are reviewed to ensure fairness and reduce the risk of renegotiation. Xstrata maintains an extensive, transparent and open relationship with regulators and local, regional and national government bodies. Where possible, we enter into tax stability agreements. We build and maintain relationships with our peers to enable industry-wide participation in negotiations on tax changes. We follow and ensure any changes to laws or regulations are addressed, and we closely monitor compliance with legislation and with the leading practice standards set out by the Group's Sustainable Development Framework. In South Africa, Xstrata has achieved employment equity, procurement, social development and other targets as set out by the Mining Charter.

Cost control

Risk

As Xstrata is unable to directly set the prices it receives for the commodities it produces, its competitiveness and long-term profitability depend, to a significant degree, on its ability to reduce costs and maintain low cost, efficient operations. Important cost inputs generally include extraction and processing costs of raw materials and consumables, such as reductants, reagents, power, fuels, labour, transport and equipment, many of which are particularly susceptible to inflationary and supply and demand pressures.

Impact

Increased capital expenditure throughout the mining industry creates greater demand for labour, equipment and raw materials. Shortages of resources can lead to the development of an unpredictable inflationary environment, impacting operating costs.

Mitigation

We recognise the importance of cost reduction as a driver of value creation and as a measure of the quality of our operational management and our stewardship of the assets of our owners. Cost performance is regularly reported to the Group Executive Committee and is an important management performance measure. Regular internal audits at operations identify potential efficiencies, and operational management is incentivised to reduce the operating cost base of each of our businesses every year. In each of the last eight years, Xstrata has achieved real cost savings from its operational cost base and in 2010, $541 million of real cost savings were achieved. Xstrata's dedicated technology business, Xstrata Technology Services, is a world leader in the development of minerals processing and metals extraction technologies to improve efficiency and reduce operating costs. Xstrata's commodity businesses also invest in the development of lower cost proprietary technologies.

Operational risks

Risk

Xstrata's operations are affected by a number of factors that are, to a large extent, outside management's control, including the availability of raw materials, water and power. In addition, Xstrata's businesses are subject to numerous other operating risks which include: unusual or unexpected geological features, ground conditions or seismic activity; climatic conditions (including as a result of climate change) such as flooding, drought or a reduction in permafrost; interruptions to power supplies; congestion at commodities' transport terminals; industrial action or disputes; environmental hazards; and technical failures, fires, explosions and other incidents at a mine, processing plant, cargo terminal or related facility.

Impact

Impacts to our operating environments may adversely affect operating performance, production levels, unit costs and operating profit.

Mitigation

Our approach to operational risk is value-driven and has the stated objective of ensuring 'an environment where we can confidently grow shareholder value through developing and protecting our people, our assets, our environment and our reputation'. We have in place a robust and comprehensive programme to identify, understand and manage the risks that affect our businesses and operations, including a crisis management planning process that connects sites, businesses and the Group through clearly defined escalation requirements. Each commodity business undertakes an annual risk review and updates its risk register accordingly.

Labour and key employees

Risk

The majority of Xstrata's workforce is unionised. We believe that all of our operations have, in general, good relations with employees and unions, but from time to time the Group's operations have experienced limited work stoppages and other industrial action that interrupts production.

Xstrata's small management team reflects our business's decentralised structure that devolves maximum responsibility and authority to our operating businesses.

Impact

Interruptions to our operations as a result of industrial action will impact production processes and levels and may adversely affect operating performance, unit costs and operating profit.

Xstrata's lean management structure depends on a relatively small number of key employees. The loss of certain key employees, particularly to competitors, could have a material adverse effect on the Group. In addition, as Xstrata develops and expands, we believe that our future success will depend on our ability to attract and retain highly skilled and qualified personnel, which is not guaranteed.

Mitigation

Xstrata's employees are free to join a union and to be represented collectively. We do not believe that any country in which Xstrata operates represents a risk to freedom of association and collective bargaining and we uphold this right at all the operations we manage. We work to build a mutual understanding with the unions that represent our workforce.

We aim to attract and retain the best people at every level of our businesses and to provide them with the resources they require to achieve and maintain our operational excellence. We provide industry-leading career development opportunities, well structured employment contracts, competitive remuneration, and fair and non-discriminatory workplaces. We believe our devolved management structure and supportive environment for rational risk-taking is an important retention measure, offering unparalleled opportunities for development and entrepreneurial leadership, minimising bureaucracy and allowing every employee to play an active part in our success. Fast track and executive development programmes are in place across the Group and formal succession planning is regularly reviewed.

Reserves

Risk

Mine reserves decline as commodities are extracted. Successful exploration and development activities and access to new properties containing economically recoverable reserves are necessary for Xstrata's future success. In order to develop reserves, various governmental permits must be obtained.

Impact

If Xstrata is unable to access new reserves or extend existing mine lives, future profitability may be impacted. Declining ore grades at existing operations will increase operating costs.

Mitigation

We annually update the quantity and quality of estimated proven and probable reserves to reflect the extraction of commodities, additional drilling or other data. Reserve and resource estimates are published on the Group website. We maintain a transparent and open relationship with regulators and local, regional and national government bodies and closely monitor compliance with legislation and with the leading practice standards set out by the Group's Sustainable Development Framework.

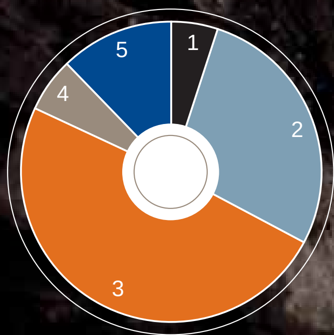
Performance

Operational review

Xstrata's businesses achieved a strong operational performance in 2010, with record production of coking coal and nickel, while volumes of mined copper, chrome and lead in concentrate rose year-on-year. Operating profit rose by 75% to $7.7 billion.

All of Xstrata's commodity businesses reported real unit cost savings compared to the prior year.

Contribution to Group operating profit*



		%
1	Alloys	**5**
2	Coal	**28**
3	Copper	**49**
4	Nickel	**6**
5	Zinc	**12**

* Excludes unallocated expenditure.

In this section

Financial review

> "In 2010, operating profit rose by 75% to $7.7 billion"

Trevor Reid
Chief Financial Officer

Basis of presentation of financial information

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

Consolidated operational results

Consolidated results $m	**Year ended 31.12.10**	Year ended 31.12.09
Alloys	**1,894**	1,305
Coal	**7,788**	6,749
Copper	**14,004**	9,223
Nickel	**2,738**	1,891
Zinc	**3,922**	3,450
Other	**153**	114
Total Group revenue	**30,499**	22,732
Attributable total Group revenue	***29,350***	*21,790*
Alloys	**477**	70
Coal	**3,061**	2,755
Copper	**4,693**	2,922
Nickel	**973**	427
Zinc	**1,327**	860
Other	**31**	28
Corporate and unallocated	**(176)**	(274)
Total Group operating EBITDA	**10,386**	6,788
Attributable total Group EBITDA	***9,897***	*6,350*
Alloys	**353**	(23)
Coal	**2,216**	2,038
Copper	**3,820**	2,126
Nickel	**503**	(18)
Zinc	**917**	506
Other	**25**	22
Corporate and unallocated	**(180)**	(282)
Total Group operating profit	**7,654**	4,369
Attributable total Group operating profit	***7,258***	*4,009*

In 2010, Xstrata's operating profit rose by 75% to $7.7 billion, due to higher sales prices across the board and a strong operating performance. Increased volumes and significant real unit cost savings together delivered additional operating profits of some $785 million. The full impact of this strong operational and financial performance was offset by a weakening US dollar and ongoing CPI and mining sector inflation. Operating EBITDA increased by 53% to $10.4 billion in 2010.

Robust demand growth in developing economies and a tentative recovery in the OECD economies supported a strong recovery in commodity prices during the course of 2010, which underpinned a 34% increase in Group revenue to over $30 billion. While uncertainty surrounding the US economic recovery and European sovereign debt concerns weighed on commodity prices in the second quarter, base metal spot prices rose steadily in the second half of the year, as fears of a 'double dip' recession abated and the US economy continued to recover.

Copper closed the year at a high of $9,650 per tonne on a cash basis, having risen significantly from its low point of $6,500 per tonne in mid-2010 and being 30% higher than the closing price of $7,400 per tonne at the end of 2009. Nickel and zinc prices followed a similar trend. Realised ferrochrome and thermal coal prices rose over the first half and while contract prices were slightly lower in the second half, spot prices showed strength into the fourth quarter and remained significantly higher than 2009.

Average commodity prices

	Unit	**Average price 2010**	Average price 2009	% Change
Australian FOB export coking*	$/t	**204.3**	145.0	41
Australian FOB export semi-soft coking*	$/t	**137.3**	122.5	12
Australian FOB export thermal coal*	$/t	**85.7**	80.3	7
Americas FOB export thermal coal*	$/t	**72.6**	73.5	(1)
South African export thermal coal*†	$/t	**74.4**	68.1	9
Copper (average LME cash price)	$/t	**7,536**	5,150	46
Nickel (average LME cash price)	$/t	**21,809**	14,712	48
Lead (average LME cash price)	$/t	**2,148**	1,726	24
Zinc (average LME cash price)	$/t	**2,159**	1,659	30
Ferrochrome (Metal Bulletin)	¢/lb	**124.3**	85.0	46
Ferrovanadium (Metal Bulletin)	$/kg	**30.1**	25.0	20
Platinum (average LBM cash price)	$/oz	**1,611**	1,205	34

* Average received price.
† Excludes Prodeco.

The 46% year-on-year rise in average copper prices contributed $2.2 billion to operating profit, just under half of the total $4.5 billion impact of higher Group sales prices on 2010 earnings. Nickel, zinc and lead average prices rose by 48%, 30% and 24% respectively, together adding nearly $1 billion to operating profit. Higher received coal prices added $858 million in total, including the benefit of a 41% increase in coking coal prices following the recovery in the global steel market in 2010, which fuelled stronger demand from India, Korea, Japan and Taiwan, and an increased proportion of semi-soft coking coal sales. The average European benchmark price for ferrochrome in 2010 rose by 46%, boosting Xstrata Alloys' operating profit by $458 million.

Increased volumes added $244 million to operating earnings. Production rose across most of Xstrata's commodity businesses, with improved coking and semi-soft coal volumes accounting for more than half of the total positive volume variance. Coking coal volumes rose by over 20% due to the restart of Oaky No. 1 mine in the second half of 2009 and productivity improvements which outweighed the impact of industrial action at Tahmoor. Ferrochrome production increased by almost 50%, as previously idled furnaces were restarted to respond to improved market conditions. Mined copper volumes increased slightly despite falling grades at a number of operations which impacted production and costs. Nickel volumes benefited from production ramping up at Nickel Rim South and Fraser mines in Canada, and low-cost debottlenecking in the smelter and refinery.

Real cost savings of $541 million were achieved across the Group as a result of higher production volumes and cost efficiency initiatives. Xstrata Zinc's improvement in productivity across the business, higher production of silver and copper by-products at the Canadian operations and the expansion at the Mount Isa and McArthur River operations produced cost savings of $163 million. Xstrata Coal achieved cost savings of $181 million, largely as a result of improved productivity and volumes, in particular in the coking coal business. Cost efficiencies of $68 million achieved by Xstrata Nickel are mainly due to increased nickel and copper production at Sudbury, record nickel production at the smelter and the decision to use Xstrata Nickel Australia mined production to fill downstream capacity in place of purchased feed. The systematic ramp-up of ferrochrome furnace utilisation at Xstrata Alloys, generating economies of scale, produced real cost savings of $77 million. In the copper business unit, cost savings of $52 million were achieved, driven by closure of the higher cost Kidd Metallurgical operation, operating efficiencies at all of the divisions and higher mined volumes at Ernest Henry mine in North Queensland. These savings were achieved despite the challenge of lower grades, which reduced profits by approximately $47 million.

While the impact of inflation on the mining industry was significantly less than that seen in the first half of 2008, inflationary pressures started to build in the second half, as an increase in capital projects, primarily by the major mining companies has, once again, increased demand for skills and equipment. In 2010, inflation impacted Xstrata's operating earnings by a total of $470 million. Cost inflation above CPI was mainly attributable to renewed upward pressure on labour rates, materials costs and higher fuel prices.

Other income and expenses mainly arises from one-off costs relating to demurrage costs, industrial action and the impact of severe wet weather in Australia and Colombia for Xstrata Coal, and previous years' inventory write downs by Xstrata Nickel. It was partly offset by reduced standing charges in Xstrata Alloys and reduced share-based payment charges.

The increase in depreciation on the Group's performance amounted to $106 million and was mainly volume-related across the majority of our commodity businesses.

Financial review *continued*

Operating profit variances

	$m
Operating profit 31.12.09	**4,369**
Sales price*	4,472
Volumes	244
Unit cost – real	541
Unit cost – CPI inflation	(262)
Unit cost – mining industry inflation	(208)
Unit cost – foreign exchange	(1,291)
Other income and expenses	(105)
Depreciation and amortisation (excluding foreign exchange)	(106)
Operating profit 31.12.10	**7,654**

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

The positive EBIT impact of higher average commodity prices in 2010 was dampened by significant year-on-year strengthening of the Australian dollar, South African rand and Canadian dollar relative to the US dollar, resulting in an increase in costs of $1.3 billion.

Currency table to $

	Average 2010	Average 2009	% change	**At 31.12.10**	At 31.12.09
USD:ARS	**3.91**	3.73	5	**3.98**	3.80
AUD:USD	**0.92**	0.79	16	**1.02**	0.90
USD:CAD	**1.03**	1.14	10	**1.00**	1.05
USD:CHF	**1.04**	1.09	5	**0.93**	1.04
USD:CLP	**510**	559	9	**468**	507
USD:COP	**1,898**	2,153	12	**1,920**	2,043
USD:PEN	**2.82**	3.01	6	**2.81**	2.89
EUR:USD	**1.33**	1.39	4	**1.34**	1.43
GBP:USD	**1.55**	1.57	1	**1.56**	1.62
USD:ZAR	**7.32**	8.41	13	**6.63**	7.39

Earnings summary

$m	**Year ended 31.12.10**	Year ended 31.12.09
Operating profit statutory (before exceptional items)	**7,654**	4,369
Share of results from associates	**15**	(56)
Net finance costs	**(468)**	(347)
Income tax expense	**(1,782)**	(993)
Effective tax rate	**25%**	25%
Non-controlling interests	**(267)**	(200)
Attributable profit (before exceptional items)	**5,152**	2,773
Earnings per share (before exceptional items)	**$1.77**	$1.05
Loan issue costs written off	**(35)**	(41)
Restructuring and closure costs	**(5)**	(156)
Liability fair value adjustments	**19**	350
Acquisition costs	**(7)**	–
Impairment of assets	**(559)**	(2,553)
Profit on loss of control of interest in El Morro	**–**	194
Write down of investment and share of exceptional items in associates	**(6)**	(277)
Foreign exchange gain on rights issue proceeds	**–**	47
Income tax benefit on exceptional items	**129**	324
	(464)	(2,112)
Attributable profit	**4,688**	661
Earnings per share	**$1.61**	$0.25

Following a review of the Araguaia nickel project in Brazil, announced in December, an exceptional non-cash impairment charge of $559 million ($437 million after tax) was recorded. This impairment is primarily due to the higher priority assigned to other growth projects in Xstrata Nickel's pipeline, including Koniambo in New Caledonia, Kabanga in Tanzania and the 50% capacity restart of the Falcondo operation in the Dominican Republic.

The effective tax rate before exceptional items in 2010 remained at 25%, unchanged from the prior year. Net earnings for the year before exceptional items was $5,152 million, an increase of 86% compared to 2009, corresponding to earnings per share of $1.77.

Operating profit sensitivities

$m	Impact on 2011*	Indicative full year**
1¢/lb movement in ferrochrome price	**12**	14
$1/kg movement in ferrovanadium price	**4**	4
$1/tonne movement in Australian thermal export FOB coal price	**23**	36
$1/tonne movement in Australian coking export FOB coal price	**5**	7
$1/tonne movement in South African export thermal FOB coal price	**5**	12
$1/tonne movement in South American export thermal FOB coal price	**6**	9
1¢/lb movement in copper price	**21**	21
$10/oz movement in gold price	**5**	5
$1/lb movement in nickel price	**172**	172
1¢/lb movement in zinc price	**20**	20
$100/tonne movement in zinc treatment charge price	**59**	23
1¢/lb movement in lead price	**6**	6
$100/oz movement in platinum price	**11**	11
$100/oz movement in palladium price	**6**	6
10% movement AUD	**591**	647
10% movement CAD	**213**	213
10% movement EUR	**43**	43
10% movement ZAR	**249**	263

* After impact of currency and commodity hedging and contracted priced sales as at 31 December 2010.

** Assuming current annualised production and sales profiles, no currency or commodity hedging and no contracted priced sales and purchases as at 31 December 2010.

Cash flow, net debt and financing summary

Xstrata's operations generated $9.9 billion of cash in 2010, an increase of 88% on 2009. Robust operational cash flows, together with the cash inflow from Glencore's exercise of its option to repurchase the Prodeco coal assets in March 2010, contributed to a substantially improved debt position.

Net debt in the period decreased by $4.7 billion to $7.6 billion, despite a 77% increase in expansionary capital expenditure to $4.1 billion. Gearing (net debt to net debt plus equity) decreased from 26% at the end of 2009 to 15% at 31 December 2010. Lower gearing reduced the amount of net interest paid to $294 million, 31% lower than the previous year. Cash tax payments increased by 93% to $1.4 billion due to higher earnings.

Movement in net debt

$m	Year ended 31.12.10	Year ended 31.12.09
Cash generated from operations	**9,949**	5,304
Net interest paid	**(294)**	(424)
Tax paid	**(1,442)**	(749)
Cash flow before capital expenditure	**8,213**	4,131
Sustaining capital expenditure	**(1,717)**	(1,266)
Disposals of fixed assets	**22**	10
Free cash flow	**6,518**	2,875
Expansionary capital expenditure	**(4,113)**	(2,318)
Cash flow before acquisitions	**2,405**	557
Purchase of Prodeco	**–**	(2,000)
Exercise of Prodeco option	**2,250**	–
Purchase of share in associate	**(58)**	(112)
Purchase of subsidiaries and operations net of cash acquired	**(365)**	–
Proceeds from sale of subsidiaries and joint ventures	**463**	–
Other investing activities	**322**	(66)
Net cash flow before financing	**5,017**	(1,621)
Net purchase of own shares	**3**	9
Issue of share capital	**–**	5,667
Equity dividends paid	**(379)**	–
Dividends paid to non-controlling interests	**(243)**	(199)
Redemption of convertible debenture	**339**	–
Loan issue costs written off	**(35)**	(41)
Other non-cash movements	**(50)**	(79)
Movement in net debt	**4,652**	3,736
Net debt at the start of the year*	**(12,290)**	(16,026)
Net debt at the end of the year*	**(7,638)**	(12,290)

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

Reconciliation of operating EBITDA to cash generated from operations

$m	Year ended 31.12.10	Year ended 31.12.09
Operating EBITDA	**10,386**	6,788
Exceptional items	**(12)**	(156)
Share-based charges	**178**	334
Increase in inventories	**(38)**	(665)
Increase in trade and other receivables	**(1,178)**	(1,344)
Increase in deferred stripping and other assets	**(414)**	(186)
Increase in trade and other payables	**691**	318
Movement in provisions and other non-cash items	**336**	215
Cash generated from operations	**9,949**	5,304

Net debt summary

$m	As at 31.12.10	As at 31.12.09
Cash	**1,722**	1,177
External borrowings	**(9,109)**	(13,286)
Finance leases	**(251)**	(181)
Net debt	**(7,638)**	(12,290)
Net debt to net debt plus equity*	**15%**	26%

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

Working capital

Working capital summary

$m	As at 31.12.10	As at 31.12.09
Inventories	**4,763**	4,570
Trade and other receivables	**4,463**	3,306
Prepayments	**270**	232
Trade and other payables	**(4,802)**	(3,697)
Net working capital	**4,694**	4,411

Higher commodity prices during 2010 resulted in upward pressure on receivables balances and purchased inventory. Despite these pressures, Xstrata's working capital increased by just 6%, or $283 million, reflecting the Group's continued focus on effective working capital management across the business.

Treasury management and financial instruments

The Group is generally exposed to US dollars through its revenue stream and seeks to source debt capital in US dollars directly or by borrowing in other currencies and swapping them into US dollars. Some 92% of the Group's debt is priced with reference to short-dated US floating interest rates, ensuring that Xstrata reaps the full benefit of the natural hedge to commodity prices provided by US interest rates.

During the year, the Group entered into a new syndicated loan totalling $4 billion, further extending Xstrata's debt maturity profile and providing the Group with a total of $8.68 billion of undrawn committed facilities. The new syndicated loan is without financial covenants and existing covenants under the $4.68 billion loan, entered into in 2007, were also removed in 2010.

Low net debt, substantial headroom from undrawn facilities and a stable investment grade rating have placed Xstrata in a strong position to undertake its planned capital expenditure programme.

Currency cash flow hedging may be used to reduce the Group's short-term exposure to fluctuations in the US dollar against local currencies. The unrealised mark-to-market gain at 31 December 2010 on the balance sheet was $126 million. Realised currency hedging gains reflected in the income statement for the year amounted to $247 million and related to coal sales for which prices were contractually fixed.

The Group did not enter into any strategic, long-term base metals hedging contracts in the year.

Consolidated capital expenditure

Capital expenditure summary

(excludes deferred stripping expenditure)

$m	Year ended 31.12.10	Year ended 31.12.09
Alloys	**126**	114
Coal	**568**	424
Copper	**572**	498
Nickel	**237**	93
Zinc	**316**	133
Technology	**2**	2
Unallocated	**2**	1
Total sustaining	**1,823**	1,265
Attributable sustaining	***1,774***	*1,243*
Alloys	**141**	49
Coal	**1,430**	687
Copper	**1,162**	436
Iron Ore	**67**	23
Nickel	**1,319**	1,049
Zinc	**177**	114
Technology	**–**	1
Total expansionary	**4,296**	2,359
Attributable expansionary	***3,677***	*1,993*
Alloys	**267**	163
Coal	**1,998**	1,111
Copper	**1,734**	934
Iron Ore	**67**	23
Nickel	**1,556**	1,142
Zinc	**493**	247
Technology	**2**	3
Unallocated	**2**	1
Total	**6,119**	3,624
Attributable total	***5,451***	3,236

Total expansionary capital spending increased by 82% to $4.3 billion in 2010 as Xstrata approached peak spending at a number of major growth projects that will reach production within the next four years and underpin a 50% increase in volumes over 2009 levels by 2014. Investment was also accelerated to progress pre-feasibility and feasibility studies into the next tier of growth projects that will support significant further growth.

Capital expenditure at Xstrata Nickel's flagship Koniambo project in New Caledonia rose to $1.2 billion in 2010 and the project remains on schedule for commissioning in 2012.

Three new operations were commissioned in 2010: Nickel Rim South poly-metallic mine in Sudbury, Canada, the Goedgevonden thermal coal mine in South Africa, and Blakefield South underground coal mine in New South Wales.

Ten growth projects were approved during the year, including the Las Bambas and Antapaccay projects in Peru, which will require $4.2 billion and $1.5 billion respectively to completion, and the Ravensworth North and Ulan West coal projects in New South Wales at a capital cost of $1.4 billion and $1.3 billion respectively. At Antapaccay, early stage construction is already underway.

Construction continued to progress at Xstrata Copper's Lomas Bayas II project and full production is expected to start in 2012. At Ernest Henry mine in Queensland, construction work continued on the underground mine, and the magnetite facility base plant became operational at the end of 2010. In Peru, Antamina's expansion project to expand milling capacity to 130,000 tonnes started in the first quarter of 2010 and is expected to commence commissioning by the end of 2011.

The ATCOM East coal project in South Africa remains within budget and is on schedule to be commissioned during 2011, ramping up to full production in 2014 at an annual rate of four million tonnes per annum. The ATCOM East project is the second, after Goedgevonden, of three large-scale, lower-cost, open cut mine complexes that will eventually account for 90% of Xstrata Coal's South African production. The Mangoola greenfield project is now two thirds complete and on track to begin production in 2011, ramping up to full annual production of eight million tonnes of export and domestic coal.

In September 2010, the approval of a second phase expansion of the Lion ferrochrome smelter was announced and construction is due to commence in the first quarter of 2011. During the year, construction activities began on Project Tswelopele, a 600,000 tonnes per annum pelletizing and sintering plant that is on track to be fully operational in 2013. The development of the western and eastern declines at Eland continued and mining operations are expected to start in the first quarter and second quarter of 2011 respectively.

In May, development started on the Black Star Deeps project to extend the life of the open cut mine by four years. Following the completion of the feasibility study in the second quarter of 2010, work progressed on the Bracemac-McLeod zinc project in Canada. In October 2010, the AUD274 million George Fisher Underground zinc mine expansion was approved and will increase zinc concentrate production by 28% to 259,000 tonnes per annum by 2013.

Acquisitions and disposals

On 4 March 2010, the Group received formal notification by Glencore of their exercise of its option to re-acquire the Prodeco coal operations which Xstrata had acquired in 2009 for a net consideration of $2 billion. Under the option agreement, Glencore paid Xstrata a cash sum of $2.25 billion on exercise and Xstrata was also entitled to earnings from Prodeco up to 13 April 2010.

In October 2009, the Group entered into an irrevocable sale agreement to dispose of the Group's 70% interest in El Morro SCM, the holder of the El Morro copper-gold project in Chile, and associated rights and assets, to New Gold Incorporated for a total cash consideration of $463 million. The asset was classified as held-for-sale at 31 December 2009. The sale proceeds were received from New Gold Incorporated on 17 February 2010.

On 24 August 2010, the Group announced a cash offer for Sphere Minerals Limited (Sphere) of AUD2.50 per share and, on 3 November 2010, the offer price was increased to AUD3.00 cash per share, valuing Sphere at approximately $513 million. Xstrata gained control of Sphere, declared the offer unconditional on 11 November and had acquired 75.6% of Sphere at 28 January 2011. Sphere is a West African focused iron ore company with interests in three iron ore projects in Mauritania.

On 8 February 2011, Xstrata announced it had elected to exercise the option to acquire 50% plus one share in Jumelles Limited (BVI) in respect to the Zanaga iron ore project in the Republic of Congo. Under the agreement, Xstrata will fund a feasibility study for a minimum of $100 million.

Dividends

The Directors have proposed a 2010 final dividend of 20¢ per share, amounting to $586 million, which will be paid on 13 May 2011. The interim 2010 dividend of 5¢ per share, amounting to $146 million, was paid on 8 October 2010. The final year dividend ordinarily constitutes two thirds of Xstrata's total dividend in any year, with the interim dividend comprising the remaining one third. The final dividend amount declared is in line with pre-financial crisis levels.

Dividend dates

	2011
Ex-dividend date	20 April
Record date	26 April
Last date to receive currency election forms and completed mandate forms	26 April
Annual General Meeting	4 May
Applicable exchange rate date	6 May
Payment date	13 May

Share data

Under IFRS, own shares (treasury stock) are deducted from the total issued share capital when calculating earnings per share. During the year, 5,832,841 shares were disposed and 521,098 shares purchased.

Share price

	XTA LSE (GBP)	XTA SWX (CHF)
Closing price 31.12.09	11.21	18.45
Closing price 31.12.10	15.06	21.90
Year high	15.35	22.65
Year low	8.46	13.75
Year average	11.51	18.46

Shares in issue for eps calculations

	Number of shares (000s)
Weighted average for year ended 31.12.10 used for statutory eps calculation	2,910,942
Weighted average for year ended 31.12.09 used for statutory eps calculation	2,646,871
Total issued share capital as at 31.12.10	2,929,898

Alloys

"A significantly stronger pricing environment in 2010 benefited all of Xstrata Alloys' commodities"

Peet Nienaber
Chief Executive Xstrata Alloys

Product overview

- Over 80% of the world's ferrochrome is used in the production of stainless steel. The principal end-use of vanadium is as an alloying agent in steel
- Platinum group metals are used in auto catalysts and fuel cells, providing cleaner energy. Other key markets include jewellery and industrial and consumer products

Market summary

- Strong growth in the stainless steel market led to a 21% increase in demand for ferrochrome year-on-year. Recovery in the global car market and strong investment activity pushed up platinum and palladium prices by 34% and 100% respectively on 2009 levels

Operations

- Ferrochrome production increased by 48% year-on-year in response to a recovery in market conditions and improved demand
- Despite higher prices for key inputs, Xstrata Alloys achieved real cost savings of $77 million

Developments

- The second phase of the Lion smelter complex expansion and the Magareng mine development was approved during 2010. The expansion will increase ferrochrome capacity to over 2.3 million tonnes per annum

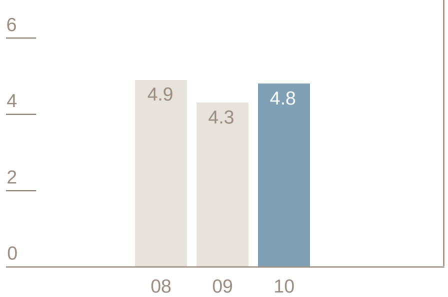
Strategic priorities for 2011

- Construction will continue on Project Tswelopele, a 600,000 tonnes per annum pelletizing and sintering plant, which will be fully operational in 2013
- The underground development at Eland platinum mine will continue to be progressed

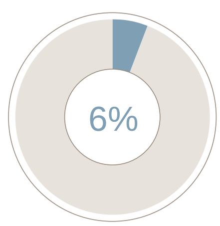
Sustainable benefits

- During 2010, Xstrata Alloys spent $9 million on supporting local community initiatives

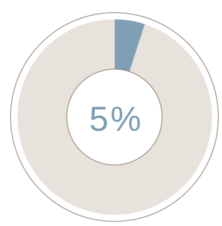
Total recordable injury frequency rate (per million hours)



Contribution to total Group revenue 2010



Contribution to total Group operating profit 2010



Alloys operations

Production	2010	2009
Attributable ferrochrome saleable production (kt)*	**1,165**	786
Saleable platinum production (oz)†	**117,659**	132,969
Saleable palladium production (oz)†	**59,584**	67,435
Saleable rhodium production (oz)†	**19,602**	21,182
Average prices		
Indicative average published price (Metal Bulletin) Ferrochrome (¢ /lb)	**124.3**	85.0
Average price (London Platinum and Palladium Market) Platinum ($/oz)	**1,611**	1,205
Average price (London Platinum and Palladium Market) Palladium ($/oz)	**527**	264
Average price (Johnson Matthey) Rhodium ($/oz)	**2,406**	1,559
Employees (excluding contractors)	**8,337**	8,199

* Reflects Xstrata's 79.5% share of the Xstrata-Merafe chrome venture.

† Consolidated 100% of Eland and 50% of Mototolo.

Alloys financial data

($m)	2010	2009
Revenue	**1,894**	1,305
Operating EBITDA	**477**	70
Operating profit/(loss)	**353**	(23)
Share of Group operating profit	**4.6%**	(0.5)%
Capital expenditure	**267**	163

Lion ferrochrome smelter in South Africa.

Preparing the sand pockets to capture molten ferrochrome at Lion smelter in South Africa.

Market

Ferrochrome and Vanadium

Strong growth in stainless steel demand, combined with the rapid growth of stainless steel production in China, resulted in a 21% increase in the demand for ferrochrome year-on-year. Global consumption of ferrochrome reached 8.3 million tonnes, exceeding the previous record high of 7.6 million tonnes achieved in 2007, due to record stainless steel melt, which increased by 23% to over 31 million tonnes compared to 2009 and was 9% above the previous record production of 28.4 million tonnes in 2006.

China produced more than a third of the world's stainless steel in 2010, an increase of 26% year-on-year. Stainless steel production excluding China increased by 21% over 2009 levels. While stainless steel production and consequently demand for ferrochrome continued apace in emerging economies in the second half, sovereign debt concerns in Europe impacted confidence in global financial stability in the second quarter and resulted in lower stainless steel melt production in Europe and America in the latter part of the year.

Global ferrochrome production was 8.3 million tonnes in 2010, a growth of 37% year-on-year from 2009, despite energy tariffs influencing production levels in both South Africa and China. South African producers ramped up production in the first half of 2010, with scheduled maintenance reducing production in the high electricity-cost winter months.

Despite increased energy costs, rising chrome ore prices and the Chinese government's restrictions on electricity supply as it pursues the energy reduction and efficiency targets set in its 11th five-year programme, China produced between 1.8 and 1.9 million tonnes of ferrochrome in 2010. China remains a net ferrochrome importer, with 50% to 55% of its 3.5 million tonne per annum requirement being sourced externally. South Africa's global market share of production declined from 50% in 2002 to 42% in 2010 as a result of the increased production in China, despite reaching record levels of 3.5 million tonnes.

Third quarter weather and energy-related production cuts in South Africa, China and India prevented a build-up of global stocks of ferrochrome for both producers and consumers. Global ferrochrome stocks have been maintained at around eight weeks of consumption since 2009 compared to 23 weeks at the end of 2008.

The average European benchmark price for ferrochrome increased by 46% to 124.25¢ per pound in 2010. The European benchmark price closed the year unchanged from 130¢ per pound achieved in the third quarter. Lower ferrochrome stock levels and higher production costs underpinned stronger prices.

Demand for vanadium was 26% higher in 2010 due to global crude steel production rising 17%, or 207.7 million tonnes, on 2009 levels. In response to restocking of vanadium inventories, several producers resumed or increased production, with many now operating at 100% capacity. Asia's crude steel production was 14% higher, with Chinese production increasing by 13% compared to the previous year. In the EU, a region which employs a higher vanadium intensity of use than other regions, steel production was marginally lower while production in North America was only slightly higher, compared to 2009, resulting in global vanadium consumption remaining below pre-crisis levels. Ferrovanadium traded at an average of $30.06 per kilogramme up on $25.02 per kilogramme in 2009 and vanadium pentoxide averaged $6.92 per pound, against $6.04 per pound in 2009.

Outlook

In 2011, stainless steel production is anticipated to grow by over 7%, equating to an increase of 8% in world consumption of ferrochrome, including a 10% increase in demand for ferrochrome from China. Stainless steel production is expected to continue to grow at around 5.3% per annum, similar to the long-term compound average growth rate from 1961 to 2008, driven predominantly by China.

Ferrochrome prices are forecast to trade at higher levels in 2011, underpinned by the higher cost of the increased supply required to meet the demands from increased stainless steel production. Restricted supply of electricity in South Africa has resulted in the postponement of a number of planned ferrochrome projects over the next five years.

Crude steel production is expected to increase further in 2011 from current levels, driven by the ongoing urbanisation and industrialisation of high-growth, populous economies, with China and other industrialising countries taking active steps to rebalance their economies towards domestic consumption-led growth, supporting an increase in vanadium demand.

Platinum Group Metals (PGM)

Platinum group metals (PGM) experienced a strong recovery in 2010 with platinum, palladium and rhodium prices increasing 34%, 100% and 54% respectively on 2009 levels.

Autocatalyst demand rebounded during 2010 following the sharp decline seen in 2009. Recovery was mainly attributed to restocking and a strong increase in global vehicle sales and production, driven by healthy growth in the US and BRIC countries, especially China. Strong demand from the US and China favoured gasoline vehicles that require palladium-rich autocatalysts. European and Japanese vehicle sales soared on the back of scrappage scheme incentives initiated in 2009, followed by a sharp decline in 2010 when those incentive programmes ended. Nonetheless vehicle production in Europe, platinum's key market, continued to build following the industry's significant destocking during 2008 and 2009. During the year, the European market for diesel cars, which use platinum-rich converters, continued to recover and made up more than 50% of vehicle sales in 2010, having fallen to around 40% in mid-2009 due to scrappage schemes favouring small gasoline cars. Increased demand for platinum autocatalysts also came from increased orders for heavy-duty vehicles.

Jewellery continued to provide a floor for PGM prices. Despite concerns over the impact that higher prices could have on Chinese jewellery demand, purchases on the Shanghai Gold Exchange, the barometer for Chinese jewellery demand, surged during periods when the price retreated, accentuating jewellery's role as a demand 'shock absorber'.

PGM demand was bolstered by substantial investment activity following January's launch of the US exchange traded funds (ETF). The US platinum ETF absorbed around 285,000 ounces in its first two months, nearly 5% of the primary supply in 2010. Inflows into this and other funds slowed in the latter part of 2010 amidst price volatility and tempered expectations over the strength of the global economic recovery.

Operating challenges continued to plague the platinum industry and production in 2010 was again characterised by falling head grades, safety stoppages, strikes and Merensky reef depletion, leading to another year of disappointing output, over a million platinum ounces lower than the record volumes achieved in 2006.

The positive sentiment created by the strong recovery in the global car market and healthy investment activity during the first quarter led to an increase in speculative activity which in turn helped push up PGM prices. A combination of concerns over Europe's economic recovery and the impact of slowing vehicle sales following scrappage scheme closures resulted in a heavy liquidation of speculative positions in both platinum and palladium in May 2010, followed by a retreat in prices to a low of $1,475 and $387 per ounce respectively.

Platinum and palladium prices showed gains during the second half of the year as investors took refuge from currency devaluation and quantitative easing, with prices reaching a high of $1,786 and $797 per ounce.

Outlook

A combination of ongoing supply constraints, expected demand recovery, continued tightening of emission legislation globally, in particular for heavy duty and off-road vehicles and strong investment demand are positive signals for robust PGM prices in 2011.

Palladium will continue to be favourably exposed to increasing autocatalyst demand due to the increase in gasoline-vehicle sales in BRIC countries, especially China, and the depletion of Russian stocks.

Xstrata Alloys

Financial and operating data

$m	**Year ended 31.12.10**	Year ended 31.12.09
Ferrochrome and Vanadium		
Revenue	**1,648**	1,105
Operating EBITDA	**401**	15
Depreciation and amortisation	**(88)**	(62)
Operating profit/(loss)	**313**	(47)
Share of Group operating profit	**4.1%**	(1.1)%
Capital employed	**1,543**	1,176
Return on capital employed*	**22.4%**	(4.5)%
Capital expenditure	**161**	103
Sustaining	**114**	102
Expansionary	**47**	1
Platinum Group Metals		
Revenue	**246**	200
Operating EBITDA	**76**	55
Depreciation and amortisation	**(36)**	(31)
Operating profit	**40**	24
Share of Group operating profit	**0.5%**	0.6%
Capital employed	**2,007**	1,740
Return on capital employed*	**2.2%**	1.6%
Capital expenditure	**106**	60
Sustaining	**12**	12
Expansionary	**94**	48

* ROCE % based on average exchange rates for the year.

Operating profit/(loss) variances

	$m
Operating loss 31.12.09	**(23)**
Sales price*	458
Volumes	23
Unit cost – real	77
Unit cost – CPI inflation	(33)
Unit cost – mining industry inflation	(86)
Unit cost – foreign exchange	(131)
Other income and expenses	84
Depreciation and amortisation (excluding foreign exchange)	(16)
Operating profit 31.12.10	**353**

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

Alloys *continued*

Operations

Xstrata Alloys achieved a substantially improved financial performance during the year, with an operating profit of $353 million, compared to a loss of $23 million in 2009. The general recovery in the global economy and restocking created a significantly stronger pricing environment for all of Xstrata Alloys' commodities, increasing operating profit by $458 million. This increase was partially offset by the continued strength of the South African rand against the dollar, which reduced operating profit by $131 million and ongoing mining sector inflation, particularly from higher power and raw material costs, which further reduced operating profit by $86 million. Mining inflation is measured using data from Statistics South Africa, an independent body. Despite the high inflationary environment, Xstrata Alloys achieved real cost savings of $77 million due to improvements in electrical energy efficiencies, and scheduling maintenance during the higher cost electricity tariff months, combined with optimising the reductant mix to limit the impact of high metallurgical coke prices.

The favourable variance of $84 million in other income and expenses is largely as a result of a decrease in standing charges and other one-off costs attributable to the temporary curtailment of operations in 2009.

Ferrochrome and Vanadium

During 2010, the ferroalloys division returned to profitability and reported an operating profit of $313 million, primarily due to an average 46% increase in the average ferrochrome sales price. In response to improved market conditions, attributable saleable ferrochrome production rebounded strongly to 1.17 million tonnes in 2010, an increase of 48% compared to 2009. The rapid increase in operating capacity was made possible, in part due to the decision in 2009 not to retrench any of the permanent employees in order to retain the skilled labour force. Furnace refurbishment programmes at 10 furnaces that were completed in 2010, following the postponement of these programmes in 2009 to preserve cash, limited the full restart of previous idled capacity.

Production costs in rand terms increased by 10% due to substantial increases in chrome ore prices and power costs, which were partially offset by lower reductant costs achieved mainly as a result of breakthrough achievements in optimising the reductant mix to limit the impact of high metallurgical coke prices.

Higher costs for ore were due to the introduction of South African royalty taxes, higher UG2 prices and the need to use higher cost ore to meet increased demand from the smelters.

Ongoing electrical energy efficiency improvements and prioritising maintenance during high-tariff electricity months helped to offset a 25% annual increase in electricity prices. During the past decade electrical energy efficiencies of the Group's ferrochrome operations have improved by over 25%. Further efficiency improvements will be achieved as the second phase of the Lion smelter complex expansion and Tswelopele, a new pelletizing and sintering plant at the Rustenburg operations, become operational.

During 2010, Rhovan, Xstrata's integrated vanadium operation, achieved record production volumes. Vanadium pentoxide volumes were 90% higher and ferrovanadium production increased by 89% compared to 2009, when operations were suspended for four months due to the poor market conditions.

Platinum Group Metals

Operating profit for the PGM division increased by 67% to $40 million, mainly as a result of a 24% increase in realised PGM metal prices. Total tonnes milled increased by 39,000 tonnes, slightly higher than in 2009. PGM volumes were 11% lower, or 25,000 ounces as a result of a reduction in the head grade at Eland as the open cast mining operations progressed eastwards into a lower grade resource block.

Production at Eland increased marginally during the year, despite the impact on second-half production of delays in obtaining the mining right extensions for the open cast mining areas and for the New Order Mining Rights relating to the De Wildt mineral resource block, which have yet to be granted.

The Mototolo joint venture increased concentrator throughput by 21,200 tonnes, marginally more than in 2009, and the mine succeeded in maintaining nameplate ROM production capacity of around 200,000 tonnes per month throughout the year, processing a total of 2,261,000 milled tonnes for the year. Industrial action during October lasted for 32 days and impacted fourth quarter production.

Summary production data

	Year ended 31.12.10	Year ended 31.12.09
Ferrochrome (kt)*	**1,165**	786
Vanadium**		
Ferrovanadium (k kg)	**4,311**	2,284
V_2O_5 (k lbs)	**21,874**	11,492
Platinum Group Metals**		
Platinum (oz)	**117,659**	132,969
Palladium (oz)	**59,584**	67,435
Rhodium (oz)	**19,602**	21,182
Indicative average published prices (Metal Bulletin)		
Ferrochrome (¢/lb)	**124.3**	85.0
V_2O_5 ($/lb)	**6.9**	6.0
Ferrovanadium ($/kg V)	**30.1**	25.0
Average (London Platinum and Palladium Market) Platinum price ($/oz)	**1,611**	1,205
Average (London Platinum and Palladium Market) Palladium price ($/oz)	**527**	264
Average (Johnson Matthey) Rhodium price ($/oz)	**2,406**	1,559

* Including Xstrata's 79.5% share of the Xstrata-Merafe chrome venture.

** 100% consolidated.

Developments

Ferrochrome and Vanadium

As announced on 20 October 2010, Xstrata Board has approved the second phase of the Lion smelter complex expansion and the associated Magareng mine development. The expansion will involve the construction and commissioning of a 360,000 tonnes per annum capacity smelter and will increase the Xstrata-Merafe chrome venture's total ferrochrome capacity to over 2.3 million tonnes per annum at a capital cost of ZAR4.9 billion ($710 million). Bulk earthworks will commence in the first quarter of 2011 and commissioning is planned for the first half of 2013.

An agreement was concluded with Lonmin to increase and extend the current UG2 off-take agreement from tailings at Lonmin's Marikana operations. The tailings will be treated through chromite recovery plants that will be built, owned and operated by the Xstrata-Merafe chrome venture. Total UG2 supply sourced through this deal agreement will amount to approximately 1.5 million tonnes per annum.

The Xstrata-Merafe chrome venture also approved the construction of a new 600,000 tonnes per annum pelletizing and sintering plant. Project Tswelopele will be constructed at a capital cost of $114 million at the Rustenburg plant and is expected to be fully operational in 2013. The plant will agglomerate some of the additional UG2 from the Lonmin operations, significantly improving operational efficiencies and costs and delivering environmental improvements.

Drilling the western decline, the Kukama Shaft, at Eland platinum mine in South Africa.

The Horizon mine development remains on schedule to reach a production capacity of 40,000 tonnes per month by the end of 2013. Production at Waterval mine will start at the end of the first quarter of 2011, producing an average of 30,000 tonnes per month from available mineable panels.

Platinum Group Metals

At Eland, the development of the western decline, the Kukama Shaft, is progressing. Some challenges have been experienced due to poorer than expected ground conditions and initial production from the first mining level is expected during the first quarter of 2011. The development had reached 1,881 metres by December 2010.

During 2010, the Nyala Shaft, the $201 million eastern decline development at Eland, was approved and development commenced during April. A total of 1,456 metres had been developed by December 2010 and production from the first mining level is scheduled for the second quarter of 2011.

The underground operations will produce 250,000 tonnes per month by the end of 2013 and steady state production of 500,000 tonnes per month will be reached during the last quarter of 2015, doubling production levels to 300,000 platinum ounces per annum. Eland will have an estimated mine life of approximately 21 years (excluding the Madibeng reserves).

Xstrata Alloys continues to assess its medium to long-term PGM growth options through the development of its exploration portfolio with junior companies.

Exploration drilling at Beestkraal, scaled back during 2009 to preserve cash, will resume during 2011, with three boreholes of 2,000 metres planned for the year. To date, 10 boreholes and an aeromagnetic survey of the area have been completed.

On 30 November 2010, the South African Constitutional Court set aside Nkwe Platinum Ltd's current exploration rights pertaining to the two southern farms, which do not form part of the current Garatau bankable feasibility study process. Nkwe are reviewing their options. The bankable feasibility study for the northern Garatau portion of the Nkwe and Genorah Resources Ltd project area, located on the Eastern Limb of the Bushveld Igneous Complex, was expected to be completed by the end of 2010, but has yet to be finalised and is currently being reviewed by the Nkwe Board. Xstrata Alloys anticipate completing their review by the end of the first quarter of 2011, following which Xstrata will decide whether to exercise the 50% participation option it has acquired.

Coal

> "The recovery in global demand for steel contributed to a 20% increase in coking coal sales"

Peter Freyberg
Chief Executive Xstrata Coal

Product overview

- Thermal coal is used to generate electricity in coal-fired power stations
- Export semi-soft coal and export coking (or metallurgical) coal is used in steelmaking

Market summary

- Ongoing strong demand from the Asian economies underpinned the global seaborne thermal and coking coal markets
- Weather-related supply disruptions will continue to dominate spot market pricing in 2011

Operations

- Higher realised prices were achieved across all markets, except Colombia
- Xstrata Coal achieved real cost savings of $181 million primarily as a result of the optimisation of the Oaky Creek complex, strip ratio improvements at Cerrejón and the ramp up of Goedgevonden

Developments

- Two major projects, Goedgevonden and Blakefield South, were commissioned in 2010 and are ramping up to full production

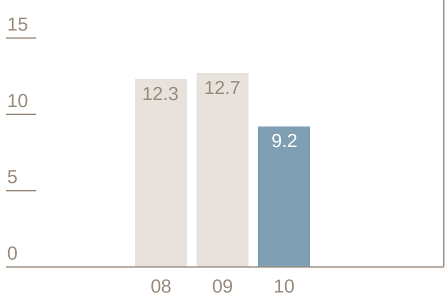
Strategic priorities for 2011

- The ATCOM East project is on track to commission in 2011 and will produce 4 million tonnes of thermal coal per annum
- Mining commenced in January 2011 at the Mangoola project in Australia. The operation will ramp up to 8 million tonnes per annum of thermal coal

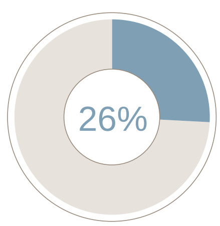
Sustainable benefits

- During the year, Xstrata Coal achieved a 27% reduction in total recordable injuries on 2009 levels
- In 2010, Xstrata Coal contributed $16 million to initiatives that benefited the communities living near to their operations

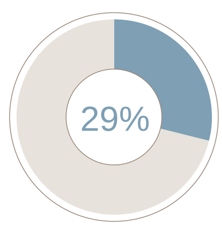
Total recordable injury frequency rate (per million hours)



Contribution to total Group revenue 2010



Contribution to total Group operating profit 2010



Coal operations

Production (million tonnes)	2010	2009
Total thermal coal*	**65.6**	72.1
Total coking coal (Australia)	**7.7**	6.4
Total semi-soft coking coal (Australia)	**6.6**	6.2
Average prices ($/t)		
Australian thermal	**85.7**	80.3
South African thermal	**74.4**	68.1
Americas thermal	**72.6**	73.5
Australian coking	**204.3**	145.0
Australian semi-soft coking	**137.3**	122.5
Employees (excluding contractors)	**10,473**	10,009

* DTJV is included in 2009 production reporting. For financial reporting DTJV will be excluded from Xstrata Coal's ex-mine results to 1 July 2009 due to the DTJV re-structuring.

Coal financial data

($m)	2010	2009
Revenue	**7,788**	6,749
Operating EBITDA	**3,061**	2,755
Operating profit	**2,216**	2,038
Share of Group operating profit	**29.0%**	46.6%
Capital expenditure	**1,998**	1,111

Oaky Creek coal operation in Queensland, Australia.

Coal stacker at Abbot Point in Queensland, Australia.

Markets

Thermal coal markets

Global seaborne thermal coal demand increased by nearly 9% during the year to 692 million tonnes, underpinned by continued strong demand from the Asian economies. An 18% growth in demand from the Pacific market more than offset the impact of weak economic growth, high coal stocks, low gas prices and lower import requirements in the Atlantic market. In response to strong demand, South African coal was diverted into the Pacific market, particularly to India, leaving a supply deficit in the European market which was met by increased Colombian exports.

Chinese import demand remained robust in 2010 and was the main driver of strong demand growth from the Pacific market. Seaborne thermal imports for 2010 were 117 million tonnes, a 27 million tonne increase over 2009. Chinese import demand continues to grow as a result of insufficient domestic supply and transportation constraints. Indian imports increased by 25% compared to 2009 as a result of the ongoing development of coastal import capacity, new power station developments, growing industrial demand and domestic production short falls. Demand for seaborne imports also grew from Malaysia, Korea and Japan amongst other Asian economies.

The weakness in the Atlantic seaborne thermal coal market was primarily due to decreased demand from the UK, Spain and the US, with UK demand falling by 45% as low gas prices at the beginning of 2010 favoured gas burn over coal and record coal stocks, equating to nearly six months supply, suppressed imports. Measures introduced by the Spanish government to prioritise domestic coal suppliers over lower cost imports, together with lower gas prices in the first half, saw Spanish thermal coal imports fall 35% in 2010. Coal imports in the US declined as a result of low domestic gas and coal prices, principally impacting the import of Colombian coal.

While an additional 41 million tonnes of supply was added to global seaborne supply, this fell short of global demand by some 15 million tonnes. High levels of consumer inventory moderated the supply shortfall throughout most of the year. However, by year's end the gap between supply and demand became more pronounced.

Supply from Indonesia grew by 47 million tonnes, but comprised increased low quality, sub-bituminous supply which grew by 57 million tonnes, while bituminous production fell by 10 million tonnes. In 2010, despite the impact of heavy rain, Colombian thermal coal supply was the only other major coal source to increase exports significantly, with mine supply up by five million tonnes to 68 million tonnes. South African thermal exports increased by 2.5 million tonnes to 64 million tonnes.

Bituminous coal supplies from China, Russia, the US and Vietnam declined by a total of 19 million tonnes during 2010, as Chinese export tariffs and Vietnamese policies to limit exports effectively discouraged exports. US thermal coal exports were limited by the

Opencast operations at Goedgevonden in South Africa.

prioritising of port capacity for higher margin coking coal and lower Atlantic market pricing during the first half of 2010. Russian exports were constrained by insufficient rail capacity and low European coal prices during the first half of 2010. In response to increased demand from Asian countries and reduced freight costs, South African and Russian coal continued to shift from the Atlantic market into the Pacific, eliminating the overhang of coal in the Atlantic market caused by falling demand in the West.

The tightening global supply-demand balance during 2010 resulted in strengthening thermal coal prices in the second half of 2010 in both the Pacific and Atlantic markets, as well as the Chinese domestic market. Spot coal prices in the Pacific market largely traded in the range of \$90–\$100 per tonne FOB for most of the year, before strengthening in mid November and reaching a high of \$129 per tonne at the end of December. Benchmark contract prices for the 2010 Japanese Financial Year and mid-year contracts negotiated in March and September respectively were both settled at \$97.75 per tonne, while 2011 contracts negotiated in December settled at \$115 per tonne.

During 2010, European gas prices rose by more than \$3/mmbtu from their first quarter lows, improving the relative competitiveness of coal-fired power generation and resulting in increased demand for coal and a reduction in stock levels. At Europe's major import terminals of Amsterdam, Rotterdam and Antwerp, stock levels were down from 10 million tonnes at the start of the year to less than 6 million tonnes by year's end. The recovery in European demand and increased demand from the Pacific markets led to South African FOB coal prices increasing strongly from around \$80 per tonne at the start of the year to \$129 per tonne by the end of the year. Colombian FOB prices rose from around \$65 per tonne in January to trade at over \$110 per tonne by the end of the year.

Outlook

Weather-related supply disruptions will continue to dominate spot market pricing into 2011. The impacts of flooding and substantial rainfall in Queensland, above average rainfall in Colombia and South Africa and seasonal rain in Indonesia, will continue in 2011. Supply shortages, coupled with cold northern hemisphere temperatures and associated increased coal burn, have further depleted consumer, mine and port stocks. For the balance of 2011, the seaborne thermal market is expected to remain moderately undersupplied. Supply growth, including a significant quantity of sub-bituminous coal from Indonesia, is not expected to satisfy projected demand. Supply shortfalls should maintain high pricing levels and lead to increased price volatility in response to any further disruptions.

Coking coal markets

In 2010, pig iron production in coking coal importing countries, excluding China, reached record levels, approaching 380 million tonnes. The increase in production was attributable to new capacity in Korea, Taiwan and India and further increases in capacity utilisation across Europe. This, coupled with growth in Chinese imports, drove global growth in demand for seaborne coking coal to 222 million tonnes, 20% higher than in 2009. Chinese imports of coking coal increased by 2 million tonnes to 32 million tonnes as a result of Chinese pig iron production growth and the restructuring of Chinese coal mines.

The recovery to almost full production capacity by Japanese steel producers supported a 20% growth in coking coal imports. Increased demand for Atlantic seaborne coking coal came from Europe, Brazil, Turkey, Ukraine and Africa, although levels remained below pre-recession peaks and a number of blast furnaces lay idle or operated at reduced rates.

Global seaborne demand totalled 45 million tonnes, 8 million tonnes less than supply resulting in restocking of consumer inventory drawn down during 2009. The impact of severe weather at the end of the year on production volumes has led to declines in both consumer and producer stocks. US seaborne coking coal exports increased by 60% during 2010 to 48 million tonnes. Much of the supply growth comprised high volatile coking coal that was switched from domestic thermal markets. These coals are of an inferior quality to the premium hard coking coal exported from Australia and Canada. Canadian coking coal exports rebounded in 2010 to pre-recession levels of just over 23 million tonnes, a 28% increase on the prior year.

Australian coking coal exports rose by 11% to 132 million tonnes in 2010 as a result of increased rail and port infrastructure capacity and a strong recovery in metallurgical coal demand. Higher market prices also supported increased exports of semi-soft coking coal, some of which was switched from thermal markets.

In 2010, annual coal pricing moved to quarterly coal pricing while spot market activity increased. Higher demand and Australian supply disruptions following heavy rainfall at the start of the year led to spot hard coking coal prices increasing from under \$200 to over \$250 per tonne during the first half of 2010. Term contract prices for the second quarter of 2010 were settled in March at \$200 per tonne and further increased in May to \$225 per tonne for the third quarter. As coal supply recovered during the second quarter, pig iron production in coal importing countries stabilised and Chinese import demand slowed, leading prices to moderate with hard coking coal spot prices decreasing to \$180 per tonne FOB in July. Increased demand during the last quarter, combined with flood-related supply disruption to Australian suppliers, pushed up both end of year spot prices and the price for the first quarter of 2011 to \$240 per tonne and \$229 per tonne respectively.

Coal *continued*

Outlook

Supply shortages experienced in the latter part of 2010 are expected to continue through 2011 and spot prices in January surpassed $380 per tonne. It is expected that supply will continue to be impacted by the weather-related disruptions in Queensland, although the final supply impact is still being assessed, with further US growth limited by rail capacity constraints and port infrastructure. Canadian export limitations, due to port equipment failure, avalanche risk, imposed rail restrictions and strike action, may further disrupt supply volumes.

Rising steel prices, due to continued steel demand recovery and rising raw material costs, are expected to continue to cascade through the steel sector as hard coking coal supply shortages become increasingly evident. Limitations on steel production as a result of reduced coking coal availability may also lead to steel supply shortages, further supporting coking coal price increases.

Xstrata Coal

Financial and operating data

$m	Year ended 31.12.10	Year ended 31.12.09
Revenue: operations†	**7,449**	6,424
Coking Australia	**1,596**	965
Thermal Australia	**4,095**	3,749
Thermal South Africa	**998**	968
Thermal Americas	**760**	742
Revenue: other	**339**	325
Coking Australia	**25**	22
Thermal Australia	**311**	294
Thermal South Africa	**2**	9
Thermal Americas	**1**	–
Total revenue	**7,788**	6,749
Coking Australia	**1,621**	987
Thermal Australia	**4,406**	4,043
Thermal South Africa	**1,000**	977
Thermal Americas	**761**	742
Operating EBITDA	**3,061**	2,755
Coking Australia	**911**	430
Thermal Australia	**1,525**	1,712
Thermal South Africa	**277**	259
Thermal Americas	**348**	354
Depreciation and amortisation	**(845)**	(717)
Coking Australia	**(110)**	(87)
Thermal Australia	**(466)**	(397)
Thermal South Africa	**(175)**	(148)
Thermal Americas	**(94)**	(85)

$m	Year ended 31.12.10	Year ended 31.12.09
Operating profit	**2,216**	2,038
Coking Australia	**801**	343
Thermal Australia	**1,059**	1,315
Thermal South Africa	**102**	111
Thermal Americas	**254**	269
Share of Group Operating profit	**29.0%**	46.6%
Australia	**24.4%**	37.9%
South Africa	**1.3%**	2.5%
Americas	**3.3%**	6.2%
Capital employed	**14,019**	10,826
Australia	**9,123**	6,843
South Africa	**3,002**	2,239
Americas	**1,894**	1,744
Return on capital employed*	**17.4%**	20.9%
Australia	**22.8%**	27.4%
South Africa	**3.8%**	5.6%
Americas	**13.6%**	15.6%
Capital expenditure	**1,998**	1,111
Australia	**1,530**	662
South Africa	**377**	373
Americas	**91**	76
Sustaining	**568**	424
Expansionary	**1,430**	687

† Includes purchased coal for blending with mine production.

* ROCE % based on average exchange rates for the year.

Operating profit variances

	$m
Operating profit 31.12.09	**2,038**
Sales price*	858
Volumes	94
Unit cost – real	181
Unit cost – CPI inflation	(103)
Unit cost – mining industry inflation	(34)
Unit cost – foreign exchange	(655)
Other income and expenses	(174)
Depreciation and amortisation (excluding foreign exchange)	11
Operating profit 31.12.10	**2,216**

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

Operations

Xstrata Coal achieved a 9% increase in operating profit from $2.0 billion in 2009 to $2.2 billion in 2010, driven by higher realised prices, real unit cost savings of $181 million and increased coking and semi-soft coking coal sales volumes.

Higher received coal prices across all markets, except Colombia, contributed an additional $858 million to operating profits, with semi-soft coking coal prices 12% higher and coking coal prices up 41% due to the recovery of the global steel market. The 2010 average realised price for Colombia for thermal coal was lower than the previous year as a result of the overall weakness of the Atlantic thermal market.

Total 2010 sales volumes were in line with the previous year, with higher volumes from Australia, particularly for coking coal and increased sales from Cerrejón offsetting lower South African volumes. The recovery in global demand for steel during the year and the inclusion of a full year of longwall operations at Oaky No. 1 mine contributed to a 20% increase in coking coal sales compared to 2009.

Real unit cost savings of $181 million were mainly as a result of the optimisation of the Oaky Creek complex, strip ratio improvements at Cerrejón and the ramp up of Goedgevonden.

Xstrata Coal's operating profit was adversely impacted by $655 million by the strengthening of operating currencies against the US dollar.

Sarah Ireland, apprentice at Newlands open cut operation in Queensland, Australia.

Mining and CPI inflationary pressures adversely impacted Xstrata Coal's operating profit by $137 million. Higher cost mining industry inputs, including rail freight and port charges, increased labour costs and fuel prices were partially offset by savings from the lagging effect of deflation in the cost of spare parts and other steel-related items in Australia.

Other costs reduced operating profits by $174 million and include one-off costs relating to the impact of severe wet weather in all operating geographies, industrial action at Tahmoor and demurrage costs at Port Waratah Coal Services (PWCS).

Australian thermal coal

Xstrata Coal's Australian thermal coal's operating profit of $1,059 million is 19% lower than the previous year primarily due to the strengthening of the Australian dollar against the US dollar, partly offset by higher average prices and an increased proportion of semi-soft sales in the total export mix.

Total thermal sales of 46.2 million tonnes in 2010 were slightly higher than 2009 sales. Despite coal chain constraints during the year, the operations recorded an increase in export sales volumes of 4% to 32.8 million tonnes. Semi-soft coking sales increased by 6% to 6.6 million tonnes in 2010 as semi-soft production was prioritised over thermal coal production, to take advantage of higher prices.

Australian coking coal

Xstrata Coal's Australian coking coal business achieved an operating profit of $801 million in 2010, an increase of 134% from 2009. The improved result was primarily driven by higher realised prices and a 20% increase in sales volumes to 7.7 million tonnes following the restart of longwall operations at Oaky No. 1 in August 2009 and increased productivity at Oaky North.

South African thermal coal

The second half of 2010 saw a strong recovery for the South African operations, achieving an operating profit of $102 million for the year after a first half operating profit of $25 million. Nevertheless South Africa's operating profit was 8% lower than the previous year as a result of an 11% drop in sales volumes, mainly as a result of rail infrastructure constraints and production issues that included flooding at open cut operations and industrial action at Southstock. Operating profit was also adversely affected by the strengthening of the South African rand against the US dollar, partly offset by cost savings achieved through the ramp up of Goedgevonden and the continued transition of the South African coal operations into three large-scale, lower cost, primarily open cut complexes.

Despite the weakness of the Atlantic thermal market, South Africa achieved a higher average export price per tonne by selling a significant portion of export coal into the stronger Asian market, which, combined with an increased proportion of export sales, resulted in a higher average received sales price and partially offset lower volumes and foreign exchange impacts.

Coal *continued*

Americas

Xstrata Coal Americas' 2010 operating profit, which excludes any profits from Prodeco, decreased by 6% to $254 million as a result of mining inflation and costs associated with high rainfall. This was offset by sales volumes increasing by 4% to 10.5 million tonnes in 2010 from 2009 and real unit cost savings as a result of a reduction in the strip ratio, productivity improvements and other cost reduction initiatives.

Sales volume

(million tonnes)	**Year ended 31.12.10**	Year ended 31.12.09
Total consolidated sales	**82.1**	82.1
Consolidated Australian sales total	**53.9**	52.2
Coking export	**7.7**	6.4
Semi-soft coking export	**6.6**	6.2
Thermal export	**32.8**	31.6
Thermal domestic	**6.8**	8.0
Consolidated South African sales total*	**17.7**	19.8
Thermal export	**11.1**	11.9
Thermal domestic	**6.6**	7.9
Consolidated Americas sales total**	**10.5**	10.1
Total attributable sales	**74.5**	75.9
Attributable Australian sales total	**49.2**	49.8
Coking export	**7.7**	6.4
Semi-soft coking export	**5.9**	5.5
Thermal export	**30.8**	30.0
Thermal domestic	**4.8**	7.9
Attributable South African sales total**	**14.8**	16.0
Thermal export	**9.2**	9.6
Thermal domestic	**5.6**	6.4
Attributable Americas sales total*	**10.5**	10.1
Average received export FOB coal price ($/t)		
Australian coking	**204.3**	145.0
Australian semi-soft coking	**137.3**	122.5
Australian thermal	**85.7**	80.3
South African thermal**	**74.4**	68.1
Americas thermal*	**72.6**	73.5

* Mpumalanga is included in 2010 production reporting. For financial reporting Mpumalanga will be excluded from Xstrata Coal's ex-mine results as it is classified as an Asset Held for Sale.
DTJV is included in 2009 production reporting. For financial reporting DTJV will be excluded from Xstrata Coal's ex-mine results to 1 July 2009 due to the DTJV re-structuring.

** Excludes Prodeco.

Developments

Xstrata Coal is advancing an extensive project pipeline comprising 20 major brown- and greenfield projects in Australia, South Africa and Colombia. Projects already in implementation will add 31 million tonnes of annual production.

All volumes and capital are shown on a managed basis.

Australian thermal coal

Mangoola

This greenfield project in New South Wales is nearly 70% complete and ahead of schedule and budget. The project is scheduled to commission its new coal handling and processing plant in the first half of 2011. Mining commenced in January 2011 and will ramp up to 8 million tonnes annually consisting of both export and domestic quality thermal coal.

Newlands Northern underground

The Newlands Northern underground extension in Queensland was 54% complete at the end of December, with longwall coal forecast to commence in late 2011.

Ravensworth North

The Ravensworth North project is located outside Singleton in the Hunter Valley, New South Wales. The project will be a large open cut mine of up to 8 million tonnes per annum of saleable semi-soft and thermal coal. Subject to regulatory approvals being granted during the first quarter of 2011, first coal will commence in 2012, with a capital expenditure of $1.4 billion.

Ulan West

The $1.3 billion Ulan West project situated in New South Wales will add a second underground longwall mining operation to the existing Ulan No. 3 longwall mine. Regulatory approval was received in December 2010 and longwall mining will begin in 2014, producing 6.7 million tonnes of export thermal coal per annum.

Wandoan

The Wandoan coal project in Queensland is currently advancing through feasibility stage. More than 1 billion tonnes of reserves have now been proven to underpin thermal coal exports from the initial stage of up to 22 million tonnes per annum. State regulatory approval was granted in November 2010, initiating the final stage of the mining lease application.

Americas

Cerrejón

Studies of the proposed staged expansion at Cerrejón are progressing. The feasibility study for the first phase of the expansion will be presented for shareholders' approval in 2011. The pre-feasibility study for further expansion options continues.

South African thermal coal

ATCOM East

The ATCOM East project in South Africa, at a capital cost of ZAR3 billion, was 57% complete at the end of December. The coal preparation plant is on schedule to commission in 2011 to produce 4 million tonnes per annum.

Tweefontein

The Tweefontein optimisation feasibility study is on track for completion in 2011. This brownfield expansion is expected to increase production by 4 million tonnes per annum. The project comprises large scale open cut mining and a new coal handling and preparation plant, resulting in increased yields and significantly reduced train handling times. Tweefontein will be the third of three large-scale, lower cost, open cut mine complexes for the South African operations.

Iron Ore

Sphere

Xstrata has acquired 76% of Sphere, which has interests in three iron ore projects in Mauritania, West Africa: the large-scale Guelb el Aouj project is a 50/50 joint venture with Société Nationale Industrielle et Minière (SNIM), Mauritania's majority state-owned iron ore producer; the Askaf project, located 35 kilometres south of Guelb el Aouj; and the large Lebtheinia resource, located 90 kilometres from the coast.

Zanaga

On 8 February 2011, Xstrata announced it had elected to exercise the option to acquire 50% plus one share in Jumelles Limited (BVI) in respect to the Zanaga iron ore project in the Republic of Congo. Under the agreement, Xstrata will fund a minimum of $100 million towards a feasibility study. Xstrata Iron Ore, which is currently managed through Xstrata Coal, will prioritise a value engineering exercise on the project, building on the pre-feasibility study undertaken by Jumelles.

The Mangoola project in New South Wales is on track to commission its coal preparation and handling plant in the first half of 2011.

Copper

> "Higher average copper prices during 2010 were supported by robust market fundamentals"

Charlie Sartain
Chief Executive Xstrata Copper

Product overview

- Xstrata Copper's refined copper metal cathodes are sold to producers of industrial products and traders in major copper-consuming regions
- Cathodes are predominantly used in the manufacture of copper wire rod for electrical conductor applications

Market summary

- The rebound in economic growth during 2010 supported growth in global copper demand
- Operational challenges resulted in global copper mined supply failing to keep pace with rising demand

Operations

- Real unit cost savings of $52 million were achieved in 2010 as a result of ongoing operating efficiencies at all of Xstrata Copper's divisions, the closure of the Kidd metallurgical facilities and increased volumes at Ernest Henry
- C1 cash costs improved to 89.4¢ per pound from 91.2¢ per pound in 2009

Developments

- The $4.2 billion Las Bambas and $1.47 billion Antapaccay projects in Peru were approved by Xstrata's Board in 2010

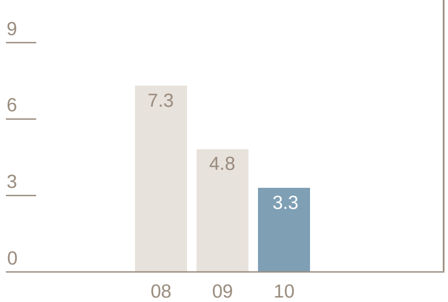
Strategic priorities for 2011

- The advancement on budget and schedule of our five major approved development projects, including the transformation of Ernest Henry mine from an open pit into a major underground operation

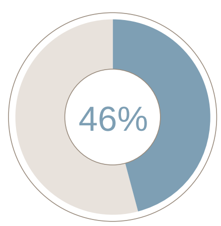
Sustainable benefits

- Xstrata Copper's safety performance improved by over 30% in the key safety indicators
- In 2010, Xstrata Copper invested over $32 million in community projects

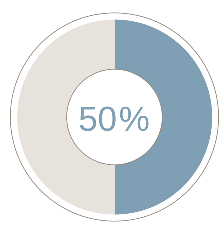
Total recordable injury frequency rate
(per million hours)



Contribution to total Group revenue 2010



Contribution to total Group operating profit 2010



Copper operations

Production	2010	2009
Total mined copper production (t) (contained metal)	**913,469**	906,898
Total mined gold production (oz) (contained metal)	**524,791**	502,967
Total copper cathode (from own and third party material) (t)	**715,499**	727,050
Average prices		
Average LME copper price (US$/t)	**7,536**	5,150
Average LBM gold price (US$/oz)	**1,225**	973
Employees (excluding contractors)	**11,483**	11,319

Copper financial data

($m)	2010	2009
Revenue	**14,004**	9,223
Operating EBITDA	**4,693**	2,922
Operating profit	**3,820**	2,126
Share of Group operating profit	**49.9%**	48.7%
Capital expenditure	**1,734**	934

The electro-winning plant at the Collahuasi copper operation in Chile.

Xstrata Copper's Ernest Henry mine in Queensland, Australia.

Copper *continued*

Examining core samples at the Frieda River project in Papua New Guinea.

Markets

Macroeconomic sentiment generated considerable volatility in the copper market during 2010, but strong investor appetite for commodities, coupled with robust copper market fundamentals, supported a copper price rally to a high of $4.41 per pound at year end. LME cash prices averaged $3.42 per pound over the year, 46% or 107¢ per pound higher than in 2009.

Strong refined copper demand growth of 10% and weak refined supply growth of just over 3% led to a steady decline in global exchange stocks throughout the year. Stocks totalled 568,000 tonnes or 11 days' consumption at year end – 123,000 tonnes below the closing level in 2009.

Global copper demand grew rapidly during 2010 on the back of a rebound in economic growth. China continued to lead global copper demand growth as stimulus measures first introduced by the government in 2009 continued throughout the year, driving strong end-use demand for copper. High growth rates were seen in the consumer goods and automotive sectors, while demand for residential construction and infrastructure also expanded rapidly. While part of this demand was met through the consumption of inventory built up during 2009, China's import requirement for refined copper remained at a high level. Imports averaged 243,000 tonnes per month and totalled 2.9 million tonnes over the full year.

In Western markets, the recovery in copper demand steadily gathered pace following a subdued start to the year. Consumption grew rapidly during the second and third quarters, led by growing demand for exports as well as some restocking of inventory. However, domestic consumption remained subdued due to low consumer spending and weak construction activity, while government austerity measures in some regions, particularly Western Europe, impacted further on domestic demand during the second half of the year.

Global copper mine supply failed to keep pace with demand growth during 2010, despite mine restarts encouraged by high copper prices. Operational challenges, the slow ramp-up of new mine projects, labour unrest and falling ore grades again led to high levels of underperformance among operating mines. It is estimated that around 700,000 tonnes of mined copper production was lost in 2010 due to such underperformance. As a result, mine supply failed to grow during the year and although recovering secondary supply made up some of the shortfall, refined copper production growth was unable to keep pace with demand.

Limited mine supply and growing smelter demand tightened the concentrates market through much of the year. Spot treatment and refining charges declined to lows of zero at the end of the first half and mid-year benchmark terms were settled at a record low of $39 per dry metric tonne and 3.9¢ per pound. However, during the second half of the year spot treatment and refining charges recovered to levels as high as $80 per dry metric tonne and 8¢ per pound due to some disruption to smelter production, maintenance shutdowns and inventory consumption. Copper scrap availability also improved in line with recovering economic growth and prices, enabling greater secondary production. Annual contract negotiations for 2011 are currently underway, with smelters seeking settlement around the spot levels achieved during the fourth quarter of $78 per tonne and 7.8¢ per pound, while miners emphasise constrained concentrates supply. Settlement is expected to see a modest increase on 2010 terms.

Outlook

Macroeconomic developments in 2011, in particular potential government actions such as further quantitative easing in the US and Japan, the outcome of the European banking and sovereign debt crises and Chinese government efforts to limit inflation rates, will influence investors' appetite for risk and will drive continued volatility in copper prices.

Copper prices will remain underpinned by robust market fundamentals as mine supply struggles to meet global demand for copper. Refined copper demand is expected to continue to grow, driven by urbanisation and industrialisation in developing markets; while copper mine supply growth is constrained by a limited pool of mine projects and extended mine development timelines, which restrict the capacity for high copper prices to drive more rapid project development.

Xstrata Copper

Financial and operating data

$m	Year ended 31.12.10	Year ended 31.12.09
Revenue	**14,004**	9,223
Alumbrera, Argentina	**1,590**	1,256
North Queensland, Australia	**2,205**	913
Canada*	**3,948**	2,335
Collahuasi**, Chile	**1,978**	1,514
Chile	**2,594**	1,766
Antamina‡, Peru	**932**	790
Tintaya, Peru	**757**	649
Operating EBITDA	**4,693**	2,922
Alumbrera, Argentina	**770**	543
North Queensland, Australia	**1,034**	436
Canada*	**307**	84
Collahuasi**, Chile	**1,230**	771
Chile	**299**	242
Antamina‡, Peru	**576**	495
Tintaya, Peru	**477**	351
Depreciation and amortisation	**(873)**	(796)
Alumbrera, Argentina	**(100)**	(94)
North Queensland, Australia	**(315)**	(160)
Canada*	**(24)**	(84)
Collahuasi**, Chile	**(178)**	(199)
Chile	**(104)**	(98)
Antamina‡, Peru	**(85)**	(86)
Tintaya, Peru	**(67)**	(75)
Operating profit	**3,820**	2,126
Alumbrera, Argentina	**670**	449
North Queensland, Australia	**719**	276
Canada*	**283**	–
Collahuasi**, Chile	**1,052**	572
Chile	**195**	144
Antamina‡, Peru	**491**	409
Tintaya, Peru	**410**	276
Share of Group Operating Profit	**49.9%**	48.7%
Capital Employed†	**15,702**	16,335
ROCE	**27.1%**	16.8%

$m	Year ended 31.12.10	Year ended 31.12.09
Capital Expenditure	**1,734**	934
Alumbrera, Argentina	**63**	43
North Queensland, Australia	**549**	263
Canada*	**108**	94
Collahuasi**, Chile	**257**	229
Chile††	**185**	147
Antamina‡, Peru	**128**	38
Tintaya, Peru	**444**	120
Sustaining	**572**	498
Expansionary	**1,162**	436

* Canada includes Xstrata Recycling that operates businesses in Canada, the US and Asia.

** Xstrata's 44% share of Collahuasi.

‡ Xstrata Copper's pro rata share of Xstrata's 33.75% interest in Antamina.

† Includes goodwill allocation on acquisition of Falconbridge.

†† Chile includes Altonorte, Lomas Bayas, Energía Austral and El Morro (prior year).

Operating profit variances

	$m
Operating profit 31.12.09	**2,126**
Sales price*	2,173
Volumes	(77)
Unit cost – real	52
Unit cost – CPI inflation	(82)
Unit cost – mining industry deflation	(40)
Unit cost – foreign exchange	(281)
Other income and expenses	(22)
Depreciation and amortisation (excluding foreign exchange)	(29)
Operating profit 31.12.10	**3,820**

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

Xstrata Copper's operating profit of $3.8 billion rose by 80% compared to 2009 as a result of higher average copper prices and positive real unit cost performance, partially offset by the impact of the weaker US dollar, lower volumes and inflationary impacts. Provisional price settlements in respect of sales booked in 2009 but priced in 2010 added $73 million to 2010 earnings. As at 31 December 2010, provisionally priced sales amounted to 156,000 tonnes to be settled in 2011.

Lower copper and gold sales volumes reduced operating profit by $77 million as a result of shipments being postponed into 2011. Mined copper production of 913,500 tonnes was slightly higher than the previous year mainly due to strong performances at Kidd and Ernest Henry mines that offset challenging operating conditions at some South American operations.

Copper *continued*

Xstrata Copper achieved real unit cost savings of $52 million, after absorbing the impact of lower head grades at Collahuasi, Tintaya, Alumbrera and Antamina that reduced earnings by $47 million. The cost savings were achieved through ongoing operating efficiencies at all of the operating divisions, the closure of the Kidd metallurgical facilities in Canada and increased volumes at Ernest Henry.

Mining sector inflation decreased operating profit by $40 million, primarily driven by increased energy and fuel costs in Argentina and, to a lesser extent, in North Queensland and Canada. CPI inflation further decreased operating profit by $82 million, with the major impacts being in North Queensland, Argentina and Canada. The weaker US dollar negatively impacted operating profit by $281 million, predominantly in the Australian and Canadian operations.

Depreciation and amortisation reduced operating profit by $29 million mainly due to increased waste amortisation and higher production in North Queensland. This was partially offset by the closure of the Kidd metallurgical assets in Canada and the increased reserve base at Collahuasi.

Other income and expenses reduced operating profit by $22 million mainly as a result of Alumbrera export tax payments.

C1 cash costs improved to 89.4¢ per pound in 2010 compared with 91.2¢ per pound the previous year as a result of lower operating costs and the favourable impact of by-product credits.

Construction of the grinding area is well underway at Antapaccay in Southern Peru.

Operations

Argentina

Minera Alumbrera achieved an operating profit of $670 million in 2010, an increase of 49% compared to the previous year due to higher realised copper and gold prices, the positive impact of major contract renegotiations, lower treatment and refining charges and favourable exchange rates. These benefits were partially offset by lower copper and gold sales volumes, higher provincial royalties and export taxes, increased sea freight costs, negative head grade impacts and mining and CPI inflation.

Copper in concentrate and total gold production decreased by 2% and 4% respectively compared to 2009. Output of copper and gold in concentrate decreased as a result of lower head grades and reduced recoveries due to higher processed volumes of oxidised material. Pit wall instability along a known fault restricted mining rates and access to a high-grade area of the pit in the fourth quarter. This situation will continue to affect production in 2011 but output is expected to recover in 2012.

Australia

The North Queensland division's operating profit improved by 160% to $719 million in 2010 compared to the previous year due to higher commodity prices, improved sales volumes and a strong operating performance in the second half of the year. The division achieved real unit cost savings of $96 million as a result of improved throughput at both the Mount Isa and Ernest Henry mines, higher mill head grades at Ernest Henry and positive procurement and contract initiatives.

The North Queensland copper mining operations produced 232,300 tonnes of copper in concentrate, an improvement of 18% compared to 2009. At Ernest Henry, higher mining rates, mill head grades and throughput increased copper and gold in concentrate production by 110% and 102% respectively. Mount Isa underground operations produced 157,700 tonnes of copper in concentrate, a decrease of 3% compared to the previous year as a result of lower grades that was partially offset by higher ore mined, ore milled and recoveries.

The Mount Isa smelter produced 214,700 tonnes of anode in line with 2009. The Townsville refinery produced a record 287,000 tonnes of cathode from a mixture of North Queensland mined production and Altonorte anode, an increase of 3% compared to 2009.

Canada

The Canadian copper division experienced a significant turnaround in its financial performance in 2010, delivering an operating profit of $283 million compared to breaking even in 2009. This was due to a number of factors including production improvements at the Kidd mine, the permanent closure of the Kidd metallurgical assets, cost and working capital reduction initiatives and higher commodity prices. Sulphuric acid prices and cathode premiums also partially recovered as market conditions and customer demand improved together with a tightening of acid and cathode supply as a result of smelter rationalisation in North America. These improvements were partially offset by a higher Canadian dollar and lower spot treatment and refining charges.

Copper in concentrate production at Kidd underground mine increased by 21% to 52,600 tonnes, driven primarily by a 13% improvement in head grades and higher mining rates compared to 2009 when production was impacted by two seismic events. Zinc in concentrate production in 2010 of 86,100 tonnes was 20% lower than the previous year due to lower head grades associated with changes to the mine sequence.

In May 2010, the Kidd copper smelter, refinery and zinc plant were closed permanently and these assets were written down. Closure of the Kidd metallurgical assets resulted in the release of an estimated $130 million in operating working capital and a $39 million reduction in operating expenses for the remainder of the year. Kidd mine copper and zinc concentrates are now processed at Xstrata Copper's Horne smelter and Noranda Income Fund's CEZ facility respectively.

The Horne smelter produced 194,300 tonnes of anodes, an improvement of 19% compared to the previous year when production levels were impacted by weak market conditions. The processing of Kidd mine copper concentrates has enabled the Horne smelter to implement a feed rationalisation programme that has resulted in improved unit margins. The volume of recycled material processed by the Horne smelter also increased by 9% in 2010 to 107,800 tonnes.

The CCR refinery produced 276,300 tonnes of cathodes in 2010, in line with the previous year. The facility has stopped processing offshore anodes due to low profit margins and reduced annual production capacity from 370,000 tonnes to 265,000 tonnes of cathode per year to align the operation with market conditions.

In 2010, the Canadian division took significant steps to reduce its operating working capital which ended the year at $224 million, a $358 million reduction over 2009, despite higher metal prices. Copper inventory levels ended the year at 51,000 tonnes, 47% lower than in 2009, while silver and gold inventory levels were 4.4 million ounces and 63,000 ounces, 48% and 65% lower respectively than inventory levels at the end of 2009.

Chile

Collahuasi

Xstrata's 44% share in Collahuasi generated an operating profit of $1.1 billion, an improvement of 84% compared to 2009, due to higher commodity prices, the favourable impact of depreciation and amortisation attributed to new copper reserves and decreased inventories of Collahuasi material held for processing at Altonorte and Horne smelters. This was partially offset by lower copper production, reduced sales volumes, decreased copper ore grade, a stronger Chilean peso and CPI inflation.

Xstrata's share of copper production decreased by 6% to 204,700 tonnes compared to the record production levels achieved in 2009 mainly due to lower grades, an illegal contractor strike in May and a 33-day strike in November during collective bargaining negotiations with unionised employees. These interruptions were partially offset by significantly improved concentrator plant throughput over the prior year as a result of operational improvements and bottleneck eliminations. In December 2010, a catastrophic failure occurred in the ship loader at Collahuasi's Patache port. Collahuasi is currently implementing a contingency plan to ship copper out of alternative ports in Arica, Iquique and Antofagasta during the first quarter of 2011 whilst repairs are being carried out. Xstrata's Altonorte smelter has also rescheduled the delivery of concentrates from its suppliers to accommodate additional processing of Collahuasi concentrates as part of Collahuasi's sales contingency plan. The incident reduced Xstrata's share of December sales by approximately 8,800 tonnes of copper but did not impact production.

Lomas Bayas

Lomas Bayas generated an operating profit of $211 million, more than double the previous year, due to higher realised copper prices, partially offset by decreased cathode sales volumes, an unfavourable exchange rate, higher depreciation charges and increased acid and power consumption.

Cathode production at Lomas Bayas decreased by 2% to 71,800 tonnes mainly due to lower ore grades, decreased supply of mined ore to the run-of-mine (ROM) leaching pad as a result of restricted loading equipment availability during the first few months of the year (January to April) and delayed ROM recoveries associated with acid supply and irrigation issues that have now been resolved.

Altonorte

The Altonorte smelter in northern Chile achieved record levels of concentrate throughput, contributing to a 5% increase in copper anode and slag concentrate production compared to the previous year, while sulphuric acid production remained in line with 2009. The facility's operating profit was negatively impacted by lower realised sulphuric acid sales prices compared to 2009, increased acid purchase costs to meet contractual commitments, lower treatment charges, higher transport costs, an unfavourable exchange rate and CPI inflation. These impacts were partially offset by higher anode and concentrate slag sales volumes due to higher production and real unit cost savings as a result of operating efficiencies and an organisational restructuring.

Copper *continued*

Peru

Antamina

Xstrata's 33.75% attributable share of Antamina's financial performance is divided between Xstrata Copper and Xstrata Zinc on the basis of sales revenue. Xstrata Copper's share of Antamina operating profit increased by 20% to $491 million due to higher realised commodity prices, the favourable impact from depreciation and amortisation being attributed to new ore reserves, as well as lower sea freight costs. This was partially offset by lower copper production and sales volumes, higher commodity price linked costs and higher treatment and refining charges.

Xstrata Copper's share of copper in concentrate production decreased by 5% to 101,700 tonnes due to lower mill head grade partially offset by a 9% increase in mill throughput achieved through a number of improvements in operating efficiencies together with improved metallurgical recoveries. Molybdenum production increased by 37% to 1,152 tonnes due to higher recoveries that offset lower grades and silver production decreased by 7% to 4,327 ounces due to lower head grades.

Tintaya

Operating profit increased by 49% to $410 million due to higher realised copper, gold and silver prices compared to 2009, partially offset by lower sales volumes. Copper in concentrate and cathode sales decreased by 23% to 89,300 tonnes in 2010 as a result of lower copper production and the impact in the first half of 2009 of abnormally high sales.

Copper in concentrate production decreased by 17% to 67,600 tonnes in 2010 due to lower mining rates of sulphide material and lower grades as a result of wall instability issues that temporarily restricted access to higher grade material. Recoveries were also reduced due to the processing of lower grade stocks. Annual copper cathode production remained flat at 25,300 tonnes. Gold in concentrate production was impacted by lower gold head grades than the previous year.

Developments

Argentina

El Pachón

Work continued during 2010 to update the feasibility study with revised financial estimates reflecting current market conditions on consumables, construction and equipment. In December, Xstrata Copper announced a further significant increase to the El Pachón Mineral Resource which now totals 1.79 billion tonnes at a copper grade of 0.51%, using a 0.2% cut-off grade, representing a 30% improvement compared to the Mineral Resource published in August 2009. The El Pachón feasibility update studies will continue through 2011, together with the completion of the environmental and social impact study.

Australia

In 2010, the Mount Isa copper operations' underground drilling exploration programme focused on mineralisation associated with existing orebodies. This programme will continue into 2011.

A concept study into a large scale zinc and copper open pit as an extension to the current Black Star open pit mine commenced in the second half of 2010. A decision to start a pre-feasibility study will be made by the end of the first half of 2011, subject to the completion of a positive concept study.

A pre-feasibility study into potential leaching of residual copper and cobalt from the Mount Isa concentrator tailing is expected to advance into feasibility stage in 2011 pending the outcome of a pilot plant trial that commenced in late 2010.

At the Ernest Henry mine, construction of a large scale underground sub-level cave mine progressed with 11,066 metres of development completed at the end of 2010, with the overall project in line with schedule and budget. Design, construction and initial testing, including initial production, of the 1.2 million tonnes per annum magnetite facility base plant have been completed. Plant commissioning will continue through the first quarter of 2011. The high-grade magnetite product will be sold to international steel mills, with exports expected to commence from Townsville port in the first half of 2011.

Exploration drilling continued to focus on target properties in the Cloncurry and Mount Isa region that have the potential to provide additional ore feed to the Ernest Henry and Mount Isa plants.

Canada

The $111 million extension of the Kidd mine continued in 2010 and is scheduled for completion in the first half of 2011. The Kidd metallurgical facilities ceased operation on 1 May and planning continues in relation to the building demolition activities and rehabilitation of the jarosite waste storage pond.

Inspecting a haul truck at Minera Alumbrera, Argentina.

In October, Xstrata Copper completed reclamation and rehabilitation works following the closure of the Gaspé smelter in Murdochville, Quebec. The Murdochville mining and metallurgical site and the Sandy Beach facilities are now officially closed following the implementation of an extensive five-year rehabilitation plan.

Exploration activities continued in 2010 with scoping studies commencing into the potential development of the former Bell/Granisle mine and the Mont Porphyre deposit.

Chile

Collahuasi

A project to debottleneck the concentrator received Environmental Impact Assessment approval in February 2010. This project will achieve an intermediate ore processing capacity of 150,000 tonnes per day for an investment of $92 million (100% basis). Construction works commenced mid-year and are scheduled for completion in mid-2011. A second phase expansion project to 160,000 tonnes per day is anticipated to commence in the first half of 2011.

In July, Collahuasi announced a 40% increase to the total estimated Mineral Resource to 7.1 billion tonnes at an average grade of 0.82% copper and 269 parts per million molybdenum, using a 0.34% cut-off grade. This represents the equivalent of 58 million tonnes of contained copper metal and provides Collahuasi with the platform to strategically plan for the further transformation of its business. Concept studies into the options to expand production to at least one million tonnes per annum are on track to be completed in the first quarter of 2011.

Lomas Bayas

At Lomas Bayas, development work on the satellite Fortuna deposit (Lomas II) remained within budget and on schedule, with full production expected to commence in the fourth quarter of 2012. The $293 million project will extend the mine life of Lomas Bayas by 12 years to 2024.

In 2010, a conceptual study progressed into the potential development of sulphide mineralisation directly beneath the existing oxide mineralisation of the Lomas pit and an improved Mineral Resource for the sulphide deposit was announced of 435 million tonnes at an average grade of 0.39% copper, using a 0.2% copper cut-off grade. Additional exploration and technical studies will be conducted in 2011 to advance the project towards a pre-feasibility stage.

West Wall

In October 2010, Xstrata Copper announced an initial Mineral Resource of 750 million tonnes at a grade of 0.54% copper and 0.01% molybdenum, using a 0.3% cut-off grade, for the Lagunillas deposit at the West Wall project, a joint venture with Anglo American in central Chile's Valparaíso region. Based on 57 drill holes (33,600 metres), the estimated Mineral Resource also contains estimated average grades for gold of 0.05 grams per tonne.

Energía Austral

Detailed engineering studies into Energía Austral's proposed 1,000 MW hydro-electric project, comprising three generating facilities, progressed in 2010 and is scheduled for completion in the first half of 2011. Commercial and technical studies for the final design options of the transmission line were also undertaken during the year.

Copper *continued*

An anode pour at the Horne smelter in Rouyn-Noranda, Quebec.

In the second half of 2010 the project team responded to Chilean environmental authorities' observations on the environmental and social impact assessment (ESIA) for the Rio Cuervo facility that was presented in August 2009. Work also commenced on the ESIA reports for the Rio Blanco and Lago Condor generation facilities which are scheduled for completion in mid-2011.

El Morro

In February 2010, Xstrata Copper completed the sale of its 70% interest in the El Morro project to Canada's New Gold Incorporated for $463 million.

Peru

Antamina

Construction on the $1.3 billion expansion project (100% basis) to increase Antamina's milling capacity to 130,000 tonnes per day commenced in the first quarter of 2010 with commissioning scheduled for late 2011. Detailed engineering for the project was also substantially advanced during the year.

Tintaya – Antapaccay / Coroccohuayco

The Xstrata plc Board approved the $1.47 billion Antapaccay project in July 2010 following approval of the Environmental and Social Impact Assessment by the Peruvian Mining Ministry earlier that month. The brownfield expansion to the Tintaya operation will produce an average of 160,000 tonnes of copper per annum for at least the first five years and 143,000 tonnes of copper per annum over the current estimated mine life of 22 years. In December 2010, Xstrata Copper announced a 13% increase to the Antapaccay Mineral Resource to 817 million tonnes at a grade of 0.51% copper.

Further progress was made to evaluate the Coroccohuayco project during 2010 as part of Xstrata Copper's integrated strategy in Southern Peru. A drilling campaign of 60,000 metres commenced in October to improve the Mineral Resource base and facilitate pre-feasibility studies.

Las Bambas

The Xstrata plc Board approved the $4.2 billion Las Bambas project in August 2010. The greenfield project will produce an average of 400,000 tonnes of copper per annum for the first five years and 310,000 tonnes of copper per annum over the current life of mine.

The project's Environmental and Social Impact Assessment was submitted to the Peruvian Mining Ministry in May 2010 and work continues on securing this and other necessary permits by the first half of 2011.

In December 2010, Xstrata Copper announced a 36% increase to the Las Bambas Mineral Resource to 1.55 billion tonnes at a grade of 0.61% copper using a 0.2% cut-off grade.

Philippines

Tampakan

The Tampakan mining project feasibility study was completed and submitted to the Philippine government on schedule in April 2010. The study indicates a potential large scale, low-cash cost, open pit mining operation with an average annual production of 375,000 tonnes of copper and 360,000 ounces of gold over an initial 17-year mine life.

In late June 2010, the then outgoing South Cotabato governor approved the South Cotabato Environment Code, a provincial ordinance that includes a ban on the use of open pit mining methods in the province. This provision in the Code runs contrary to the Philippine Mining Act of 1995. The Tampakan project is not immediately impacted by the ban on open pit mining as it is still in the exploration phase. However, Xstrata Copper continues to monitor the issue closely and engage with all stakeholders, including national and provincial governments, regarding the proposed development of the project.

Papua New Guinea

Frieda River

In August 2010, the Frieda River project completed a pre-feasibility study that indicated a potential mining project with an average output of 190,000 tonnes per annum of copper and 280,000 ounces per annum of gold over an initial 20-year mine life. The project commenced a $122 million feasibility study in November 2010 which is scheduled for completion in January 2012.

In February 2011, Xstrata announced an increased Mineral Resource estimate for the Horse-Ivaal-Trukai (HIT) porphyry deposit of 1.9 billion tonnes at a grade of 0.45% copper, 0.22 grams per tonne gold and 0.7 grams per tonne silver using a cut-off grade of 0.2% copper. The new resource estimate represents a 125% increase to 5.4 million tonnes of contained copper metal in the Measured and Indicated category compared to the resource published in January 2010.

Sales volumes

	Year ended 31.12.10	Year ended 31.12.09
Argentina – Alumbrera†		
Copper in concentrate (t) inter-company (payable metal)	**4,815**	3,421
Copper in concentrate (t) third-parties (payable metal)	**129,592**	135,173
Total copper (t) (payable metal)	**134,407**	138,594
Gold in concentrate (oz) inter-company (payable metal)	**13,217**	10,016
Gold in concentrate (oz) third-parties (payable metal)	**333,279**	352,886
Gold in doré (oz) (payable metal)	**45,009**	57,924
Total gold (oz) (payable metal)	**391,505**	420,826
Australia – North Queensland		
Refined copper – mined copper (t)	**211,265**	212,770
Refined copper – inter-company and third party sourced (t)	**74,572**	63,835
Copper in concentrate (t) (payable metal)	**16,075**	1,139
Other products (payable metal)	**–**	(204)
Total copper (t) (payable metal)	**301,912**	277,540
Gold in concentrate and slimes (oz) (payable metal)	**89,004**	75,302
Canada		
Refined copper – mined copper (t)	**54,278**	38,216
Refined copper – inter-company sourced (t)	**156,134**	165,968
Refined copper – third party sourced (t)	**106,894**	126,214
Other products third-parties (t) (payable metal)	**–**	6,326
Total copper (t) (payable metal)	**317,306**	336,724
Gold in concentrate and slimes (oz) (payable metal)	**600,869**	696,485
Chile – Collahuasi††		
Copper in concentrate (t) inter-company (payable metal)	**29,064**	33,146
Copper in concentrate (t) third-parties (payable metal)	**167,531**	174,788
Copper cathode (t) (payable metal)	**16,934**	18,679
Total copper (t) (payable metal)	**213,529**	226,613
Chile – Lomas Bayas and Altonorte		
Copper cathode (t) (payable metal)	**71,676**	74,604
Copper anode – inter-company (payable metal)	**60,830**	169,872
Copper anode – third parties (payable metal)	**212,623**	96,084
Total copper (t) (payable metal)	**345,129**	340,560
Gold in anodes and slimes (oz) (payable metal)	**45,255**	36,845

	Year ended 31.12.10	Year ended 31.12.09
Peru – Antamina‡		
Copper in concentrate (t) inter-company (payable metal)	**8,375**	5,948
Copper in concentrate (t) third-parties (payable metal)	**85,749**	99,257
Total copper (t) (payable metal)	**94,124**	105,205
Peru Tintaya		
Copper in concentrate (t) third-parties (payable metal)	**63,835**	87,546
Refined copper – mined copper (t)	**25,481**	27,364
Refined copper – third party sourced (t)	**–**	501
Total copper (t) (payable metal)	**89,316**	115,411
Gold in concentrate (oz) (payable metal)	**24,429**	34,855

Sales volumes

	Year ended 31.12.10	Year ended 31.12.09
Mined copper sales (t) (payable metal)	**884,670**	911,847
Custom copper sales (t) (payable metal)	**611,052**	628,800
Inter-company copper sales (t) (payable metal)	**(103,084)**	(212,387)
Total copper sales (t) (payable metal)	**1,392,638**	1,328,260
Total gold sales (oz) (payable metal)	**1,137,846**	1,254,297
Average LME copper cash price ($/t)	**7,536**	5,150
Average LBM gold price ($/oz)	**1,225**	973

† 100% consolidated figures.
†† Xstrata's 44% share of Collahuasi.
‡ Xstrata Copper's pro rata share of Xstrata's 33.75% interest in Antamina.

Summary production data

	Year ended 31.12.10	Year ended 31.12.09
Total mined copper (t) (contained metal)	**913,469**	906,898
Total mined gold (oz) (contained metal)	**524,791**	502,967
Total copper cathode (t) (from mined and third party material)	**715,499**	727,050
Consolidated C1 cash cost – post by-product credits (US¢/lb)	**89.4**	91.2

Nickel

"Record mine production was achieved by the Integrated Nickel Operations"

Ian Pearce
Chief Executive Xstrata Nickel

Product overview

- The high-grade nickel produced at our Nikkelverk refinery in Norway is typically sold into first end-use applications such as high-nickel alloys, superalloys, low alloy steel, foundry and electroforming
- Ferronickel from Xstrata's Falcondo operation is sold into the stainless steel market

Market summary

- Global demand for nickel improved during 2010 due to continuing growth in China and economic recovery in developed markets, together with restocking by stainless steel producers and consumers

Operations

- Record mine production was achieved by the Integrated Nickel Operations, record output was seen at the Sudbury smelter and the Nikkelverk refinery exceeded its recently increased capacity
- Average C1 cash costs fell by 43% to $2.16 per pound on 2009 levels

Developments

- At the end of 2010, the Koniambo project was nearly 70% complete and is on track to process first ore in 2012

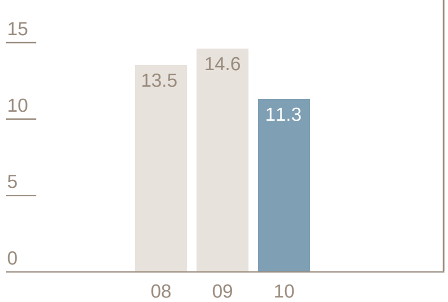
Strategic priorities for 2011

- Deliver the low-capital, 50% capacity restart of the Falcondo ferronickel operation
- Execute on peak Koniambo construction schedule

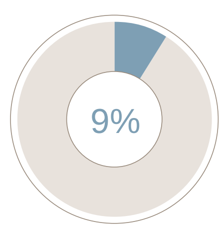
Sustainable benefits

- During the year, $9 million was spent on projects supporting the communities local to Xstrata Nickel's operations

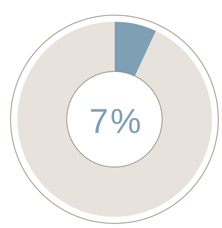
Total recordable injury frequency rate
(per million hours)



Contribution to total Group revenue 2010



Contribution to total Group operating profit 2010



Nickel operations

Production	2010	2009
Total mined nickel production (t) (contained metal)	**60,670**	57,052
Total mined copper production (t) (contained metal)	**42,697**	25,428
Total mined cobalt production (t) (contained metal)	**1,094**	1,326
Total refined nickel production (t) (payable metal)	**92,185**	88,577
Total mined ferronickel production (t) (contained metal)	**–**	–
Average prices		
Average LME nickel cash price ($/t)	**21,809**	14,712
Average LME copper cash price ($/t)	**7,536**	5,150
Average Metal Bulletin cobalt low grade price ($/lb)	**17.91**	15.17
Employees (excluding contractors)	**3,340**	3,098

Nickel financial data

($m)	2010	2009
Revenue	**2,738**	1,891
Operating EBITDA	**973**	427
Operating profit/(loss)	**503**	(18)
Share of Group operating profit	**6.6%**	(0.4)%
Capital expenditure	**1,556**	1,142

Drilling at Cosmos mine in Western Australia.

Raglan mine in the Nunavik Territory, Northern Québec, Canada.

Nickel *continued*

Markets

Global demand for nickel improved during 2010 due to continuing growth in China and economic recovery in developed markets. The increasing intensity of nickel usage in China helped to mitigate the impact of the financial crisis on demand and continues to favourably impact global consumption of nickel. In developed markets, economic recovery, together with restocking by stainless steel processors and consumers during the year, also contributed to the recovery in nickel demand from the stainless steel sector. The historic volatility of stainless steel production, including seasonal variation, was evident again in 2010. In combination with the alloys surcharge structure in the USA and Europe, these trends are expected to continue to contribute to volatility in the nickel market in the coming years. Non-stainless steel demand represents approximately one-third of total nickel consumption and is well correlated to levels of industrial production. The recovery in industrial production that occurred this year further supported higher levels of nickel consumption. Primary nickel consumption in 2010 is estimated at 1,440,000 tonnes, 12% higher than in 2009.

A number of large nickel projects encountered industrial action, delays and start-up issues during the year. Protracted strikes in Canada at Vale's Sudbury and Voisey's Bay operations significantly impacted nickel supply during the first three quarters of 2010. Commissioning challenges at Vale's high pressure acid leach Goro project in New Caledonia, reduced production at the Talvivaara operation in Finland and delays to the start-up of Ramu, a high pressure acid leach project in Papua New Guinea, all contributed to lower than anticipated global supply of nickel in 2010. Estimated total primary nickel supply was 1,441,000 tonnes in 2010, 9% higher than in 2009.

Production of nickel pig iron in China in 2010 provided a flexible source of nickel into China's stainless steel production. This is expected to continue as a permanent component of China's nickel industry, with flexible rates of nickel production strongly dependent on prevailing prices and the cost of key inputs such as imported ore, electricity and coke.

The LME cash settlement nickel price has been volatile during 2010, ranging between $7.73 per pound and $12.52 per pound to average $9.89 per pound, which is 48% higher than the average in 2009. Concerns about the strength of the global recovery, particularly in developed markets, together with rising LME inventory, saw nickel fall to its low for this year in early February as LME inventory peaked at 166,000 tonnes. Sentiment improved strongly into the second quarter, buoyed by key Asian markets such as China and a steadily falling LME inventory. After surging to its peak for the year in April, increasing concerns around Europe's sovereign debt crisis and the summer slowdown saw sharply lower prices despite a falling LME inventory. From the early third quarter, the price again trended higher into November when measures in China to curb inflation and renewed European sovereign debt concerns saw the price sharply lower before resuming its strengthening trend through to year-end.

From a low of 116,000 tonnes in August, LME nickel stocks slowly increased to reach 137,000 tonnes by year-end, representing five weeks of supply, down from six weeks of supply at the end of 2009.

Outlook

Growth in nickel demand is expected to continue through 2011 due to further recovery from the financial crisis and strongly growing stainless steel and non-stainless steel consumption in China and other developing economies. The start-up of several new projects and of a number of previously suspended operations, including Xstrata's Falcondo ferronickel plant in the Dominican Republic, together with the continued ramp up of already commissioned projects and full production from Vale's Canadian operations, will provide the additional nickel supply required to meet higher demand in 2011. The flexible availability of nickel from nickel pig iron is also expected to meet any shortfalls in output from new projects resulting from further delays in their commissioning and ramp up to planned production.

Xstrata Nickel

Financial and operating data

$m	**Year ended 31.12.10**	Year ended 31.12.09
Revenue	**2,738**	1,891
INO†	**2,738**	1,887
Dominican Republic	**–**	4
Operating EBITDA	**973**	427
INO†	**993**	436
Dominican Republic	**(20)**	(9)
Depreciation and amortisation	**(470)**	(445)
INO†	**(466)**	(440)
Dominican Republic	**(4)**	(5)
Operating profit/(loss)	**503**	(18)
INO†	**527**	(4)
Dominican Republic	**(24)**	(14)
Share of Group operating profit	**6.6%**	(0.4)%
INO†	**6.9%**	(0.1)%
Dominican Republic	**(0.3)%**	(0.3)%
Capital employed	**9,624**	9,037
Return on capital employed*	**8.9%**	(0.3)%
Capital expenditure	**1,556**	1,142
INO†	**372**	443
Dominican Republic	**10**	8
South America	**1**	3
Africa	**6**	15
New Caledonia	**1,167**	673
Sustaining	**237**	93
Expansionary	**1,319**	1,049

† Includes Canadian mines, Xstrata Nickel Australasia (XNA) mines in Western Australia, Sudbury smelter and Nikkelverk refinery.

* ROCE % based on average exchange rates for the year and excludes assets under development.

Operating profit/(loss) variances

	$m
Operating loss 31.12.09	**(18)**
Sales price*	470
Volumes	159
Unit cost – real	68
Unit cost – CPI inflation	(14)
Unit cost – mining industry inflation	(6)
Foreign exchange	(56)
Other income and expenses	(75)
Depreciation and amortisation (excluding foreign exchange)	(25)
Operating profit 31.12.10	**503**

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

Operating profit for 2010 of $503 million marked a significant improvement over the previous year, driven by higher prices, increased volumes and substantially lower unit costs following the restructuring of Xstrata Nickel's portfolio in 2009 to bring costs into the lower second quartile and deliver real cost savings.

Average LME nickel prices increased by 48% over the previous year and, combined with other by-product price increases, contributed $470 million to operating profit. Volumes were boosted by record mine production from the Integrated Nickel Operations (INO) as well as record output from the Sudbury smelter and Nikkelverk refinery, which achieved production of 92,185 tonnes, in excess of its recently increased capacity of 92,000 tonnes. EBITDA of $973 million in 2010 was 128% higher than 2009.

The weaker US dollar against local currencies impacted operating profit by $56 million. Despite this, average C1 cash costs fell by 43% to $2.16 per pound in 2010 from $3.80 per pound in 2009 and by 24% from the $2.84 per pound average in the first half of 2010. This improvement was driven by the successful delivery and ramp up of the negative cash cost Nickel Rim South mine and low cost efficiency improvements throughout the portfolio. Increased production and disciplined cost control resulted in $68 million in real unit cost savings.

Other income and expenses is a negative cost variance of $75 million which is mainly associated with the lower-than-normal unit costs in the first half of 2009 following the write-down of inventory to net realisable value at the end of December 2008 during the credit crisis and related market downturn.

Operations

Integrated Nickel Operations

Integrated Nickel Operations (INO) comprise the Sudbury mines and smelter and Raglan mines in Canada, Xstrata Nickel Australasia (XNA) and the Nikkelverk refinery in Norway. Nickel sales from INO increased by 2% compared to 2009 as a result of record mine, smelter and refinery production in 2010.

Nickel production from INO mines increased by 6%, driven by the ramp up of Nickel Rim South, the restart of the Fraser mine, improved grade in the second half from Raglan and improved volumes from XNA as the Sinclair operation commenced production in September. In 2010, XNA also captured additional value by diverting 100% of its feed to the Sudbury smelter. Low-cost debottlenecking enabled the INO metallurgical facilities to process this increased feed and set record production levels.

Sudbury

Mined nickel production from the Sudbury operations increased by 69% to 15,472 tonnes of nickel in concentrate compared to 2009. The Nickel Rim South project was successfully commissioned in April 2010 and ramped up to reach its nameplate capacity in the second half of the year, a full six months ahead of schedule. The Fraser mine was restarted during the period to take advantage of favourable market conditions. The poly-metallic nature of these mines contributed significant by-product credits, underpinning a reduction in average cash costs.

Production from the Strathcona mill increased by 47% to 16,813 tonnes of nickel in concentrate in 2010 driven by increased feed from own mines. Copper in concentrate production, primarily from the poly-metallic Nickel Rim South and the Fraser mine rose by 69% to 36,074 tonnes.

The Sudbury smelter reached an annual production record of 73,667 tonnes of nickel-in-matte in 2010, a 12% increase over the previous year. Production of copper-in-matte increased 21% to 22,427 tonnes while cobalt-in-matte production also increased 6% to 2,634 tonnes, driven by higher volumes of cobalt-rich feeds.

Raglan

Raglan achieved record production in 2010 with 1.32 million tonnes of ore milled. Production of concentrate decreased by 3% to 167,809 tonnes containing 28,237 tonnes of nickel metal due to slightly lower planned grades for 2010. An increase in underground mine production of 4% offset lower open pit production. Management's focus on continuous improvement initiatives ensured that cash production costs remained at 2009 levels despite inflation and the stronger Canadian dollar.

Nickel *continued*

Xstrata Nickel Australasia

Xstrata Nickel Australia (XNA) produced 16,961 tonnes of nickel in concentrate in 2010, up 2% from the prior year, a new record. Total ore treated at Cosmos increased by 10% to 383,293 tonnes from increased mining at the Prospero deposit. Sinclair produced 67,245 tonnes of ore for the year beginning in September after recommencing underground development earlier in the year following a deferral due to market conditions. Sinclair remains a swing producer and runs as a satellite operation of Cosmos to take advantage of existing infrastructure and capacity while minimising overheads.

Nikkelverk

Nickel production from the Nikkelverk refinery was a record 92,185 tonnes in 2010, up 4% over the previous year and above its increased annualised rate of 92,000 tonnes achieved through low cost debottlenecking and capacity enhancing activities. Higher volumes from INO mines and maximum throughput from the Sudbury smelter enabled Nikkelverk to achieve its full capacity. Copper metal production rose 7% as a result of increased feed from the poly-metallic Sudbury mines, which also contributed to a new record for platinum production.

Falcondo

The Falcondo ferronickel operation in the Dominican Republic remained on care and maintenance throughout 2010, having suspended operations in August 2008 due to weak market conditions. In October 2010, Falcondo announced its planned 50% capacity restart using procured electricity, which will enable the business to operate with reduced costs beginning in the first quarter of 2011 and take advantage of higher ferronickel prices. Recruitment and induction of the personnel required for the restart was complete at the end of 2010.

Drilling at Nickel Rim South, Sudbury, Canada.

Developments

Koniambo

At the end of 2010, the Koniambo project in New Caledonia was 69% complete and on track to process first ore in 2012, ramping up to annual capacity of 60,000 tonnes of nickel in ferronickel within the following two years.

A number of milestones were reached in 2010, including successful completion of dredging activities, wharf and ocean outfall construction, power station stack construction, modular construction of the metallurgical plant in China and delivery of those modules to site. Installation of Lines 1 and 2 of the smelter modules on site is also now complete. Pre-mining activity on the massif commenced in October. At the year-end, 50% of the total freight tonnes for procured materials had been successfully delivered to the site with 90% of materials projected to be on site by the end of March 2011 to support the construction programme. Overall site construction, which includes the smelter and power plant assembly, earthworks, conveyor construction and other utilities, was 30% complete. Site accommodation for 4,800 workers is in place, in line with plan and in anticipation of an increase in workforce during peak on-site construction activity in the first half of 2011.

Sudbury

A feasibility study on the Fraser Morgan project has commenced to examine a plan to produce approximately 6,000 tonnes of nickel per annum for 10 years and utilise spare capacity at the Fraser complex and Strathcona mill. Two advanced exploration projects are underway, highlighting the significant potential to identify additional resources in the Sudbury area.

Raglan

Underground development at the Kikialik deposit resumed in the second quarter of 2010 following a temporary deferral in 2009 due to market conditions. Kikialik is on schedule and on budget to deliver production in the fourth quarter of 2011 to replace declining production at other Raglan mines and maintain the operation's 1.3 million tonnes per annum processing throughput. Kikialik contains a probable reserve of 2.1 million tonnes of ore grading 2.94% nickel and 0.85% copper, with a current eight-year mine life and considerable further exploration potential.

A prefeasibility study continues on the Qakimajurq project, a deposit containing 2.6 million tonnes of probable reserves grading 4.40% nickel and 0.90% copper. Construction on Qakimajurq is expected to begin in 2012, reaching full production capacity of an average 11,000 tonnes of nickel in concentrate in 2014, with a mine life of over 10 years based on existing reserves. Focused exploration continues in order to extend the life of existing mines and expand the resources of Kikialik and Qakimajurq.

Xstrata Nickel Australasia (XNA)

Sinclair continues to ramp up and will reach its expected full production of 6,000 tonnes of nickel in concentrate in 2012. XNA's active exploration programme is focusing on the Cosmos area and further drill testing at the newly discovered Odysseus and AM6 deposits. XNA is also undertaking initiatives to derive value from disseminated ore potential with low-cost mill optimisation.

Nikkelverk

Additional low cost debottlenecking opportunities have been identified at the Nikkelverk refinery to increase capacity further to 93,000 tonnes of nickel by 2013. This follows successful initiatives that enabled the operation to increase capacity to 92,000 tonnes in 2009 without additional capital investment. A project to reduce already low acid plant SO_2 emissions is in progress to bring emissions close to zero in 2011.

Falcondo

The Falcondo operations are restarting to a planned 50% of installed capacity by March 2011. Falcondo's restart takes advantage of improved market conditions, optimisation of mining and production plant processes and the conclusion of a commercial agreement with a local power company for the supply of electricity, which will enable Falcondo to operate with reduced costs. The project to convert the long-term energy source for Falcondo's process plant from oil to natural gas will continue in conjunction with the partial resumption of operations.

Kabanga Nickel

A feasibility study for the Kabanga Nickel project, a 50:50 joint venture with Barrick Gold Corporation, is expected to be completed in early 2011. It is anticipated that the project will take a staged approach to development, initially using a relatively low capital cost entry-level strategy with the option to ramp up to larger capacity in later years. The first stage is anticipated to deliver approximately 10,000 tonnes of nickel in concentrate on a 100% basis beginning in 2014.

Araguaia

The Araguaia project located in the north-western Brazilian state of Para has a measured and indicated resource base of 104.7 million tonnes at 1.33% nickel and an additional 18 million tonnes of inferred resources at 1.3% nickel with a 0.9% nickel cut-off grade. While higher priority is currently assigned to other projects in Xstrata Nickel's pipeline, including Koniambo and Kabanga, the Araguaia project remains a longer-term growth option.

Sales volumes

	Year ended 31.12.10	Year ended 31.12.09
INO – Europe – Nikkelverk		
Refined nickel from own mines (t) (payable metal)	**57,259**	47,862
Refined nickel from third parties (t) (payable metal)	**34,880**	40,596
Refined copper from own mines and third parties (t) (payable metal)	**36,133**	34,021
Refined cobalt from own mines and third parties (t) (payable metal)	**3,104**	3,066
INO – North America		
Copper in concentrate (t) inter-company (payable metal)	**26,166**	11,684
INO – Australia – XNA		
Nickel in concentrate (t) third parties (payable metal)*	**–**	2,020
Copper in concentrate (t) third parties (payable metal)*	**–**	58
Cobalt in concentrate (t) third parties (payable metal)*	**–**	12
Falcondo – Dominican Republic		
Ferronickel (t) (payable metal)	**–**	236
Total nickel sales (t) (payable metal)	**92,139**	90,478
Total ferronickel sales (t) (payable metal)	**–**	236
Total copper sales (t) (payable metal)	**62,299**	45,763
Total cobalt sales (t) (payable metal)	**3,104**	3,078
Average LME nickel cash price ($/tonne)	**21,809**	14,712
Average Metal Bulletin cobalt low grade price ($/lb)	**17.91**	15.17
Average LME copper cash price ($/tonne)	**7,536**	5,150

* In 2010, 100% of XNA feed was diverted to the smelter and refinery for processing.

Summary production data

	Year ended 31.12.10	Year ended 31.12.09
Total mined nickel production (t) (contained metal)	**60,670**	57,052
Total mined copper production (t) (contained metal)	**42,697**	25,428
Total mined cobalt production (t) (contained metal)	**1,094**	1,326
Total refined nickel production (t) (payable metal)	**92,185**	88,577
Consolidated cash cost (C1) – post by-product credits (US$/lb)	**2.16**	3.80

Zinc

> "Global demand for zinc and lead recovered in 2010 in response to strong Chinese consumption"

Santiago Zaldumbide
Chief Executive Xstrata Zinc

Product overview

- Around half of all zinc metal produced globally is used to galvanise steel, an environmentally-friendly way of protecting steel against corrosion
- Zinc is also used in the manufacture of die-cast alloys and brass and in the production of zinc oxides and chemicals
- The main application for lead is in battery technology that is used in automotive equipment

Market summary

- Global zinc demand surged 11% year-on-year on the back of increased vehicle production and growth in demand from Chinese infrastructure and construction sectors. Strong Chinese consumption drove improved global demand for lead

Operations

- The actions taken by Xstrata Zinc to improve operational productivity contributed $208 million to operating profit
- C1 cash costs improved from 43.45¢ per pound in 2009 to 40.5¢ per pound in 2010 and sustainable costs savings of $163 million were achieved

Developments

- In 2010, approval was received for the AUD274 million expansion of George Fisher mine to increase production by 29% by 2013

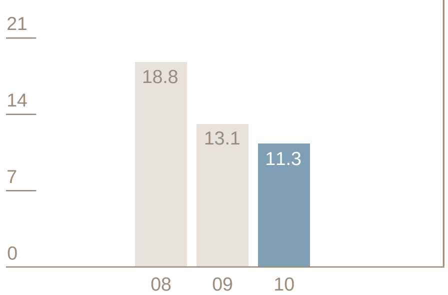
Strategic priorities for 2011

- At the McArthur River Mine, a feasibility study will be completed in 2011 for the expansion of the mine to 5.5 million tonnes per annum in 2014
- Work will continue to be progressed at the Bracemac-McLeod project and production is expected in the first quarter of 2013

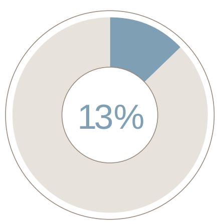
Sustainable benefits

- During the year, Xstrata Zinc achieved a 16% reduction in total recordable injuries on 2009 levels
- Xstrata Zinc's community initiatives in 2010 included education and training programmes, health and social services and supporting socio-economic development

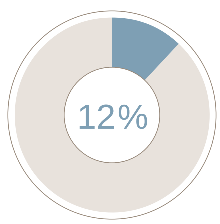
Total recordable injury frequency rate
(per million hours)



Contribution to total Group revenue 2010



Contribution to total Group operating profit 2010



Zinc operations

Production	2010	2009
Total zinc in concentrate production (t)	**1,022,252**	1,032,755
Total zinc metal production (t)	**765,867**	825,208
Total lead in concentrate production (t)	**235,616**	229,782
Total lead metal production (t)	**238,735**	241,485
Average prices		
Average LME zinc price ($/t)	**2,159**	1,659
Average LME lead price ($/t)	**2,148**	1,726
Employees (excluding contractors)	**4,645**	4,939

Zinc financial data

($m)	2010	2009
Revenue	**3,922**	3,450
Operating EBITDA	**1,327**	860
Operating profit	**917**	506
Share of Group operating EBITDA	**12.0%**	11.6%
Capital expenditure	**493**	247

McArthur River Mine in Australia.

Silver refinery at the Brunswick lead smelter in Canada.

Market

Zinc

Global zinc demand surged 11% year-on-year to 11.7 million tonnes in 2010 after being severely depressed in 2009 by weak macroeconomic conditions and significant de-stocking as manufacturers reduced inventories in response to weak demand. Global vehicle production rebounded strongly in 2010, up by over 20% compared to the previous year, led by China where vehicle output rose by approximately 30% over 2009, exceeding US output levels. Chinese construction and infrastructure growth continued, providing support for zinc demand in that region, while construction activity in Europe and the US was much more muted.

Global refined and mined zinc production recovered in 2010 in response to higher prices. Refined production rose by 12% to 12.5 million tonnes while mined production rose by 8% to 12.1 million tonnes, following unprecedented mine and smelter cutbacks in 2008 and early 2009. Restarts, expansions and higher utilisation rates at Chinese mines and smelters accounted for just over half of the global annual increase in concentrates and refined metal. Other Asia-Pacific economies recorded higher mine and smelter output and mine output was substantially up in Australia. Elsewhere, smelter production rose significantly in Europe and modestly increased in India. China continued to be a net importer of concentrates to fulfil domestic need by smelters and metal consumers.

Average European benchmark treatment charges for 2010 were settled at $272.50 per tonne of concentrate on a $2,500 per tonne zinc price basis, compared with 2009 levels of $198.50 per tonne on a $1,250 per tonne zinc price basis. Available concentrates were converted into refined metal, tightening the supply of global concentrate balance and refined zinc output exceeded metal consumption, raising warehouse stocks by the end of 2010 to 701,425 tonnes on the LME and 310,735 tonnes on the Shanghai Futures Exchange, collectively equivalent to 31 days of global consumption.

LME zinc prices traded in the range of $2,000-2,500 per tonne for most of the year, dipping below $2,000 per tonne from May to July, reflecting a sell-off in global markets. The average LME price for 2010 was $2,159 per tonne, compared with an average price of $1,659 per tonne in 2009.

Outlook

Global zinc demand is expected to grow in 2011, fuelled by strong demand in developing countries and the gradual recovery of mature economies. Continued growth from China will drive increased zinc consumption from the galvanised sector and is underpinned by vehicle production, infrastructure projects and consumer goods.

The zinc market is currently in surplus, but a market deficit is expected to emerge within the next two years as a number of existing mines reach the end of their lives in the next few years and insufficient new projects have currently been identified to satisfy the forecast growth in demand.

Lead

Global demand for lead rose by 7% to 8.8 million tonnes in 2010 compared to 2009, as strong Chinese consumption continued to drive global demand growth. Lead consumption throughout the remainder of Asia benefited from China's strength, though this was partly offset by declining demand in debt-laden Western Europe. Chinese consumption increased by 12% year-on-year, fuelled by demand for both automotive batteries and stationary batteries used in backup power supply systems, telecommunication networks and renewal energy storage applications.

Global supply of refined lead increased by 7% to 8.8 million tonnes, with the year-on-year increase almost entirely provided by Chinese suppliers, with smaller increases from producers in India, Mexico, Canada, the US and France. The surplus between supply and demand was reflected in higher LME stocks of lead metal which ended the year at 208,275 tonnes, equivalent to just over one week of global consumption.

Global mine production rebounded by 13% in 2010 as operations expanded and temporary cutbacks were reversed to respond to improved metals prices and low treatment charges. China again accounted for the majority of increased mine production while supply also increased from producers in Australia, Mexico, India and the CIS. Availability of scrap and secondary materials, which make up just over half of the world's feed for lead smelters and refineries, declined slightly during 2010 as the market approached equilibrium.

LME lead prices traded at between $2,000 and $2,600 per tonne for most of the year though prices dropped below this range between May and July as a result of sell-off in global markets. The average LME price for 2010 was $2,148 per tonne, 24% higher than an average of $1,726 per tonne in 2009.

Outlook

Demand for lead is expected to continue exhibiting strong growth predominantly due to growing demand for lead batteries, which account for 80% of global lead consumption. Lead battery demand is set to rise as increasingly prosperous consumers in China, India and other industrialising Asian countries switch from electric bicycles to motorcycles and automobiles. Battery demand is also expected to continue to rise from industrial vehicles and mobile equipment and for the standby power requirements of large cities worldwide. Primary and secondary lead supplies are expected to exceed consumption growth in 2011 at a modest rate, followed by a deficit thereafter as existing mines are depleted at a faster rate than new projects are commissioned.

Financial and operating data

$m	Year ended 31.12.10	Year ended 31.12.09
Revenue	**3,922**	3,450
Zinc lead Australia	**600**	545
Lead Europe	**590**	490
Zinc Europe	**1,545**	1,185
Zinc North America	**1,078**	1,126
Zinc Peru*	**109**	104
Operating EBITDA	**1,327**	860
Zinc lead Australia	**437**	304
Lead Europe	**17**	32
Zinc Europe	**288**	134
Zinc North America	**471**	284
Zinc Peru*	**114**	106
Depreciation and amortisation	**(410)**	(354)
Zinc lead Australia	**(167)**	(112)
Lead Europe	**(2)**	(2)
Zinc Europe	**(42)**	(36)
Zinc North America	**(167)**	(172)
Zinc Peru*	**(32)**	(32)
Operating profit	**917**	506
Zinc lead Australia	**270**	192
Lead Europe	**15**	30
Zinc Europe	**246**	98
Zinc North America	**304**	112
Zinc Peru*	**82**	74
Share of Group operating profit	**12.0%**	11.6%
Australia	**3.5%**	4.4%
Europe	**3.4%**	2.9%
North America	**4.0%**	2.6%
Zinc Peru**	**1.1%**	1.7%
Capital employed**	**5,576**	5,348
Return on capital employed†	**24.0%**	14.1%
Capital expenditure	**493**	247
Australia	**338**	152
Europe	**88**	51
North America	**67**	44
Sustaining	**316**	133
Expansionary	**177**	114

* Xstrata Zinc's pro-rata share of Xstrata's 33.75% interest in Antamina.
** Includes goodwill allocation on acquisition of Falconbridge.
† ROCE % based on average exchange rates for the year.

Operating profit variances

	$m
Operating profit 31.12.09	**506**
Sales price*	513
Volumes	45
Unit cost – real	163
Unit cost – CPI inflation	(30)
Unit cost – mining industry inflation	(42)
Unit cost – foreign exchange	(168)
Other income and expenses	(23)
Depreciation and amortisation (excluding foreign exchange)	(47)
Operating profit 31.12.10	**917**

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

McArthur River Mine in Australia.

Zinc continued

Operations

Xstrata Zinc's operating profit increased by 81% to $917 million from $506 million in 2009. The positive impact of higher prices, real cost savings, increased volumes, higher by-product revenues and recovery increases were partially offset by a weaker US dollar against the Australian and Canadian dollars.

The actions taken by Xstrata Zinc to improve operational productivity contributed $208 million, which included $163 million of sustainable cost savings achieved across the business. Despite the decrease in zinc in concentrate production at Brunswick mine as a consequence of the change in its mining plan to extend its life into early 2013 and planned reduction in zinc volumes at Antamina as a result of lower grades, total zinc in concentrate production remained at a similar rate to the previous year due to the ongoing transformation of the business through expansions and productivity improvements at the Mount Isa and McArthur River operations, where zinc metal production has increased by 10%. Lead in concentrate production increased by 3% due to increased volumes at the Mount Isa operations as production improvements that more than offset the decrease in volumes at the Brunswick mine. Total zinc metal production decreased by 7% as a result of the closure of Kidd Creek zinc smelter in May 2010 and lead metal production was similar to the previous year.

C1 cash costs improved further from 43.45¢ per pound in 2009 to 40.50¢ per pound in 2010. Xstrata Zinc is a fully integrated zinc producer and on an integrated mine and smelter basis, C1 costs were significantly reduced in 2010 compared with 2009, falling by 22% from 39.08¢ per pound to 30.64¢ per pound.

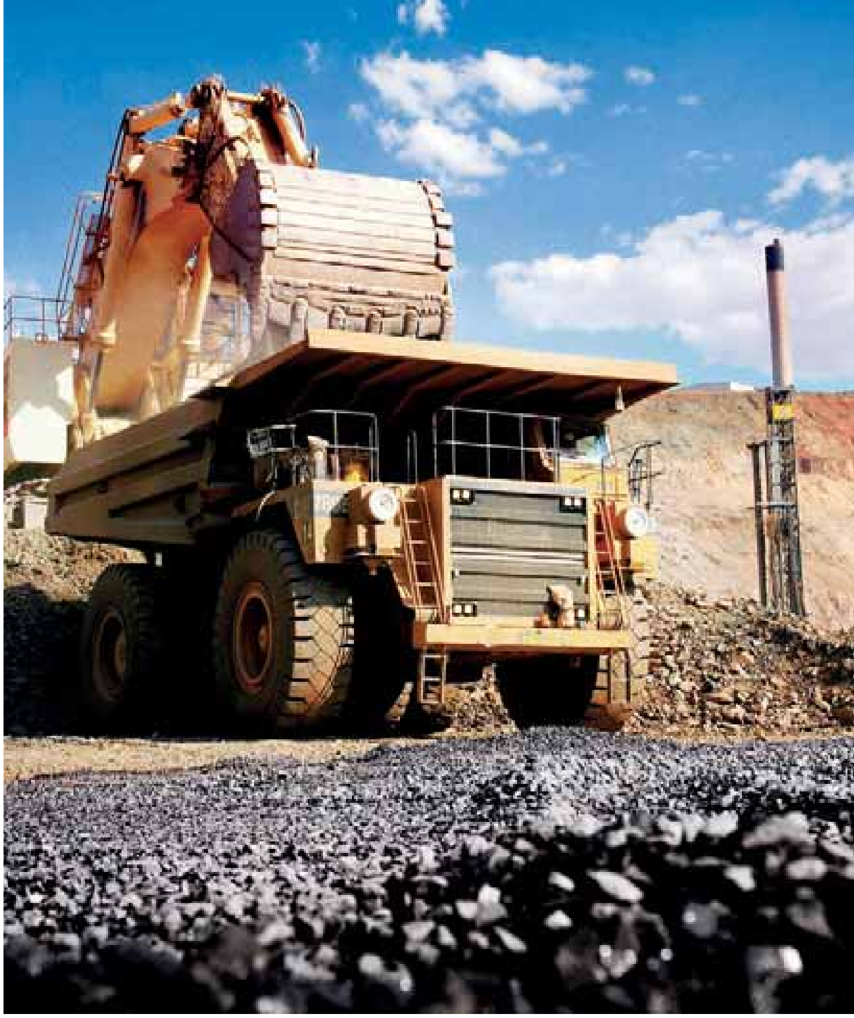
Zinc Lead Australia

Operating profit from the Australian operations rose from $192 million in 2009 to $270 million in 2010. Higher LME prices contributed $180 million and improved volumes and operational cost savings added $102 million to the operating profit and together more than offset the negative impact of a weak US dollar against the Australian dollar.

Overall operational performance at Mount Isa reached record levels following the transformation of the complex in 2009 to reduce operating costs and increase volumes.

George Fisher mine achieved record production of 3.3 million tonnes of ore in 2010, 5% more than in 2009.

Black Star open cut mine produced 4.5 million tonnes of ore in 2010, 32% more than prior year, helping to fill the Mount Isa zinc-lead concentrator.



An excavator loads a dump truck at Black Star open cut zinc-lead mine in Australia.

Increased mine production enabled the Mount Isa concentrator to achieve record throughput of 8.6 million tonnes, 15% higher than 2009. This increase in throughput, partially offset by lower head grades, led to a 10% increase in zinc in concentrate production to 355,000 tonnes, while lead metal in concentrate production rose by 14%. Smelter production of crude lead of 140,000 tonnes was 4% lower than 2009, mainly as a result of a decrease in third party concentrate supply. Overall, the Mount Isa complex achieved real cost savings of $72 million compared to 2009.

The open pit development at McArthur River Mine has been progressing well. During 2010, ore milled increased by 3% compared with 2009 to 2.2 million tonnes, while zinc concentrate volumes rose by 10% due to higher average head grades and recovery rates.

Zinc Lead Europe

Operating profit for the European operations rose by 104% to $261 million as a consequence of higher metal prices, cost savings and efficiency improvements.

Saleable zinc production from the San Juan de Nieva plant was maintained at 480,000 tonnes in line with the previous year's output despite a fire in August which impacted third quarter production.

As a result of operational improvements to treat zinc concentrates with high copper content, copper production content increased by 13% reaching a production record of 4,120 tonnes and achieving a significant improvement in the copper cement quality.

Zinc metal production at Nordenham plant was maintained at 146,000 tonnes.

Refined lead production at Northfleet in 2010 was slightly lower than the previous year due to lower volumes of crude lead from the Mount Isa operations. Silver production reached 7.5 million ounces, 15% lower than the previous year, due to a decrease in the average silver grade in crude lead.

Zinc Lead Americas

Zinc Lead Americas' operating profit increased to $386 million compared with $186 million in 2009 due to higher realised prices, cost reduction initiatives and increased volumes.

Brunswick Mine successfully increased its reserves to extend the mine life to 2013, beyond its previously anticipated closure in the first quarter of 2010, through increased efficiencies, improved technology and cost reductions. Zinc in concentrate production decreased to 214,000 tonnes from 252,000 tonnes in 2009, due to increased complexity and lower flexibility in the mining sequence than in previous years. Production was also affected by smaller stope sizes, seismic activity and declining head grades. Lower throughput was offset by cost saving initiatives and operational improvements that reduced Brunswick's C1 cash costs by 26% relative to 2009.

The Brunswick smelter refined lead and alloys production totalled 85,000 tonnes, slightly higher than the previous year. Record silver doré production of 406 tonnes, was 44% higher than 2009 due to high grade concentrate.

Perseverance mine completed its second full year of operation and continued to ramp up throughput by 4% compared to 2009. Zinc in concentrate production increased by 3% to 139,000 tonnes. Copper in concentrate production rose by 16% to 10,000 tonnes due to better feed grades and metal recoveries. Unit costs were reduced by 9% compared to 2009 and C1 cash costs were reduced by 30% to just under 25¢ per pound.

The Kidd Zinc hydrometallurgical plant was permanently closed in May, having produced 46,000 tonnes of zinc metal in the first five months of 2010. Demolition and rehabilitation efforts have started and will continue over the following years.

In 2010, ore processed at Antamina rose by 9% to 12.3 million tonnes (Xstrata's 33.75% attributable share), but lower zinc head grades resulted in a reduction in production of 15% in zinc in concentrate to 130,000 tonnes.

Developments

Zinc Lead Australia

Final approvals were received in September 2010 for an AUD274 million expansion of George Fisher underground mine to increase production by 28% by 2013. Since Xstrata acquired the asset in 2003 George Fisher zinc reserves have increased by 126% to become one of the largest known zinc reserves in the world.

The AUD130 million Black Star Open Cut Deeps development announced in March 2010 will extend the life of the open cut by four years to 2015 at current production rates. The project is expected to add 15 million tonnes of ore to the production profile at a rate of 4.5 million tonnes per year.

AUD35.5 million was also approved for secondary and tertiary surface crushers to be constructed at George Fisher North. This will reduce operating costs and ensure there is crushing capacity available for the increase in production in 2013 from George Fisher.

At McArthur River, a feasibility study will be completed in 2011 for the expansion of the mine to 5.5 million tonnes per annum rate in 2014. This doubling of production capacity will supplement the required throughput needed for the future European plants that will use Xstrata's proprietary hydrometallurgy technology.

In February 2011, Xstrata Zinc announced it had acquired the remaining 25% interest in the Lady Loretta joint venture held by Cape Lambert Lady Loretta Pty Ltd for AUD30 million ($30 million), subject to conditions. The acquisition increases Xstrata Zinc's ownership of the Lady Loretta assets to 100%.

Zinc Lead Europe

An industrial scale demonstration plant at San Juan de Nieva utilising Xstrata´s proprietary hydrometallurgy technology was commissioned in 2010 to treat McArthur River Mine bulk concentrates, currently processed predominantly by imperial (ISF) smelters. This will allow the viability of the process to be assessed on an industrial scale, which is expected to be operating in 2015.

At Nordenham, the construction of the Xstrata's Proprietary Hydrometallurgy Technology Demo Plant is expected to be completed in early January 2011. The plant is an alternative route for processing bulk concentrate from McArthur River. This development will increase the zinc production by 20,000 tonnes in 2011.

Exploration efforts in Ireland have identified significant zinc mineralisation at the Pallas Green property near Limerick. A EUR7 million exploration programme was carried out in 2010 in conjunction with a 23.6% joint venture partner to define and increase economic reserves and initiate baseline studies and confirmed the potential of this project. A EUR13 million extensive exploration and delineation programme associated with a pre-feasibility study is planned for 2011.

Zinc *continued*

Zinc Lead Americas

Building on the success of the Perseverance mine, work is progressing on the Bracemac-McLeod project, five kilometres east of the Matagami concentrator. This project was approved in July 2010 at a capital cost of $151 million (CAD159 million) after completing the feasibility study in the second quarter of 2010. Development started immediately and progressed as the necessary permits were received. The mine is expected to commence production in the first quarter of 2013.

A CAD5 million programme will be carried out in 2011 to discover new resources and potentially extend the life of the Matagami camp. Two new exploration programmes were initiated in 2010, one on the Mattabi-Sturgeon Lake property in north-western Ontario and one on the Puisseaux-Selbaie property west of Matagami.

Sales volumes

	Year ended 31.12.10	Year ended 31.12.09
Australia – Mount Isa		
Zinc in concentrate (t) third party sales (payable metal)	**220,427**	266,227
Zinc in concentrate (t) inter-company sales (payable metal)	**70,857**	7,140
Total zinc (t) (payable metal)	**291,284**	273,367
Lead in concentrate (t) inter-company sales (payable metal)	**4,277**	–
Lead in dross (t) third party sales (payable metal)	**3,469**	2,696
Lead in bullion (t) inter-company sales (payable metal)	**147,888**	149,605
Total lead (t) (payable metal)	**155,634**	152,301
Silver in concentrate and dross (koz) third party sales (payable metal)	**436**	563
Silver in concentrates and in bullion (koz) inter-company sales (payable metal)	**7,313**	7,853
Total silver (koz) (payable metal)	**7,749**	8,416
Australia – McArthur River		
Zinc in concentrate (t) third party sales (payable metal)	**143,201**	143,462
Lead in concentrate (t) third party sales (payable metal)	**19,643**	26,929
Silver in concentrate (koz) third party sales (payable metal)	**279**	374

	Year ended 31.12.10	Year ended 31.12.09
Europe – San Juan de Nieva		
Refined zinc (t)	**480,103**	481,588
Europe – Nordenham		
Refined zinc (t)	**151,109**	140,615
Europe – Northfleet		
Refined lead (t)	**156,118**	166,010
Refined silver (koz)	**7,817**	8,677
North America – Brunswick		
Zinc in concentrate (t) third party sales (payable metal)	**41,201**	103,866
Zinc in concentrate (t) inter-company sales (payable metal)	**120,697**	85,728
Total zinc (t) (payable metal)	**161,898**	189,594
Lead concentrate (t) inter-company sales (payable metal)	**45,371**	43,906
Zinc in bulk concentrate (t) third party sales (payable metal)	**13,278**	22,732
Lead in bulk concentrate (t) third party sales (payable metal)	**9,391**	18,492
Silver in bulk concentrate (koz) third party sales (payable metal)	**465**	1,162
Refined lead & Alloys (t)	**80,579**	87,036
Silver doré (koz) inter-company sales	**13,328**	8,650
North America – CEZ*		
Refined zinc (t)	**67,281**	60,995
Perseverance		
Zinc in concentrate (t) third party sales (payable metal)	**19,272**	10,202
Zinc in concentrate (t) inter-company sales (payable metal)	**98,302**	104,462
Total zinc (t) (payable metal)	**117,574**	114,664
North America – Kidd Creek		
Refined zinc (t)	**48,560**	115,833
Peru – Antamina**		
Zinc in concentrate (t) third party sales (payable metal)	**116,525**	124,481
Total zinc (t) (payable metal)	**116,525**	124,481

Sales volumes – *continued*

	Year ended 31.12.10	Year ended 31.12.09
Total zinc metal third party sales (t)	**747,053**	799,031
Total zinc in concentrate third party sales (t)	**553,904**	670,970
Total lead metal third party sales (t)	**236,697**	253,046
Total lead in concentrate third party sales (t)	**32,503**	48,117
Total silver metal third party sales (koz)	**7,817**	8,677
Total silver in concentrate third party sales (koz)	**1,180**	2,099
Average LME zinc price (US$/t)	**2,159**	1,659
Average LME lead price (US$/t)	**2,148**	1,726

* 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.

Summary production data

	Year ended 31.12.10	Year ended 31.12.09
Total zinc in concentrate production (t)	**1,022,252**	1,032,755
Total zinc in metal production (t)	**765,867**	825,208
Total lead in concentrate production (t)	**235,616**	229,782
Total lead in metal production (t)	**238,735**	241,485
Total copper in concentrate production (t)	**18,205**	15,760
Consolidated zinc cash cost (C1) – post by-product credits (US¢/lb)	**40.50**	43.45

Installing ground support at George Fisher mine in Australia.

Xstrata Technology Services

Financial and operating data

$m	Year ended 31.12.10	Year ended 31.12.09
Revenue	**153**	114
Operating EBITDA	**32**	28
Depreciation and amortisation	**(6)**	(6)
Operating profit	**26**	22
Capital expenditure	**2**	3

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

Revenue for Xstrata Technology Services increased by 34% to $153 million as a result of work completed during 2010 on larger projects, for existing customers in Kazakhstan, South Africa and India.

Xstrata Technology

Albion Process™

The Albion Process™ is a simple, low cost atmospheric leach technology to recover metals from refractory ores. Interest in the technology continued to grow strongly in 2010. In 2010, Xstrata Zinc's San Juan de Nieva operation commissioned an Albion Process plant. This will improve zinc recovery from McArthur River Mine's concentrates and is in addition to the plant already under construction at Nordenham in Germany. A refractory gold plant is under construction in the Dominican Republic and will be commissioned in 2011. Further projects are in advanced design stages in Romania, Canada and Armenia.

Xstrata Technology also supplies a package of design and specialist leaching equipment to enable the successful adoption of the technology. This package includes the HyperSparge™ oxygen injection technology, successfully applied at Xstrata Zinc's Mount Isa and the Asturiana refineries, and the ZipaTank™ modular tank technology.

IsaMill™

The IsaMill™ technology package significantly increases the efficiency of mineral grinding and processing. Enquiries and orders recovered significantly from the global economic crisis, with important sales in Africa, Europe, Canada, Australia and South America. A focus on optimising the IsaMill™ installations at Anglo Platinum sites was successful and significant platinum group metals recovery increases have been reported. Continued strong demand is expected as mining projects are progressed.

Pyrometallurgy

The pyrometallurgy business is primarily engaged in design and supply of process solutions for non-ferrous smelters utilising the flexible ISASMELT™ Top Submerged Lance smelting technology. The technology is primarily used by copper and lead producers, although recent developments have included nickel processing and scrap recycling. Design work on existing projects in India and China was completed and equipment deliveries for Chinese and Kazakh projects were finalised. The improved global economic conditions generated increased interest in the technology, although a slow recovery is anticipated due to the three to five years' lead time required for most smelter projects.

Jameson Cell

The Jameson Cell is a high intensity flotation technology which enables low cost and efficient flotation circuits. During 2010, the business completed around 300 installations as a result of strong interest from coal and base metals producers.

Tankhouse Technology (ISA Process™ & KIDD Process™)

Xstrata Technology markets the patented ISA and KIDD technologies and supplies associated core equipment for copper electro-refining and electro-winning tankhouses. Xstrata Technology has 100 licences around the world, accounting for approximately 12 million tonnes of installed capacity. Sales for both technology and equipment recovered to pre-2008 levels as a result of demand and orders improving more rapidly than anticipated. A large number of orders were received both from new projects and from replacement orders at existing operations in South America and China. The Tankhouse group continued to develop and demonstrate improved designs for both cathodes and cathode handling and robotic stripping equipment, which further improve refining efficiency.

Xstrata Process Support

Xstrata Process Support provides expert technical services to the minerals sector through four separate groups. Interest in the services provided began to recover in the second half of 2010 and revenues from external customers for the year increased to 35% of total revenue compared to 25% in 2009.

Process Mineralogy

Process Mineralogy is a mineral processing and mineral science group that utilises quantitative mineralogy, sampling, statistics and ore beneficiation test work to improve concentrate grade and maximise metal recoveries for new mine projects and existing operations. In 2010, it provided ore characterisation, plant optimisation and process design services to Xstrata Nickel, Xstrata Copper and Xstrata Zinc's operations in Canada and Australia, and Xstrata Alloys' Eland platinum operation in South Africa. Demand from external companies, which had slowed in 2009 and early 2010, began returning in the second half of the year and is expected to continue improving through 2011.

Extractive Metallurgy

Extractive Metallurgy provides expert pyrometallurgical and hydrometallurgical services to smelters and refineries. Extractive Metallurgy's engineering service, combined with its laboratory testing and piloting facilities, is used to optimise process design and support environmental compliance projects. It identifies opportunities in the nickel, copper and gold industries to match available technologies to specific ore types in order to allow for the development of low-cost commercially viable processes. The group continued to see demand for its process modelling expertise on roasters and smelters from within Xstrata and from external clients.

Process Control

Process Control is a group of highly experienced engineers based in Sudbury, Canada, and at various Xstrata operations, and demand for their services continues to be strong. Process Control's engineers are delivering numerous improvements to Xstrata operations, including Xstrata Alloys' Eland platinum concentrator in South Africa and Xstrata Nickel's Strathcona concentrator in Canada. In Sudbury, at Xstrata Nickel's new Nickel Rim South mine and Fraser mine projects, Process Control is helping to improve automation and control, particularly for energy savings in ventilation systems.
In South America, Process Control is part of Xstrata Copper's Standard Concentrator Design team, which is designing a replicable copper concentrator and other facilities that can be applied to Xstrata Copper's individual projects. This will enable the early ordering of long lead time items and reduce engineering time and costs on individual projects as well as providing construction efficiencies.

Materials Technology

Materials Technology provides services in materials selection, equipment construction specifications, quality assurance, plant reliability inspections and root cause failure analyses. Plant inspections are specialised and are vital to minimise unexpected plant shutdowns. In 2010, Materials Technology worked with Xstrata Nickel and completed an asset integrity inspection at Raglan mill in northern Quebec, Canada, developed converter repair procedures for the Sudbury smelter, and reviewed materials selection, design and fabrication procedures for the acid plant pre-heater at the Nikkelverk refinery in Norway. In addition, several planned inspections of smelter acid plants were completed, two of which were for external companies. Materials Technology continues to experience strong demand and as a result will expand both its workforce and services in 2011.

Operations data

Name of operation	Ownership	Annual production capacity (full plant/ time basis)	100% production 2010	100% production 2009	Accounting status	Location
Xstrata Alloys						
South Africa						
Boshoek plant	79.5%	240kt	154kt	131kt	Joint venture	Boshoek
Lion plant	79.5%	360kt	248kt	190kt	Joint venture	Steelpoort
Lydenburg plant	69.6%	396kt	358kt	220kt	Joint venture	Lydenburg
Rustenburg plant	79.5%	430kt	334kt	168kt	Joint venture	Rustenburg
Wonderkop plant	79.5%	553kt	371kt	281kt	Joint venture	Marikana
Horizon mine	79.5%	260kt	0kt	0kt	Joint venture	Pilansberg
Kroondal mine	79.5%	850kt	815kt	640kt	Joint venture	Rustenburg
Thorncliffe mine	79.5%	995kt	858kt	889kt	Joint venture	Steelpoort
Helena mine	79.5%	825kt	456kt	386kt	Joint venture	Steelpoort
Waterval mine	79.5%	650kt	0kt	0kt	Joint venture	Rustenburg
Rhovan						
– V_2O_5	74%	22,000k lbs	21,874k lbs	11,492k lbs	Joint venture	Brits
– FeV	74%	6,000k kg	4,311k kg	2,284k kg		
Char Technologies	100%	112kt	53kt	37kt	Subsidiary	Witbank
African Carbon Manufacturers	100%	150kt	73kt	80kt	Subsidiary	Witbank
African Carbon Producers	100%	156kt	109kt	91kt	Subsidiary	Witbank
African Fine Carbon	100%	156kt	54kt	82kt	Subsidiary	Middelburg
African Carbon Union	74%	126kt	65kt	74kt	Subsidiary	Witbank
Mototolo	37%	240k oz	196k oz	197k oz	Joint venture	Steelpoort
Eland	73.99%	240k oz	101k oz	125k oz	Joint venture	Brits

Xstrata Coal						
Americas						
Cerrejón	33.3%	32,000kt	30,180kt	30,569kt	Joint venture	Colombia
Australia						
Cumnock*	90%	–	466kt	–	Joint venture	Hunter Valley
Liddell	67.5%	6,000kt	3,922kt	3,578kt	Joint venture	Hunter Valley
Macquarie Coal JV						
– West Wallsend	80%	2,400kt	2,230kt	2,202kt	Joint venture	Newcastle
– Westside	80%	800kt	802kt	787kt	Joint venture	Newcastle
Mt Owen	100%	8,300kt	8,284kt	8,247kt	Subsidiary	Hunter Valley
Ravensworth Operations	100%	4,500kt	4,411kt	4,598kt	Subsidiary	Hunter Valley
Ravensworth Underground	70.2%	3,000kt	2,262kt	2,105kt	Joint venture	Hunter Valley
Oakbridge Group						
– Baal Bone	74.1%	1,800kt	1,321kt	1,517kt	Subsidiary	Western Coal Fields
– Bulga Underground	68.3%	5,000kt	3,972kt	2,711kt	Joint venture	Hunter Valley
– Bulga Open cut	68.3%	6,000kt	5,663kt	5,598kt	Joint venture	Hunter Valley
Tahmoor	100%	2,000kt	936kt	1,232kt	Subsidiary	Southern coal fields
Ulan						
– Ulan Underground	90%	6,200kt	4,802kt	4,255kt	Joint venture	Western Coal Fields
United*	95%	–	223kt	2,098kt	Joint venture	Hunter Valley
Oaky Creek	55%	10,200kt	10,121kt	7,118kt	Joint venture	Bowen Basin
Newlands						
– Thermal	55%	8,600kt	8,122kt	9,945kt	Joint venture	
– Coking	55%	1,400kt	1,273kt	1,176kt	Joint venture	Bowen Basin
Collinsville						
– Thermal	55%	3,600kt	2,095kt	3,151kt	Joint venture	
– Coking	55%	1,700kt	936kt	1,119kt	Joint venture	Bowen Basin
Rolleston	75%	8,000kt	5,776kt	7,263kt	Joint venture	Bowen Basin

Name of operation	Ownership	Annual production capacity (Full plant/ time basis)	100% production 2010	100% production 2009	Accounting status	Location
South Africa						
Southstock Division						
– Open cast	79.8%	–	–	371kt	Subsidiary	Witbank
– Underground	79.8%	5,000kt	4,115kt	4,350kt	Subsidiary	Witbank
Mpumalanga Division						
– Spitzkop	79.8%	1,400kt	593kt	771kt	Subsidiary	Ermelo
– Tselentis	79.8%	1,400kt	519kt	926kt	Subsidiary	Breyten
Impunzi Division						
– Open cast	79.8%	5,400kt	4,451kt	4,009kt	Subsidiary	Witbank
Tweefontein						
– Open cast	79.8%	3,500kt	3,347kt	3,511kt	Subsidiary	Witbank
– Underground	79.8%	2,700kt	1,412kt	1,760kt	Subsidiary	Witbank
Goedgevonden	74%	6,000kt	4,394kt	2,995kt	Joint venture	Witbank

Xstrata Copper						
Argentina						
Alumbrera	50%	40mt ore 150kt Cu in conc 400koz Au in conc 50koz Au in dore	37.5mt ore 140kt Cu in conc 360koz Au in conc 45koz Au in dore	37.5mt ore 143kt Cu in conc 366koz Au in conc 56koz Au in dore	Subsidiary	Catamarca province
Australia						
Mount Isa	100%	6.2mt ore 170kt Cu in conc 290kt Cu in anode	6.1mt ore 158kt Cu in conc 215kt Cu in anode	6.0mt ore 162kt Cu in conc 214kt Cu in anode	Subsidiary	North West Queensland
Ernest Henry	100%	11mt ore 115kt Cu in conc 120koz Au in conc	9.8mt ore 75kt Cu in conc 91koz Au in conc	8.0mt ore 36kt Cu in conc 45koz Au in conc	Subsidiary	North West Queensland
Townsville Refinery	100%	300kt Cu cathode	287kt Cu cathode	277kt Cu cathode	Subsidiary	North Queensland
Canada						
CCR	100%	370kt Cu cathode	276kt Cu cathode	278kt Cu cathode	Subsidiary	Quebec
Horne	100%	205kt Cu in anode	194kt Cu in anode	164kt Cu in anode	Subsidiary	Quebec
Kidd	100%	50kt Cu in conc 41kt Cu in cathode†	53kt Cu in conc 38kt Cu in cathode 86k Zn in conc	44kt Cu in conc 54kt Cu in cathode 108 Zn in conc	Joint venture	Ontario
Chile						
Altonorte	100%	300kt Cu in anode	278kt Cu in anode	268kt Cu in anode	Subsidiary	Antofagasta region
Collahuasi	44%	54mt ore 530kt Cu in conc 60kt Cu cathode	49.1mt ore 465kt Cu in conc 39kt Cu cathode	45.3mt ore 493kt Cu in conc 43kt Cu cathode	Joint venture	Tarapacá region
Lomas Bayas	100%	14.2mt ore 36mt ROM ore 75kt Cu cathode	14.2mt ore 72kt Cu cathode	13.4mt ore 73kt Cu cathode	Subsidiary	Antofagasta region
Peru						
Antamina (joint with Xstrata Zinc)	33.75%	35mt ore 370kt Cu in conc	36.5mt ore 301kt Cu in conc	33.6mt ore 316kt Cu in conc	Joint venture	Ancash region
Tintaya	100%	10mt ore 85kt Cu in conc 35kt Cu cathode	7.3mt ore 68kt Cu in conc 25kt Cu cathode	7.0mt ore 82kt Cu in conc 36kt Cu cathode	Subsidiary	Espinar province

* Current operations completed, decision on remaining reserves pending.

† Kidd copper cathode production ceased in May 2010 with the closure of the Kidd smelter, refinery and zinc plant.

Operations data *continued*

Name of operation	Ownership	Annual production capacity (Full plant/ time basis)	100% production 2010	100% production 2009	Accounting status	Location
Xstrata Nickel						
Australia						
Cosmos	100%	350kt ore 13kt Ni in conc	383kt ore 14kt Ni in conc	347kt ore 11kt Ni in conc	Subsidiary	Mt Keith-Leinster
Sinclair	100%	300kt ore 6kt Ni in conc	149kt ore 3kt Ni in conc	301kt ore 6kt Ni in conc	Subsidiary	Mt Keith-Leinster
Canada						
Montcalm	100%	Suspended	Suspended	226kt ore 2kt Ni in conc	Subsidiary	Ontario
Sudbury – Nickel Rim South mine	100%	1.25mt ore 18kt Ni in conc 30kt Cu in conc	1.1mt ore 15kt Ni in conc 29kt Cu in conc	0.5mt ore 6kt Ni in conc 12kt Cu in conc	Subsidiary	Ontario
Sudbury – mill and smelter	100%	2.7mt ore 130kt Ni-Cu matte	1.5mt ore 131kt Ni-Cu matte	1.1mt ore 116kt Ni-Cu matte	Subsidiary	Ontario
Raglan	100%	1.3mt ore 30kt Ni in conc	1.3mt ore 28kt Ni in conc	1.3mt ore 29kt Ni in conc	Subsidiary	Quebec
Dominican Republic						
Falcondo	85.3%	4.0mt ore 28.5kt Ni in FeNi	Care and maintenance 2010	Care and maintenance 2009	Subsidiary	Bonao
Norway						
Nikkelverk	100%	92kt Ni 39kt Cu 5.2kt Co	92.2kt Ni 36.2kt Cu 3.2kt Co	88.6kt Ni 33.9kt Cu 3.5kt Co	Subsidiary	Kristiansand

Name of operation	Ownership	Annual production capacity (Full plant/ time basis)	100% production 2010	100% production 2009	Accounting status	Location
Xstrata Zinc						
Australia						
McArthur River	100%	2.5mt ore 200kt Zn in conc	2.2mt ore 184kt Zn in conc	2.1mt ore 166kt Zn in conc	Subsidiary	Northern Territory
Mount Isa	100%	9.4mt ore 400kt Zn in conc 170kt Pb in bullion 300t Ag in bullion	8.6mt ore 355kt Zn in conc 140kt Pb in bullion 211t Ag in bullion	7.4mt ore 324kt Zn in conc 146kt Pb in bullion 243t Ag in bullion	Subsidiary	North West Queensland
Canada						
Brunswick mine	100%	3.4 mt ore 205kt Zn in conc 70 kt Pb in conc 200t Ag in conc 8kt Cu in conc	3.1mt ore 214kt Zn in conc 60kt Pb in conc 168t Ag in conc 8kt Cu in conc	3.3mt ore 252kt Zn in conc 66kt Pb in conc 179t Ag in conc 7kt Cu in conc	Subsidiary	New Brunswick
Brunswick smelting	100%	110kt refined Pb 400t Ag doré	85.3kt refined Pb 406t Ag doré	83.6kt refined Pb 282t Ag doré	Subsidiary	New Brunswick
CEZ refinery	25%	296kt Zn	290KtZn	260kt Zn	Associate	Quebec
Perseverance mine	100%	1,061kt ore 143kt Zn in conc 10kt Cu in conc	1,062kt ore 139kt Zn in conc 10kt Cu in conc	1,011kt ore 136kt Zn in conc 9kt Cu in conc	Subsidiary	Quebec
General smelting	100%	27kt Zn and Pb foundry products	5.4kt Zn and Pb foundry products	6kt Zn and Pb foundry products	Subsidiary	Quebec
Germany						
Nordenham	100%	157kt Zn 151kt saleable Zn	146kt Zn 140kt saleable Zn	147kt Zn 140kt saleable Zn	Subsidiary	Nordenham
Peru						
Antamina (joint with Xstrata Copper)	33.75%	39mt ore 456kt Zn in conc	37mt ore 386kt Zn in conc	38mt ore 456kt Zn in conc	Joint venture	Ancash
Spain						
San Juan de Nieva	100%	510kt Zn 490kt saleable Zn	501.2 kt Zn 480.1kt saleable Zn	500.8 kt Zn 479.7kt saleable Zn	Subsidiary	Asturias
Hinojedo	100%	47kt calcine 31kt SO	36kt calcine 23kt SO	37kt calcine 24kt SO_2	Subsidiary	Cantabria
Arnao	100%	24kt ZnO	15kt ZnO	11kt ZnO	Subsidiary	Asturias
UK						
Northfleet	100%	180kt primary Pb 360t refined Ag	153kt primary Pb 232t Ag	158kt primary Pb 273t Ag	Subsidiary	Northfleet

Governance

In this section

Board of directors

1. Willy Strothotte

Title and age: Chairman, aged 66
Appointment: Appointed in February 2002
Committee membership: Chairman of Remuneration Committee
Skills and experience: From 1961 to 1978 Mr. Strothotte held various positions with responsibility for international trading in metals and minerals in Germany, Belgium and the USA. In 1978, Mr. Strothotte joined Glencore International, taking up the position of Head of Metals and Minerals in 1984. Mr. Strothotte was appointed Chief Executive Officer of Glencore in 1993 and held the combined positions of Chairman and Chief Executive Officer from 1994 until 2001, when the roles of Chairman and Chief Executive were split. Mr. Strothotte was Chairman of Xstrata AG from 1994 to 2002 and has been Chairman of Xstrata plc since February 2002
External appointments: Chairman of Glencore International AG and currently a director of Century Aluminium Corporation, Minara Resources Limited and KKR Financial Holdings LLC

2. Mick Davis

Title and age: Chief Executive, aged 53
Appointment: Appointed Chief Executive in October 2001 and then Chief Executive of Xstrata plc upon incorporation in February 2002
Committee membership: Chairman of Executive Committee, and a member of the Health, Safety, Environment and Community Committee
Skills and experience: Previously, Mr. Davis was Chief Financial Officer and an executive director of Billiton Plc, appointed in July 1997, and served as Executive Chairman of Ingwe Coal Corporation Limited from 1995. He joined Gencor Limited in early 1994 from Eskom, the South African state-owned electricity utility, where he was an executive director
External appointments: None

3. David Rough

Title and age: Deputy Chairman and Senior Independent Director, aged 60
Appointment: Appointed in April 2002
Committee membership: Chairman of the Nominations Committee and a member of the Remuneration, Audit and Health, Safety, Environment and Community Committees
Skills and experience: Mr. Rough was a director of Legal & General Group Plc before retiring from Legal & General in June 2002. As Group Director (Investments), Mr. Rough headed all aspects of fund management within Legal & General Investments
External appointments: Director of Land Securities Group plc, Brown, Shipley & Co Ltd and LME Holdings Ltd

4. Con Fauconnier

Title and age: Non-executive director, aged 63
Appointment: Appointed in May 2010
Committee membership: Member of Health, Safety, Environment and Community and Remuneration Committees
Skills and experience: Dr. Fauconnier was Managing Director of Iscor Mining in 1999, before being appointed as Chief Executive of Kumba Resources Limited in 2001. From 2006 until his retirement in August 2007, he served as Chief Executive Officer of Exxaro Resources Limited, a newly formed company from the merger of Eyesizwe Mining and the non-iron ore assets of Kumba Resources
External appointments: Non-executive Director of Namakwa Diamonds Ltd

5. Ivan Glasenberg

Title and age: Non-executive director, aged 54
Appointment: Appointed in February 2002
Committee membership: Member or Nominations Committee
Skills and experience: Mr. Glasenberg worked in the coal department of Glencore in South Africa for three years and in Australia for two years. From 1989 to 1990, he managed Glencore International's Hong Kong and Beijing offices. In 1991 he became Head of Glencore's Coal Department and in 2002 Chief Executive Officer of Glencore International
External appointments: Chief Executive Officer of Glencore International. Director of Minara Resources Limited and United Company Rusal Limited

6. Peter Hooley

Title and age: Non-executive director, aged 64
Appointment: Appointed in May 2009
Committee membership: Chairman of the Audit Committee
Skills and experience: Mr. Hooley was, until 2006, Group Finance director of Smith & Nephew plc, a global medical devices business listed on the FTSE 100. He was previously Group Financial Controller of BICC plc

External appointments: Non-executive director of Cobham plc, the aerospace and defence group and Chairman of its Audit Committee. Director and Chairman of BSN medical, a medical textiles business group

7. Claude Lamoureux

Title and age: Non-executive director, aged 68
Appointment: Appointed in May 2008
Committee membership: Member of Audit and Health, Safety, Environment and Community Committees
Skills and experience: Mr. Lamoureux was President and Chief Executive Officer of the Ontario Teachers' Pension Plan Board until 1 December 2007. Previously he spent 25 years as a financial executive with Metropolitan Life in Canada and the US
External appointments: Director of Northumbrian Water Group plc, Cordiant Capital, Glass Lewis, Maple Leaf Foods Inc., Atrium Innovations Inc., the Canadian Institute for Advanced Research, The Foundation for Investors Rights, The Learning Partnership and the York University Foundation

8. Trevor Reid

Title and age: Chief Financial Officer, aged 50
Appointment: Appointed in February 2002
Committee membership: Member of Executive Committee
Skills and experience: Mr. Reid joined Xstrata in January 2002. Prior to joining Xstrata, he was Global Head of Resource Banking at the Standard Bank Group. He joined the Standard Bank Group in 1997 from Warrior International Limited, a corporate finance boutique specialising in the minerals sector
External appointments: None

9. Sir Steve Robson CB

Title and age: Non-executive director, aged 67
Appointment: Appointed in February 2002
Committee membership: Member of Audit and Nominations Committees
Skills and experience: Sir Steve retired as Second Permanent Secretary at HM Treasury in January 2001. He had joined HM Treasury after leaving university. His early career included a period as Private Secretary to the Chancellor of the Exchequer and a two-year secondment to Investors in Industry plc (3i). From 1997 until his retirement, his responsibilities included the legal framework for regulation of the UK financial services industry, public private partnerships, procurement policy including the private finance initiative and the Treasury's enterprises and growth unit
External appointments: Member of the Financial Reporting Council and KPMG Chairman's Advisory Board. Chairman of KPMG's Public Interest Committee

10. Ian Strachan

Title and age: Non-executive director, aged 67
Appointment: Appointed in May 2003
Committee membership: Chairman of the Health, Safety, Environment and Community Committee and a member of the Audit Committee
Skills and experience: Mr. Strachan was Chairman of Instinet Group from 2003 to 2005 and Chief Executive of BTR plc from 1996 to 1999. Mr. Strachan joined Rio Tinto plc (formerly RTZ plc) as Chief Financial Officer in 1987, and was Deputy Chief Executive from 1991 to 1995
External appointments: Director of Rolls-Royce Group plc and Chairman of its Audit Committees. Chairman of Caithness Petroleum Limited and Transocean Inc.

11. Santiago Zaldumbide

Title and age: Executive director and Chief Executive of Xstrata Zinc, aged 68
Appointment: Appointed in February 2002
Committee membership: Member of Executive Committee
Skills and experience: Mr. Zaldumbide is currently Executive Chairman of Asturiana de Zinc. He is a previous Chief Executive Officer and Director of Union Explosivos Rio Tinto and of Petroleos del Norte. In 1990, Petroleos del Norte became part of the Repsol Oil Group where Mr. Zaldumbide was responsible for establishing the international structure of the enlarged Repsol Oil Group. In 1994, he was appointed Chief Executive Officer of the Corporación Industrial de Banesto and, in December 1997, Chairman and Chief Executive Officer of Asturiana de Zinc
External appointments: None

Executive management

Executive Committee

Mick Davis
Chief Executive

Trevor Reid
Chief Financial Officer

Santiago Zaldumbide
Executive director, Chief Executive Xstrata Zinc

Peter Freyberg
Chief Executive Xstrata Coal

Benny Levene
Chief Legal Counsel

Thras Moraitis
Executive General Manager Group Strategy and Corporate Affairs

Peet Nienaber
Chief Executive Xstrata Alloys

Ian Pearce
Chief Executive Xstrata Nickel

Charlie Sartain
Chief Executive Xstrata Copper

Executive management

Xstrata Alloys

Bill Barrett, Executive Director Special Projects

Deon Dreyer, Managing Director Chrome and Vanadium

Edwin Hlatshwayo, Executive Director for Human Resources

Rakesh Harribhai, Executive Director Strategy and Business Development

Jeff McLaughlan, Marketing Director

Ben Moolman, Managing Director Platinum

Hanré Rossouw, Chief Financial Officer

Mike Rossouw, Executive Director Operations

Andile Sangqu, Executive Director South Africa

Susan Visser, Executive Director Sustainable Development

Xstrata Coal

Steven Bridger, Executive General Manager Wandoan and Logistics Strategy

Mick Buffier, Group Executive Corporate Affairs and Sustainable Development

Ian Cribb, Chief Operating Officer New South Wales

Mark Eames, Chief Marketing Officer

Jeff Gerard, Chief Development Officer

Murray Houston, Chief Operating Officer South Africa

Earl Melamed, Chief Financial Officer

Reinhold Schmidt, Chief Operating Officer Queensland

Shaun Palmer, General Manager Human Resources

Xstrata Copper

Bruce Anderson, Executive General Manager Commercial

Roberto Darouiche, Executive General Manager Joint Venture Division South America

Bob Drabik, Executive General Manager Project Development

Claude Ferron, Chief Operating Officer Canada

Peter Forrestal, Executive General Manager Project Evaluation

Louis Irvine, Chief Financial Officer

Steve de Kruijff, Chief Operating Officer North Queensland

José Marun, Executive General Manager South America Operations

Neal O'Connor, General Counsel

Alberto Olivero, Executive General Manager Human Resources

Xstrata Nickel

Marc Boissonneault, Vice President Sudbury

Al Coutts, Executive General Manager Australasia

Bryce Crocker, Vice President, Strategy, Marketing and Research

Dominique Dionne, Vice President Corporate Affairs

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

Sylvain Goyette, General Manager, Human Resources

Doug McLarty, Vice President Legal

Øivind Stenstad, Managing Director Nikkelverk

Shaun Usmar, Chief Financial Officer

Michael Welch, Vice President Raglan

Scott Yarrow, General Manager, Sustainability

Xstrata Zinc

Iñigo Abarca, Chief Legal Counsel

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

Jaime Arias, Executive General Manager Spanish Operations

Jean Desrosiers, Vice President Mining Operations

Brian Hearne, Chief Operating Officer Australian Division

Juan León, Chief Financial Officer

Ettienne Moller, General Manager McArthur River Mine

Emilio Tamargo, Executive General Manager Business Development & Research

Carl van Dyken, Executive General Manager German Operations

Neil Wardle, Executive General Manager Britannia Refined Metals

Corporate

Brian Azzopardi, Head of Tax

Claire Divver, General Manager Group Corporate Affairs

Richard Elliston, Company Secretary

Martin Fewings, Senior Manager Investor Relations

Glenn Field, Global Head of Internal Audit and Risk

Paul Jones, Group General Manager Sustainable Development

Andrew Latham, General Manager and Head of Group Business Development

Mark Moffett, Group Controller

Dominic O'Brien, General Manager Human Resources and Legal

Mark Sawyer, General Manager Group Business Development

Ian Wall, Group Treasurer

Jason Wilkins, Head of IT

Directors' report

Results and dividend
The Group's financial results are set out in the financial information section and in the Financial review section of this report.

The Board recommends a final dividend of US$0.20 per share amounting to $586 million. The total 2010 dividend is US$0.25 per share or $732 million. The shareholders will be asked to approve the dividend at the Annual General Meeting on 4 May 2011, for payment on 13 May 2011 to ordinary shareholders whose names were on the register on 26 April 2011.

Principal activities
Xstrata is a major global diversified mining group with its headquarters in Zug, Switzerland, and has a Premium Listing on the London Stock Exchange. Xstrata also has a Secondary Listing on the SIX Swiss Exchange. Additional information on the Group's operations is provided in the Business overview and strategy, Financial review and Operational review sections of this report.

Review of the business, future developments and post balance sheet events
A review of the business and the future developments of the Group is presented in the Chairman's statement, Chief Executive's report and the Business review from page 50 to page 95.

A full description of acquisitions, disposals, and changes to Group companies undertaken during the year, including post balance sheet events, is included in the Financial review on pages 50 to 55.

Corporate governance
A report on corporate governance and compliance with the principles and provisions of the Combined Code on corporate governance is set out on pages 110 to 118 and forms part of this report by reference.

Financial instruments
The Group's financial risk management objectives and policies, details of its financial instruments, hedging activities and its exposures to price risk, credit risk and liquidity risk are discussed on pages 50 to 55 of the Financial review and in Note 37 of the Financial statements.

Creditor payment policy and practice
In view of the international nature of the Group's operations there is no specific Group-wide policy in respect of payments to suppliers. Individual operating companies are responsible for agreeing terms and conditions for their business transactions and ensuring that suppliers are aware of the terms of payment. It is Group policy that payments are made in accordance with those terms, provided that all trading terms and conditions have been met by the supplier.

Xstrata plc is a holding company with no business activity other than the holding of investments in the Group and therefore had no trade creditors at 31 December 2010.

Health, safety, environment & community (HSEC)
An overview of health, safety and environmental performance and community participation is provided throughout the Strategy section on pages 18 to 47.

Exploration and research and development
The Group business units carry out exploration and research and development activities that are necessary to support and expand their operations.

Political and charitable donations
In accordance with Xstrata's corporate social involvement (CSI) policy, no political donations were made in 2010. Xstrata's corporate social involvement expenditure supports initiatives that benefit the communities local to the Group's operations in the areas of health, education, sport and the arts, community development, job creation and enterprise. In 2010, Xstrata set aside over $84 million for CSI initiatives. Donations during the year to UK registered charities totalled £903,000.

Employee policies and involvement
The Group's policy and performance regarding employee involvement, disabled employees, labour relations and employee share schemes are provided throughout the Strategy section on pages 18 to 47.

Board of directors
The directors during the year under review were Mick Davis (Chief Executive), Dr Con Fauconnier (independent non-executive), Ivan Glasenberg (non-executive), Peter Hooley (independent non-executive), Claude Lamoureux (independent non-executive), Sir Steve Robson (independent non-executive), David Rough (Deputy Chairman, Senior Independent Director and non-executive), Trevor Reid (Chief Financial Officer), Ian Strachan (independent non-executive), Willy Strothotte (Chairman and non-executive), and Santiago Zaldumbide (executive director).

Further details about the directors, their skills and experience and their roles within the Group are given in the directors' biographies on pages 102 and 103.

Directors' conflicts of interest
Under section 175 of the Companies Act 2006, a director of a company must avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. The duty is not infringed if the matter has been authorised by the directors of the relevant company. Under the Act, the board of directors of the relevant company has the power to authorise potential or actual conflict situations. The Board maintains effective procedures to enable Xstrata's directors to notify the Company of any actual or potential conflict situations and for those situations to be reviewed and, if appropriate, to be authorised by the Board, subject to conditions and for a period of one year. The Nominations Committee undertakes the role of reviewing notifications in detail and making appropriate recommendations to the Board regarding authorisation. Directors' conflict situations are reviewed annually. A register of authorisations is maintained.

Directors' liabilities

The Company has granted qualifying third party indemnities to each of its directors against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by the Companies Acts. In addition, directors and officers of the Company and its subsidiaries are covered by Directors & Officers liability insurance.

Directors and their interests

Details of interests in the share capital of the Company of those directors in office as at 31 December 2010 are given below. None of the shares were held non-beneficially. No director held interests in the shares of any subsidiary company.

Name of director	Ordinary shares held beneficially as at 1 January 2010	Ordinary shares held beneficially as at 31 December 2010
Executive		
Mick Davis	1,378,958	2,517,849
Trevor Reid	260,046	511,389
Santiago Zaldumbide	–	27,139
Non-executive		
Con Fauconnier	–	–
Ivan Glasenberg	–	–
Peter Hooley	–	–
Claude Lamoureux	27,000	27,000
Sir Steve Robson	–	–
David Rough	24,999	24,999
Ian Strachan	43,098	43,098
Willy Strothotte	–	–

In addition to the above interests in shares, the executive directors, have also been granted interests in the share capital of the Company in the form of conditional rights to free shares and options to subscribe to shares under the Long Term Incentive Plan; and nil cost share options under the Xstrata Executive Committee Bonus Plan, which are forfeitable in certain circumstances. Details of these interests are disclosed in the Directors' Remuneration report on pages 127 and 129.

During the period from the end of the financial year to 15 March 2011, the following changes in directors' interests have occurred:

Mick Davis acquired legal and full beneficial interest in 72,751 ordinary shares, Trevor Reid acquired legal and full beneficial interest in 36,653 ordinary shares, and Santiago Zaldumbide acquired legal and full beneficial interest in 82,220 ordinary shares upon the vesting of deferred bonus shares awarded under the Executive Committee Bonus Plan in 2010.

Santiago Zaldumbide sold 316,948 ordinary shares following the exercise of share option awards and the vesting of deferred bonus shares.

The following awards were made on 18 February 2011:

Name of director	Share options[1]	Conditional shares[2]	Deferred Bonus shares[3]	Deferred Bonus shares[4]
Mick Davis	562,791	204,856	91,944	91,944
Trevor Reid	283,480	103,187	46,312	46,312
Santiago Zaldumbide	233,371	84,947	58,149	43,611

1 Granted under the Xstrata Long Term Incentive Plan at an option price of £14.68 per share, exercisable between 18 February 2014 and 18 February 2021.

2 Granted under the Xstrata Long Term Incentive Plan vesting on 18 February 2014.

(The number of options and conditional share awards granted under the Xstrata Long Term Incentive Plan are maximum numbers and are subject to the satisfaction of performance conditions over a three-year period under the terms of the Long Term Incentive Plan rules.)

3 Deferred share options granted under the Xstrata Executive Committee Bonus Plan at an option price of £1 in aggregate, exercisable between 1 February 2012 and 1 February 2021.

4 Deferred share options granted under the Xstrata Executive Committee Bonus Plan at an option price of £1 in aggregate, exercisable between 1 February 2013 and 1 February 2021.

(The share options are forfeitable if the director leaves employment in certain circumstances specified in the Xstrata Executive Committee Bonus Plan rules.)

Share capital

At the date of this report, the ordinary share capital of the Company was $1,482,346,038 represented by 2,964,692,076 ordinary shares of $0.50 each.

Following the full and final conversion of all the outstanding bonds under the $375 million 4.00% Guaranteed Convertible Bonds due 2017 issued in October 2006 by Xstrata Capital Corporation A.V.V. (Xstrata C.C.) into redeemable preference shares of Xstrata C.C., and the subsequent exchange of such shares into fully paid ordinary shares of Xstrata plc (Xstrata), the Company's issued ordinary share capital increased to 2,964,692,076 shares of $0.50 each.

The Company has in place an equity capital management programme (ECMP) under which up to 10% of the issued share capital of the Company can be purchased in the market by Batiss Investments Limited (Batiss). Batiss currently holds 28,428,786 ordinary shares, 0.96% of Xstrata's current issued ordinary share capital. Batiss waives its rights to receive dividends on the ordinary shares that it holds from time to time.

Major interests in shares

As at 16 March 2011, the Company had been notified of the following interests representing 3% or more of the issued ordinary share capital of the Company:

Name of shareholders	Number of ordinary shares of US$0.50 each	% of ordinary issued share capital
Glencore International AG, Zug*	1,010,403,999	34.08
BlackRock, Inc	176,597,103	5.95

* The voting rights comprised in this interest are directly controlled by Finges Investment B.V., a wholly owned subsidiary of Glencore International AG.

Significant contractual arrangements

Glencore International AG is Xstrata's major shareholder and at the date of this document holds 34.08% of Xstrata's issued share capital. The relationship between Xstrata and Glencore is regulated by a Relationship Agreement which ensures that all commercial arrangements are transacted on an arm's-length basis. Glencore is the sole distributor of Xstrata's nickel, cobalt and ferronickel production, has sales agreements with Xstrata Copper for some of its copper concentrate and copper cathode and is the marketing agent for much of Xstrata Alloys' ferrochrome and vanadium. Glencore has a market advisory role with Xstrata Coal. Full details of related party contractual arrangements are provided in Note 36 of the financial statements.

The Companies Act 2006 requires the Company to disclose the following significant agreements that contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

Relationship Agreement

The Company is party to the Relationship Agreement with Glencore International AG (Glencore) dated 20 March 2002. The Agreement regulates the continuing relationship between the parties. In particular it ensures that (a) the Company is capable of carrying on its business independently of Glencore as a controlling shareholder (as such term is defined in the Agreement); (b) transactions and relationships between Glencore (or any of its subsidiaries or affiliates) and the Company are at an arm's length and on normal commercial terms; (c) Glencore shall be entitled to nominate up to three directors or (if lower or higher) such number of directors equal to one less than the number of directors who are independent directors; and, (d) directors of the Company nominated by Glencore shall not be permitted to vote on any Board resolution, unless otherwise agreed by the independent directors, to approve any aspect of the Company's involvement in or enforcement of any arrangements, agreements or transactions with Glencore or any of its subsidiaries or affiliates. The Agreement provides that, save to the extent required by law, the parties agree that they shall exercise their powers so that the Company is managed in accordance with the principles of good governance set out in the Combined Code and that the provisions of the Code of Best Practice set out in the Combined Code are complied with by the Company. It is expressed that the Agreement terminates in the event that Glencore ceases to be a controlling shareholder of the Company following a sale or disposal of shares in the Company or if the Company ceases to be listed on the Official List and traded on the London Stock Exchange.

US$4.68 billion syndicated facility

On 25 July 2007, Xstrata (Schweiz) AG and Xstrata Finance (Canada) Limited entered into a $4.68 billion multicurrency revolving syndicated loan facility agreement with, amongst others, Barclays Capital and The Royal Bank of Scotland plc (as arrangers and bookrunners), Barclays Bank plc (as the facility agent), and the banks and financial institutions named therein as lenders (the Syndicated Facilities Agreement).

Upon a change of control, no borrower may make a further utilisation unless otherwise agreed. The majority lenders, as defined in the agreement, can also require that the Syndicated Facilities Agreement is immediately terminated and declare that all outstanding loans become immediately payable. Alternatively, if the majority lenders do not require cancellation, but a specific lender does on the basis of internal policy, that particular lender can require that its commitments are cancelled and all amounts outstanding in respect of that lender's commitments shall become immediately payable.

US$500 million notes due 2037

On 30 November 2007, Xstrata Finance (Canada) Limited issued $500 million 6.90% notes due 2037, guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited. The terms of these notes require Xstrata Finance (Canada) Limited to make an offer to each noteholder to repurchase all or any part of such holder's notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the notes so repurchased plus any accrued and unpaid interest on the principal amount of the notes repurchased to the date of repurchase, if both of the following occur:

(i) a change of control (as defined in the terms and conditions of the notes) of Xstrata; and

(ii) the notes are rated below investment grade by each of Moody's and Standard & Poor's on any date from 30 days prior to the date of the public notice of an arrangement that could result in a change of control (as defined in the terms and conditions of the notes) until the end of the 60-day period following public notice of the occurrence of a change of control.

€750 million notes due 2011

On 23 May 2008, Xstrata Canada Financial Corporation issued €750,000,000 5.875% guaranteed notes due 2011, €600,000,000 6.25% guaranteed notes due 2015 and £500,000,000 7.375% guaranteed notes due 2020 (the 2008 MTN Notes). The 2008 MTN Notes are guaranteed by each of Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited and were issued pursuant to the $6,000,000,000 Euro Medium Term Note Programme.

Pursuant to the terms and conditions of the 2008 MTN Notes, if:

(i) a change of control occurs (as defined in the terms and conditions of the 2008 MTN Notes); and

(ii) the 2008 MTN Notes carry, on the relevant announcement date of the change of control:

  (a) an investment grade credit rating is either downgraded to a non-investment grade credit rating or is withdrawn; or

  (b) a non-investment grade credit rating is downgraded by one or more notches or is withdrawn; or

  (c) no credit rating and a negative rating event (as defined in the terms and conditions of the 2008 MTN Notes) occurs,

  each holder has the option to require Xstrata Canada Financial Corp. to redeem such 2008 MTN Notes in cash at the principal amount plus interest accrued to (but excluding) the date of redemption.

US$4 billion revolving loan facility
On 17 September 2010, the Company entered into a new $4 billion facility split into two $2 billion tranches, with one tranche maturing three years after the date of the new facility and the other maturing five years after the date of the new facility guaranteed, amongst others, by the Company, Xstrata (Schweiz) AG, Xstrata Finance (Canada) Limited, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corporation as guarantors, and the banks and financial institutions named therein as lenders. This agreement contains change of control provisions, in substance, identical to those set out in the referenced Syndicated Facilities Agreement on page 107.

Xstrata plc Long Term Incentive Plan
The rules of Xstrata's employee share plans set out the consequences of a change of control of the Company on employees' rights under the plans. Generally such rights will vest on a change of control and participants will become entitled to acquire shares in the Company or, in some cases, to the payment of a cash sum of equivalent value.

Articles of Association

Xstrata's Articles of Association (adopted by special resolution on 19 March 2002 and amended by special resolutions passed on 9 May 2005, 6 May 2008, and 5 May 2010) may only be amended by special resolution at a general meeting of the shareholders.

Share rights

The rights and obligations attached to Xstrata's ordinary shares are set out in the Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. Subject to the Companies Acts (as defined in the Articles of Association), and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board may determine.

Ordinary shares
Holders of ordinary shares are entitled to attend, speak and vote at general meetings of the Company, and to appoint proxies to exercise their rights. Holders of ordinary shares may receive a dividend and on a winding up may share in the assets of the Company.

Deferred shares
The holders of deferred shares do not have the right to receive notice of any general meeting of the Company nor the right to attend, speak or vote at any such general meeting. The deferred shares have no rights to dividends and, on a winding up or other return of capital, entitle the holder only to the repayment of the amounts paid upon such shares after repayment of the nominal amount paid up on the ordinary shares, the nominal amount paid up on the special voting share plus the payment of £100,000 per ordinary share. The Company may, at its option, redeem all of the deferred shares in issue at any time (but subject to the minimum capital requirement of the Companies Act 2006) at a price not exceeding £1.00 for each share redeemed to be paid to the relevant registered holders of the shares.

Special voting share
Certain rights, that are inalienable under Swiss law, have been preserved in the Xstrata plc Articles of Association by creating a special voting share that carries weighted voting rights sufficient to defeat any resolution that could amend or remove these entrenched rights. The holder of the special voting share is the Law Debenture Trust Corporation plc which has entered into a voting agreement with the Company, specifying the conditions upon which it is entitled to exercise its right to vote. The special voting share does not carry a right to receive dividends and is entitled to no more than the amount of capital paid up in the event of liquidation.

Shares held by Xstrata plc Employee Share Ownership Trusts at 31 December 2010, the trustee of the Xstrata plc Employee Share Ownership Trusts, which is an independent trustee, 6,884,930 shares under the terms of the trusts for the benefit of employees and former employees of the Company. The trusts are discretionary trusts and the shares are held to meet employees' entitlements under the Company's Long Term Incentive Plan and Executive Committee Bonus Plan. Employees have no voting rights in relation to the shares while they are held in trust. The trustee has full discretion to exercise the voting rights or to abstain from voting. Shares acquired by employees through the Company's Long Term Incentive Plan rank pari passu with shares in issue and have no special rights. The trustee of the Employee Share Ownership Trusts waives its right to receive dividends on ordinary shares that it holds from time to time.

Voting rights

Subject to the rights and restrictions attached to any class of shares:

(i) on a show of hands, every member present in person or by proxy has one vote (save that neither the holder of the special voting share nor any holder of deferred shares shall be entitled to vote) and a proxy appointed by a member on behalf of such member's shareholding shall also have one vote;

(ii) on a poll:

- (a) every member present in person or by proxy (except the holder of the special voting share and any holder of the deferred shares shall have:
  - (i) one vote for each fully paid share; and
  - (ii) for each partly-paid share, such proportion of the votes attached to a fully paid share as would mean that such proportion is the same as the proportion of the amount paid up on the total issue price of that share;
- (b) the holder of the special voting share shall, on an Entrenched Rights Action, have enough votes to defeat the resolution but, on all other decisions, shall have no votes; and
- (c) the holders of the deferred shares shall not be entitled to vote.

Restrictions on transfer of shares

There are no restrictions on the transfer of ordinary shares in the Company other than:

(i) the right of the Board to refuse to register the transfer of a certificated share that is not a fully paid share provided that the refusal does not prevent dealings in shares of that class in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a certificated share, unless the instrument of transfer (a) is lodged, duly stamped (if applicable) with the Company and (except where the shares are registered in the name of a recognised person and no certificate shall have been issued therefore is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may require); (b) is in respect of one class of share only; and (c) is in favour of not more than four persons;

(ii) pursuant to Xstrata's share dealing code whereby the directors of the Company require, and employees may require, approval to deal in Xstrata's shares;

(iii) certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and

(iv) where a person whose shares represent at least a 0.25% interest in Xstrata's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares, except as otherwise provided in the Articles.

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of ordinary shares and for voting rights.

The Board shall decline to register any transfer of the special voting share unless approved in accordance with a voting deed between the Company and the holder of the special voting share.

Annual General Meeting

The Annual General Meeting (AGM) of the Company will be held at Theater-Casino Zug, Artherstrasse 2-4, Zug, Switzerland on 4 May 2011 at 11 a.m. (Central European Summer Time). A live webcast will be provided of the AGM through Xstrata's website www.xstrata.com. A telephone dial-in facility will also be provided on a listen-only basis. Further details of the dial-in facility and webcast will be available from Xstrata's website www.xstrata.com at least one week in advance of the meeting.

Full details about the AGM, including explanatory notes, are contained in the Notice of AGM which will be sent to shareholders at least 20 working days before the meeting. The Notice sets out the resolutions to be proposed at the AGM and an explanation of each resolution. All documents relating to the AGM are available on the Company's website at www.xstrata.com.

Electronic copies of the annual review and financial statements 2010 and other publications

A copy of the 2010 Annual Report (which includes the Annual review and financial statements, Directors' report, Corporate Governance report and Directors' remuneration report), the Notice of the AGM, the 2010 Sustainability report (available in early April) and other corporate publications, reports, press releases and announcements are available on Xstrata's website at www.xstrata.com.

Responsibility statement

Pursuant to Disclosure and Transparency Rule 4.1.12, the directors confirm to the best of their knowledge:

(i) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

(ii) the directors' report including those sections incorporated therein by reference includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditors

Having made enquiries of fellow directors and of Xstrata's auditors, each director confirms that so far as each director is aware, there is no relevant audit information of which Xstrata's auditor is unaware and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that Xstrata's auditor is aware of that information.

Going concern

The directors believe, after making inquiries that they consider to be appropriate, that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The directors have made this assessment after consideration of the Company's budgeted cash flows and related assumptions, undrawn debt facilities, debt maturity review, analysis of debt covenants, and in accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009 published by the Financial Reporting Council.

By order of the Board

Richard Elliston
Company Secretary
16 March 2011

Corporate Governance report

The Combined Code

The Board is fully committed to the principle of best practice in corporate governance. This report describes how Xstrata has applied the main principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council (FRC) in June 2008 (the Code). During the year under review, the Company has complied with the provisions contained in Section 1 of the Code, except with regard to the Chairman who was not considered independent upon appointment and due to his membership and chairmanship of the Remuneration Committee. Willy Strothotte will step down as Chairman and Non-Executive director at the conclusion of the Annual General Meeting (AGM) on 4 May 2011. From 1 January 2011, the new UK Code on Corporate Governance will apply to the Company. The Combined Code and the UK Code on Corporate Governance are available at www.frc.org.uk.

In addition to complying with corporate governance requirements in the UK, the Company follows the regulations of the SIX Swiss Exchange as well as Swiss securities laws due to its secondary listing in Switzerland.

Disclosure and transparency rules (DTR)

The information required by DTR 7.2.6 regarding share capital required under paragraph 13 of Schedule 7 to the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 is included in the Directors' report on pages 105 to 109.

Board governance

The directors

The Board, chaired by Willy Strothotte, has 11 directors, comprising three executive directors and eight non-executive directors. The three executive directors are Mick Davis, Chief Executive, Trevor Reid, Chief Financial Officer, and Santiago Zaldumbide, Chief Executive Xstrata Zinc. David Rough, an independent, non-executive director, is the Deputy Chairman and Senior Independent Director. At the Annual General Meeting (AGM) on 5 May 2010, Dr. Con Fauconnier was elected a director of the Company and Paul Hazen retired from the Board. There were no other changes to the membership of the Board during the year. The non-executive directors possess a range of experience and are of sufficiently high calibre to bring independent judgement to bear on issues of strategy, performance and resources that are vital to the success of the Group.

The Board is satisfied that it met and meets the requirements of the Code in maintaining an effective Board which is collectively responsible for the long-term success of the Company.

Board balance and independence

Of the eight non-executive directors, six are considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement, and two, Willy Strothotte and Ivan Glasenberg, are directors of Glencore International AG (Glencore). Willy Strothotte is Chairman and Ivan Glasenberg is Chief Executive Officer of Glencore. The Board has considered these associations and considers the industry expertise and experience of the Glencore nominated directors is beneficial to the Group.

Matters reserved for the Board

- The Board is responsible for the governance of the Group on behalf of shareholders within a framework of policies and controls that provide for effective risk assessment and management
- The Board provides leadership and articulates the Company's objectives and strategy to achieve those objectives
- The Board sets standards of conduct, as documented in an approved Statement of Business Principles, which provide an ethical framework for all Xstrata businesses

While the Board focuses on strategic issues, financial performance, risk management and critical business issues, it also has a formal schedule of matters specifically reserved to it for decision. These reserved matters, which are documented in a comprehensive regime of authorisation levels and prior approval requirements for key corporate decisions and actions, are updated as required by the Board. Such matters reserved to the Board include, but are not limited to, approval of budgets and business plans, major capital expenditure, major acquisitions and disposals, and other key commitments. Certain powers are delegated by the Board to the Executive Committee which is a committee of the Board of Xstrata (Schweiz) AG, the main operating subsidiary of Xstrata plc. This committee and a description of its powers are described on page 118.

Powers of the directors

Subject to Xstrata's Memorandum and Articles of Association, UK legislation, and to any directions given by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company. The Articles of Association contain specific provisions concerning Xstrata's power to borrow money and also provide the power to make purchases of any of its own shares. The directors have no existing authority to purchase Xstrata's own shares. The directors have been authorised to allot and issue ordinary shares. These powers are exercised under authority of resolutions of the Company passed at its AGM held on 5 May 2010. Further details of the authorities the Company will be seeking at the next AGM to issue and allot ordinary shares of US$0.50 each are set out in the Notice of AGM.

Board meetings

Five scheduled Board meetings were held during the year and two additional meetings took place. Attendance by directors at Board meetings and at meetings of standing committees of the Board is shown below. In addition, the Chairman held a separate meeting with the non-executive directors without the executive directors being present and the non-executive directors held a separate meeting without the Chairman being present. All Board meetings are held in Switzerland. There are four formally constituted committees of the Board. Details of attendance at Board and committee meetings are given below. The role and work of these committees is described in detail on pages 115 to 118.

Attendance at Board meetings and committees of the Board

Director	Board (5 scheduled)	Board (2 ad hoc)	Audit (3)	Remuneration (2)	Health, Safety, Environment & Community (4)	Nominations (3)
Mick Davis	5	1	–	–	4	–
Con Fauconnier*	4 out of 4	1	–	1 out of 1	3 out of 3	–
Ivan Glasenberg	4	2	–	–	–	3
Paul Hazen#	1 out of 1	–	–	1 out of 1	–	–
Peter Hooley	5	–	3	–	–	–
Claude Lamoureux	5	–	3	–	4	–
Sir Steve Robson	5	1	3	–	–	3
David Rough	5	–	3	2	4	3
Trevor Reid	5	1	–	–	–	–
Ian Strachan	5	–	3	–	4	–
Willy Strothotte	5	2	–	2	–	–
Santiago Zaldumbide	5	1	–	–	–	–

* Elected on 5 May 2010.
\# Retired on 5 May 2010.

Chairman and Chief Executive
A clear separation is maintained between the responsibilities of the Chairman and the Chief Executive. This is documented in a statement approved by the Board which was reviewed and updated by the Board at the July 2010 Board meeting to comply with the new UK Corporate Governance Code.

The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role by promoting a culture of openness and debate, and by facilitating the contribution of non-executive directors. He is also responsible for ensuring that good communication is maintained with shareholders, that all directors are made aware of their major shareholders' issues and concerns, and that the views of shareholders are communicated to the Board as a whole. His duties also include ensuring that the directors continually update their skills and their knowledge of and familiarity with the Company and the regular review and discussion with each director of their training and development needs.

The Chief Executive has executive responsibility for the running of the Company's business. In particular this includes: the responsibility to evaluate and recommend strategic policy and direction for Board consideration; review and recommend for Board consideration and approval the annual financial statements, annual business plans and budgets, and interim accounts; maintain effective risk management and internal control systems including financial, operational and compliance controls; facilitate the production of detailed proposals and reviews for Board meetings; and provide the Board with accurate, timely and clear information.

David Rough is the Deputy Chairman and the Senior Independent Director. His role and responsibilities as the Senior Independent Director are detailed in and formalised by Board resolution and, in summary, are that he should be available to shareholders to discuss their concerns when the normal channels would not be appropriate for this purpose, to have contact with analysts and major shareholders to obtain a balanced understanding of their issues and concerns, to chair the Nominations Committee, and to lead the Board and director appraisal process.

Performance evaluation
Board evaluation is undertaken annually, and every three years is conducted by an external facilitator. For the 2010 evaluation, the Board engaged Egon Zehnder International to undertake a formal review of the performance and effectiveness of the Board, its committees and, individually, all of its directors. The process was based on structured in-depth interviews during which the following subjects were explored: composition and skill-sets; relationships across all the various axes in the team; processes and information flows; succession planning and other people issues; strategy process, behaviours at and between Board meetings. The main conclusions were that the Board continued to operate as an effective body, providing strong entrepreneurial leadership, and a meaningful and helpful challenge on strategy. Looking to the future, the importance of retaining or recruiting directors with the depth of knowledge to provide meaningful challenge was acknowledged, and with the focus on the development of organic growth projects in the coming years, the review recognised that the Board could be strengthened by recruiting an additional director with direct mining or major projects experience to complement the experience of Dr. Con Fauconnier and Ian Strachan. The non-executive directors were seen to provide appropriate scrutiny of performance against goals.

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

Re-election of directors
In accordance with the UK Corporate Governance Code, all directors will retire at the forthcoming AGM on 4 May 2011 and all directors, other than Willy Strothotte, will offer themselves for re-election. Following the appraisal of the non-executive directors facilitated by Egon Zehnder, the Board was satisfied that each director's performance continued to be effective and that each director continued to demonstrate commitment to the role, and recommends the re-election of those directors standing for re-election. The Board considered the independence of David Rough and Sir Steve Robson, and was satisfied that, notwithstanding the fact that they have been directors of the Company for a period in excess of nine years, they both continue to be independent in character and judgement and that there were no other grounds disclosed or of which the Board was aware that could affect their independence. In addition, the Board was of the view that with the appointment of a new Chairman, it would be important to maintain an element of continuity in Board membership.

Further details about the directors standing for re-election, their skills and experience, and their roles within the Group are given in the directors' biographies on pages 102 and 103.

New appointments to the Board
A search for a new independent non-executive director to succeed Willy Strothotte as Chairman was conducted by the Nominations Committee with the assistance of an executive search consultancy. The Board's mandate was to identify an individual with impeccable credentials in creating value for shareholders, wide international experience, and highly regarded by the global investment community. The mandate also recognised the importance of considering a diverse range of candidates to augment the Board's diversity. Following a comprehensive search, the Nominations Committee recommended that Sir John Bond be invited to join the Board as an independent non-executive to succeed Willy Strothotte as Chairman of the Company. He will be proposed by the Board for election by the shareholders at the forthcoming AGM.

Sir John Bond, aged 69, is currently chairman and non-executive director of Vodafone Group plc from which he will resign on 26 July 2011. He was appointed to the board of Vodafone in 2005 and became chairman in 2006. He is also a director of A.P. Moller-Maersk A/S (Denmark), the international shipping and investment company, and Shui On Land Ltd, a Hong Kong quoted property development company specialising in China. He retired as Group Chairman of HSBC Holdings plc in 2006, having also been its Group Chief Executive from 1993 to 1998. He holds advisory roles with Northern Trust Corp, USA, and with KKR Asia. He is also a member of various advisory bodies in China: China Development Forum; China Banking Regulatory Commission International Advisory Board; and Tsinghua School of Economics and Management at Tsinghua University.

Sir John Bond has an exceptional record of shareholder value creation in his distinguished career, during which he has successfully chaired two major international companies and gained unrivalled experience in the world's emerging Asian economies. The Board has every confidence that Sir John will make a significant contribution to the Xstrata Board and the ongoing success of the Company. Following his election to the Board, it is intended that he will also chair the Nominations Committee and serve as a member of the Remuneration Committee.

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

All directors are made aware that they may take independent professional advice at the expense of the Company in the furtherance of their duties. All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that all governance matters are complied with and assists with professional development as required.

New directors receive a full, formal and tailored induction on joining the Board. In addition, ongoing support and resources are provided to directors in order to enable them to extend and refresh their skills, knowledge and familiarity with the Company. Professional development and training is provided in three complementary ways: regular updating with information on changes and proposed changes in laws and regulations affecting the Group or its businesses; arrangements, including site visits, to ensure directors are familiar with the Group's operations; and opportunities for professional and skills training.

Remuneration
Remuneration is covered in the Remuneration report on pages 119 to 129 and a description of the work of the Remuneration Committee, on pages 116 and 117.

Accountability and audit
Financial reporting
The Board is mindful of its responsibility to present a balanced and clear assessment of the Company's position and prospects, and the Board is satisfied that it has met this obligation. This assessment is primarily provided in the Chairman's statement, the Chief Executive's report and the Operating and Financial review contained in this report. The statement of directors' responsibilities in respect of the Group and parent company financial statements is set out on page 132.

Risk management and internal control

General

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board annually reviews the effectiveness of the Group's risk management and internal control systems which cover all material controls including financial, operational and compliance controls and compliance with Turnbull Guidance. In so doing, the Board relies on reviews undertaken by the Audit Committee (supported by the business unit audit committees).

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year under review and up to the date of the approval of the annual report and financial statements. The Audit Committee reviews this process and the effectiveness of the system of internal control by considering the regular reports from management on key risks, mitigating actions and internal controls, management representations and assertions, and the reports on risk management and internal control from internal audit, the external auditors and other assurance providers such as sustainable development management.

The principal aim of the risk management and internal control systems is the management of business risks that are significant to the fulfilment of the Group's strategic objectives, with a view to enhancing the value of the shareholders' investment and safeguarding of assets. The internal control systems have been designed to manage rather than eliminate the risk of failure to achieve business objectives and provide reasonable but not absolute assurance against material misstatement or loss. The directors confirm that they have reviewed the effectiveness of the risk management and internal control systems. This review excludes associates of the Group as Xstrata management does not have the ability to dictate or modify the internal controls of these entities.

Control environment

The key elements and procedures that have been established to provide an effective risk management and internal control system are as follows:

(i) Organisational structure

There is a well-defined organisational structure, with clear operating procedures, lines of responsibility and delegated authority.

The way the Group conducts its business, expectations of management and key accountabilities are embodied in the Group's policies, its Statement of Business Principles and Board level authority limits.

The Group operates a decentralised management model. The Board sets overall policy, and appropriate authority to implement that policy is delegated to the Xstrata Alloys, Coal, Copper, Nickel and Zinc businesses and supporting functions. The business units have responsibility for implementing business plans within the budgets approved by the Board in accordance with authorisation levels. The business units are responsible for profitability to the level of earnings before interest and taxation (EBIT). Business unit boards meet regularly and either the Group Chief Executive or Chief Financial Officer attend as representatives of head office.

Group policies are established by head office management for application across the whole Group.

(ii) Risk identification and evaluation

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

The Xstrata approach to risk management is value-driven and has the stated objective of ensuring 'an environment where we can confidently grow shareholder value through developing and protecting our people, our assets, our environment and our reputation'. The process is thorough and robust and is an essential element of the Group's approach to business planning.

The head office and each business unit carry out a comprehensive annual risk review and update their risk registers accordingly. Objectives in the business plan are aligned with risks, and a summary of the key risks, related internal controls, accountabilities and further mitigating actions that are planned is appended to the business plan that is reviewed and approved by the Executive Committee and is reviewed by the Board.

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

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

(iii) Information and financial reporting systems

The Group's comprehensive planning and financial reporting procedures include detailed operational budgets for the year ahead and a plan for the following two years. The Board reviews and approves the resulting three-year budget and plan. Plans and budgets are prepared on the basis of consistent economic assumptions determined by the Group finance function. Performance is monitored and relevant action taken throughout the year through the monthly reporting of key performance indicators, updated forecasts for current and subsequent two years together with information on the key risk areas.

Comprehensive monthly management reports for each business unit and on a Group consolidated basis, including updated forecasts for the year, are prepared and presented to the Executive Committee by the Group Controller. Detailed consolidated management accounts, together with an executive summary from the Chief Executive, are circulated monthly to all directors.

(iv) Investment appraisal

A budgetary process and authorisation levels regulate capital expenditure. For expenditure beyond specified levels, detailed written proposals are submitted to the business unit Chief Executives or executive committee, or to the Group Chief Executive, Executive Committee or Board, in accordance with Board delegated authority limits. Calculations of net present value (NPV), internal rates of return (IRR) and return on capital employed (ROCE), and sustainable development assessments are carried out as part of the process. Procedures are also in place for the early involvement of an independent engineer to review and provide independent assurance on major capital projects. Economic assumptions used reflect the latest forward prices where possible for the short and medium term, and centrally agreed long-term assumptions. Reviews are carried out after the project is complete, and for some projects during the construction period, to monitor progress against plan; major overruns and non-conformance to sustainable development goals are investigated. Commercial, legal, financial and sustainable development due diligence work, using outside consultants, is undertaken in respect of acquisitions as appropriate.

(v) Treasury Committee
A Treasury Committee operates as a sub-committee of Xstrata (Schweiz) AG Exco. Its membership consists of the Chief Executive, Chief Financial Officer, Group Treasurer and Group Controller. The Committee recommends Group policy, relating to all aspects of funding, management of interest rate and foreign exchange exposures, which is submitted to the Group Board for approval and it co-ordinates relationships with banks, rating agencies and other financial institutions. The Committee monitors all significant treasury activities undertaken by Group companies and ensures compliance with Group policy.

(vi) Internal audit
Internal audit is an important element of the overall process by which the Executive Committee and the Board seek the assurance they require that risks are properly identified, evaluated, managed and controlled. Risk-based internal audit plans, prepared on an annual basis, are approved by the Audit Committee and timely reports on achievement of the plans and findings are presented to the business unit audit committees.

The Group-wide internal audit function is supplemented by outsourced service providers when the required expertise is not available in-house. This is particularly relevant as the Company moves into a phase of higher capital spend with an increased focus on project assurance which has necessitated the establishment of an embedded process of independent engineers working with the internal audit team on major project management reviews.

(vii) Bribery/fraud management and whistleblowing
There is a formal Group policy on bribery, fraud and corruption, including reporting and investigation arrangements and, in line with best practice, including whistleblowing procedures. There are independently operated confidential hotlines in various countries in which the Group operates, through which employees and contractors or any other parties can report any breach of Xstrata's Business Principles and Group policies including the Global Policy on Bribery, Fraud and Corruption. The contact details are published in the Statement of Business Principles which are found on www.xstrata.com/sustainability/policies/businessprinciples. A global Code of Conduct was developed in 2010 and is being launched across the Group in March 2011 to provide additional guidance to employees, contractors and associated persons on putting the Business Principles into practice.

(viii) Further initiatives
The Group is committed to the ongoing review and improvement of its policies, systems and processes.

Reports on sustainable development matters and the results emanating from the established assurance programmes are produced and reviewed by the Sustainable Development Committee and by the Executive Committee.

The Group also has a control self assessment process in place through which the business units are required to sign off a Letter of Representation covering a wide range of topics at both the half-year and year-end, which are presented to the business unit audit committees.

Relations with shareholders

Dialogue with shareholders

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

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

All shareholders can obtain access to the annual reports and other current information about Xstrata through its website at www.xstrata.com. The operating and financial reviews on pages 50 to 95 include a detailed report on the business and future developments.

Constructive use of the Annual General Meeting

All directors normally attend Xstrata's AGM and shareholders are invited to ask questions during the meeting and to meet directors after the formal proceedings have ended. At the time of the listing in March 2002, shareholders in the former Xstrata AG were informed that the Company would offer shareholders the opportunity to attend general meetings in Switzerland where the head office resides, even though the Company was incorporated and has its registered office in England. Given this history and the number of shares still held in or through Switzerland, the Board continues to consider it is appropriate for the AGM to be held in Zug, Switzerland. A live and archived webcast of the AGM is also provided via Xstrata's website. The Board uses the AGM to communicate with institutional and private investors and welcomes their participation. At the AGM on 5 May 2010, the Chairman and the Chairmen of the Audit, Remuneration, Nominations and Health, Safety, Environment and Community Committees were present to answer questions. Details of the resolutions to be proposed at the AGM on 4 May 2011 can be found in the Notice of AGM. The Board has determined that voting on all resolutions at the AGM will be by way of a poll. Each member present in person or by proxy has one vote for each fully paid ordinary share of which she/he is a holder.

Board committees

The terms of reference of the Audit, Remuneration, Nominations and HSEC Committees are available on the Company's website www.xstrata.com.

Audit Committee

Members:
Peter Hooley (Chairman from 5 May 2010) (Independent)
Sir Steve Robson (Chairman to 5 May 2010) (Independent)
Claude Lamoureux (Independent)
David Rough (Independent)
Ian Strachan (Independent)

Responsibilities:
The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting and external and internal audits and controls, including: reviewing Xstrata's annual financial statements; considering the scope of the Company's annual external audit and the extent of non-audit work undertaken by external auditors; approving the Company's internal audit programme; advising on the appointment of external auditors; and reviewing the effectiveness of the Company's risk management and internal control systems (including bribery and fraud), risk registers and the Group's whistleblowing procedures.

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

The Chief Executive, the Chief Financial Officer, the Group Controller, representatives of the Company's external auditors and the Head of Internal Audit normally attend the meetings. Other directors of the Company and senior management may also, on invitation by the Committee, attend and speak, but not vote, at any meeting of the Audit Committee. In order to further enhance communication and best practice, the Chairmen of the business unit audit committees and the Chief Executives of the business units are also invited to attend the Audit Committee meetings on a rotational basis. The Audit Committee reports its activities and makes recommendations to the Board. The Audit Committee met three times during the year ended 31 December 2010.

A member of the Audit Committee also attends the meetings of the business unit audit committees to help promote a co-ordinated and consistent approach among the Group's audit committees. During 2010 the Audit Committee:

(a) approved the 2009 preliminary results announcement and reviewed management's impairment testing in detail, including the $1.9bn post tax impairment charge in respect of Xstrata Nickel's Australian, Norwegian and Canadian operations. The Committee believed that the positions taken and amounts recorded were appropriate and that assumptions were reasonable and within the range of the latest forecasts, where available;

(b) reviewed the 2009 annual financial statements and the external auditor's detailed reports thereon, including the appropriateness of Xstrata Group's accounting policies, the Litigation Report, the 'going concern' statement, banking covenants and asset impairment charges, and recommended approval by the Board;

(c) reviewed the external auditor's plan and scope for the audit of the Xstrata Group accounts, and approved their remuneration both for audit and non-audit work, and their terms of engagement. It also considered and approved the engagement of the auditors in respect of a number of non-audit assignments;

(d) reviewed the 2010 interim financial statements and noted that improved trading results and higher commodity prices had reduced the risk of further impairment;

(e) at a meeting of the Committee in December 2010, reviewed an impairment charge of $437m (post-tax) in respect of Xstrata Nickel's Araguaia project, reflecting the fact that development of this project is not seen as a priority at this stage;

(f) recommended to the Board the reappointment of the external auditors following confirmation of auditor objectivity and independence, and an evaluation of their effectiveness which rated the auditors highly;

(g) reviewed the Company's internal financial controls and the effectiveness of the Company's risk management and internal control systems. The Committee noted the introduction of a revised Group Risk Management Policy and new Group Risk and Change Management procedure guidelines based on ISO 31000. The UK Corporate Governance Code requirements relating to responsibility for determining the nature and extent of the significant risks the Company is willing to take in achieving its strategic objectives were noted. The Committee noted that the Company's internal control systems and operations were examined and tested by the internal auditors;

(h) reviewed the plans being developed to implement the new requirements resulting from the enactment of the UK Bribery Act 2010 and noted that, when implemented, this will bring about a more comprehensive environment for UK companies. It was agreed that the Audit Committee should accept delegated responsibility from the Board for oversight of the Global Policy on Bribery, Fraud and Corruption, and for a Code of Conduct which covers a broader range of ethical behaviour. The Committee reviewed the framework for the oversight of ethical issues;

(i) reviewed the structure and limits of the Xstrata Group insurance policies, and considered these to be appropriate, and reviewed the pensions, tax and treasury affairs of the Group;

(j) reviewed and approved the internal audit plans for 2011, the effectiveness of the internal audit function and, at each meeting, reviewed the reports on findings and on progress against recommendations. At each meeting, the Audit Committee also reviewed a report on major projects in terms of achievement of agreed control and project management objectives delivery targets;

(k) reviewed an Ore Reserves and Mineral Resources Report, subject to review by an independent expert, to ensure consistency of reporting across the Group and with international standards;

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(l) reviewed the report on fraud-related matters and the whistleblowing arrangements; and

(m) conducted, and was satisfied with, an assessment of its own effectiveness and that all matters required by law, regulation and good corporate governance, including the duties and responsibilities delegated to it by the Board, were satisfactorily covered by the Committee.

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

The Group has a specific policy governing the conduct of non-audit work by the external auditors which ensures that the Company is in compliance with the requirements of the Combined Code, the FRC Guidance on Audit Committees and the Ethical Standards for Auditors published by the Auditing Practices Board. The policy is available on Xstrata's website at http://www.xstrata.com/policies.

The auditors are permitted to provide non-audit services that are not in conflict with auditor independence and objectivity. At each meeting, reports are submitted to the Audit Committee detailing non-audit fees paid to the external auditors. A range of non-audit services has been pre-approved in principle by the Audit Committee. However, where the fee is likely to be in excess of $100,000 for such pre-approved services, specific re-approval is required from the Audit Committee, while prior approval of the Chief Financial Officer is required for those pre-approved services where the fee is likely to be less than $100,000. However, any non-audit services provided by the external auditors which have not been pre-approved require the specific approval of the Audit Committee.

Fees paid to the auditor for audit services, audit-related services and other non-audit services per service type are detailed in Note 10 to the financial statements on page 165. The external auditors, Ernst & Young, were requested to provide certain non-audit services when it was concluded they were the most appropriate supplier due to efficiency and Ernst & Young's status as a leading firm for the specific services being requested.

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

Remuneration Committee

Members:

Willy Strothotte (Chairman)
Con Fauconnier (Independent) (from 5 May 2010)
Paul Hazen (Independent) (to 5 May 2010)
David Rough (Independent)

Responsibilities:

The principal roles of the Remuneration Committee are: to consider and determine all elements of the remuneration of the Chief Executive and Chief Financial Officer and of the heads of the business units of the Company (the Executive Committee) as defined by the Chief Executive; and to determine targets for any performance-related pay schemes operated by the Company. At its meetings, the Remuneration Committee makes recommendations to the Board in regard to all elements of the remuneration for the executive directors and the members of the Executive Committee. The Remuneration Committee receives independent advice on benchmarking and best practice. The remuneration of non-executive directors, other than the Chairman, is approved by the Chairman and Chief Executive. The Chairman's remuneration is determined by the Remuneration Committee while the Chairman is absent.

The Remuneration Committee is chaired by Willy Strothotte. As Chairman of Xstrata and Chairman of Glencore, he is not considered to be an independent director and therefore is not compliant with the Combined Code. The Board regards Willy Strothotte's membership as beneficial to the work of the Committee due to his extensive knowledge and experience of the global mining resources sector. The Board considers that this is consistent with the main principle in Code B.2 of the Combined Code and contributes to good governance. However, Willy Strothotte will retire from the Board, effective from the end of the AGM on 4 May 2011, and the Company will then be fully compliant with the UK Corporate Governance Code. The Committee met twice during the year. The Chief Executive attends meetings by invitation but does not participate at a meeting of the Committee (or during the relevant part) at which any part of his remuneration is being discussed or participate in any recommendation or decision concerning his remuneration.

The Remuneration Committee's activities in respect of the year ended 31 December 2010 included:

(a) determining the bonuses for 2009 performance and salaries for 2011 for the executive directors and members of the Executive Committee;

(b) determining the vesting percentage applicable to awards under the Long Term Incentive Plan 2007 which vested in March 2010, approving the number of share options and contingent share awards to be awarded under the 2010 Long Term Incentive Plan awards and the individual awards to members of the Executive Committee;

(c) receiving a report from KPMG on the vesting calculation for the 2007 Added Value Incentive Plan Award, showing Xstrata had underperformed against the TSR Index over the three-year vesting period and that no payments were due under the Plan. The Added Value Plan was due to finish in 2010, and given the change in the Company's strategy to developing brownfield and greenfield sites, it was agreed that Mr. Davis revert to being a participant in the Xstrata Long Term Incentive Plan;

(d) approving the 2009 remuneration report for the 2009 Annual Report;

(e) agreeing an increase to the Chairman's remuneration in 2010 to £250,000, and increasing the fee structure for non-executive directors in 2010 by approximately 3%; and

(f) determining the amount of the total award to be granted under the Xstrata Long Term Incentive Plan in 2011.

Details of Xstrata's remuneration for executive directors, benefits, share options, retirement benefit entitlements, service contracts and compensation payments are given in the Remuneration report on pages 119 to 129. A resolution to approve the remuneration report will be proposed at the forthcoming AGM.

Nominations Committee

Members:

David Rough (Chairman) (Independent)
Ivan Glasenberg
Sir Steve Robson (Independent)

Responsibilities:

The Nominations Committee is responsible for recommending candidates for appointment to the Board, the composition of the Board, and orderly successions to the Board. The Committee reviews the structure of the Board of directors, identifying, evaluating and recommending candidates for Board vacancies and making recommendations on the continuation of existing directors in office to ensure there is a balanced Board in terms of skills, knowledge and experience. The Committee also determines succession plans for the Chairman and Chief Executive, and assesses directors' potential conflict of interest situations and makes recommendations thereon to the Board.

During the year ended 31 December 2010, the Nominations Committee met three times. Its activities in respect of that year included:

(a) reviewing the plan for the retirement by rotation and re-election of directors of Xstrata and the framework for Board succession planning for 2011 to 2013;

(b) recommending that in future all directors should retire at the AGM and, where appropriate, stand for re-election;

(c) mandating Egon Zehnder International to commence a search for and to prepare a shortlist of candidates with a view to the possible recommendation of a candidate for appointment as an independent non-executive director to succeed Willy Strothotte as Chairman;

(d) noting the letters from the former Minister of Trade to UK company chairmen recommending the appointment of women to company boards. The Committee confirmed that its policy is to appoint the best candidates available based on merit in accordance with the UK Corporate Governance Code and to cast its net as widely as possible in the search for a candidate who would bring to the Board the skills, experience and knowledge required. A female candidate for the Board had recently been considered and interviewed but withdrew from the selection process after accepting an offer from another company;

(e) proposing the engagement of Egon Zehnder International to facilitate the board evaluation process; and

(f) assessing a director's potential conflict of interest situation, proposing terms on which that situation might be authorised and recommending these for authorisation by the Board.

Health, Safety, Environment & Community Committee (HSEC)

Members

Ian Strachan (Chairman) (Independent)
Mick Davis
Con Fauconnier (Independent)
David Rough (Independent)
Claude Lamoureux (Independent)

Responsibilities:

The principal roles of the HSEC Committee are to review and make recommendations to the Board on the appropriateness and effectiveness of HSEC strategy, performance and governance. It also reviews the outcomes of all investigations into critical HSEC incidents and keeps the Board informed of new developments, trends and/or forthcoming significant legislation on HSEC matters which may be relevant to the Xstrata Group's operations, its assets or employees. Xstrata's Sustainability report for 2010 to be published in April 2011 provides a detailed and comprehensive report on Xstrata's sustainable development performance and targets.

During the year ended 31 December 2010, the HSEC Committee met four times. Its activities in respect of that year included:

(a) monitoring and evaluating reports on the implementation and effectiveness of Xstrata's Sustainable Development Policy, Sustainable Development Standards, Sustainable Development strategy and Sustainable Development assurance;

(b) a review of Xstrata Alloys Sustainable Development strategy and performance. The Committee also reviewed the comprehensive wellness programme introduced by Xstrata Alloys for their South African workforce and their families. The Committee took note of the enormous improvements made by Xstrata Alloys in their Sustainable Development and HSEC performance. The Committee also discussed a project investigating the possibility of utilising algae to sequester carbon dioxide emissions from furnaces;

Corporate Governance report *continued*

(c) a review of Xstrata Zinc's Sustainable Development strategy and performance. The Committee recognised the significant improvements made by Xstrata Zinc in safety performance since 2002, reducing the total recordable injury frequency rates (TRIFR), lost time injury frequency rates (LTIFR) and disabling injury severity rates (DISR) by 87%, 93% and 69% respectively. The Committee also reviewed Xstrata Zinc's plans for further reductions in sulphur dioxide emissions at the Mt Isa lead smelter in Australia;

(d) a review of Xstrata Copper's Sustainable Development strategy and performance. The Committee noted Xstrata Copper's performance with respect to high potential risk incidents, TRIFR, LTIFR and DISR, which is world-class, and agreed that in future it will compare performance against the best in class in each category in the mining sector. Reports were also received on the social responsibility programmes for Las Bambas and Tampakan which were seen to be making progress;

(e) a review of Xstrata Coal's Sustainable Development strategy, performance and governance structure. The Committee received a progress report on Xstrata Coal's safety initiative SafeCoal, their investments in low emission technology, Coal and the Environment – a programme addressing issues around the mining and the use of coal, and Xstrata Coal's strategy and work with their local communities;

(f) a review of the half-year Sustainable Development report which showed continuing improvements in all areas of HSEC across the Group and the successful integration of Sustainable Development risk audits into the internal annual audit programme. The Committee also noted the success of Xstrata Coal's SafeCoal initiative which achieved the 2010 injury reduction objectives within the first six months of the year;

(g) monitoring and evaluating reports on high potential risk incidents and the results of investigations into fatalities and other critical HSEC incidents. While expressing regret for all fatalities, the Committee noted that the number of fatalities had reduced from nine in 2009 to three in 2010;

(h) approving the contents of the 2009 Xstrata plc Sustainability Report and noting that it fulfils the requirements of the socially responsible investment community; and

(i) noting the Company's leadership position in sustainable development in the mining sector. Xstrata was named Global Sector Leader for Mining in the Dow Jones Sustainability Index (DJSI) for the fourth consecutive year, and the second time as the Global Super Sector Leader for Basic Resources in the DJSI. Xstrata also retained its leadership position in the UK's Business in the Community Index and the Carbon Disclosure Project, and the Group 2009 Sustainability Report, published in 2010, received the FTSE 100's Building Public Trust award for 2010.

Executive Committee

Members:

Mick Davis (Chairman, also Xstrata plc Chief Executive)
Trevor Reid (Chief Financial Officer)
Santiago Zaldumbide (Xstrata Zinc)
Charlie Sartain (Xstrata Copper)
Peter Freyberg (Xstrata Coal)
Ian Pearce (Xstrata Nickel)
Peet Nienaber (Xstrata Alloys)
Benny Levene (Chief Legal Counsel)
Thras Moraitis (Executive General Manager, Group Strategy and Corporate Affairs)

Responsibilities:

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

Remuneration report

Remuneration Committee

The Remuneration Committee is chaired by Willy Strothotte and its other members are David Rough and Dr. Con Fauconnier, all of whom are non-executive directors. The Board recognises that Willy Strothotte is not an independent non-executive director as defined by the Combined Code (or the new UK Corporate Governance Code, which will replace it for accounting periods beginning after 28 June 2010). However, Willy Strothotte will retire from the Board and from the Remuneration Committee effective from the end of the Annual General Meeting on 4 May 2011.

The Remuneration Committee reviews the structure of remuneration for executive directors on an ongoing basis and has responsibility for the determination, within agreed terms of reference, of specific remuneration packages for executive directors and other members of the Executive Committee, including salaries, retirement benefits, bonuses, long-term incentives, benefits in kind and any compensation payments. The Remuneration Committee is also aware of the level and structure of remuneration for senior management and advises on any major changes in employee remuneration and benefit structures throughout the Group, including the continuous review of incentive schemes to ensure that they remain appropriate for the Group. The Remuneration Committee commits to bringing independent thought and scrutiny to the development and review process of the Group with regards to remuneration.

The Remuneration Committee met twice during 2010 and was attended on both occasions by all members. The Chairman will continue to ensure that the Group maintains contact, as necessary, with its principal shareholders about remuneration. The purpose and function of the Remuneration Committee in the future will not differ materially from this year and its terms of reference (which have recently been reviewed to take account of changes introduced in the new UK Corporate Governance Code) can be found on the Group's website (www.xstrata.com).

The remuneration of non-executive directors, other than for the Chairman, will be considered by the Chairman and the Chief Executive and will not be considered by the Remuneration Committee. The Chairman's remuneration will be determined by the Remuneration Committee while the Chairman is absent.

The Chief Executive attends the Remuneration Committee meetings by invitation and assists the Remuneration Committee in its considerations, except when issues relating to his own remuneration are discussed. The Remuneration Committee is provided with national and international pay data commissioned from external survey providers.

During the year, Hay Group provided independent advice to the Remuneration Committee on executive remuneration. The Group also uses the Hay Group to provide market information on remuneration for positions below Executive Committee level. The Hay Group provided no other services to the Group during 2010.

Remuneration policy

Xstrata's remuneration policy is designed to attract, retain and motivate the highly talented individuals needed to deliver its business strategy and to maximise shareholder value creation.

The policy for 2011 and, so far as practicable, for subsequent years, will be framed around the following principles for the Executive Committee:

- remuneration arrangements will be designed to support Xstrata's business strategy and to align it with the interests of Xstrata's shareholders;
- total reward levels will be set at appropriate levels to reflect the competitive global market in which Xstrata operates, with the intention of positioning such levels within the top quartile for outstanding performance when measured against a peer group of global mining companies and the FTSE 100;
- a high proportion of the remuneration should be 'at risk', with performance-related remuneration making up at least 50% of the total potential remuneration for Executive Committee members; and
- performance-related payments will be subject to the satisfaction of demanding and stretching performance targets over the short and long term, which are designed to promote the long-term success of the Group. These performance targets will be set in the context of the prospects of the Group, the prevailing economic environment in which it operates and the relative performance against that of competitor companies.

The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the business environment and in remuneration practices. Consequently, the remuneration policy and the Remuneration Committee's terms of reference for subsequent years will be reviewed annually in the light of matters such as changes to corporate governance best practice or changes to accounting standards or business practices among peer group mining companies. This will help to ensure that the policy continues to provide Xstrata with a competitive reward strategy. In doing so, the Remuneration Committee will take into account the UK Listing Rules, the provisions of the UK Corporate Governance Code and associated guidance attached to it, as well as the guidance provided by a number of institutional investor representative bodies on the design of performance-related remuneration.

The Remuneration Committee is satisfied that Xstrata's pay and employment conditions for both directors and non-Board employees around the world are appropriate to the various markets in which Xstrata operates. The Remuneration Committee has liaised with the Group's Human Resources function in order to have regard to pay and employment conditions across the Group in setting directors' remuneration but it does not consider a ratio comparison between executive directors and non-Board employees to be a useful way of assessing the fairness and balance of Xstrata's remuneration practices. The vastly different costs of living in the countries where Xstrata has operations, and fluctuations in exchange rates, mean any such analysis would not be appropriate and would limit flexibility of linking remuneration to performance. The Remuneration Committee continues to operate a policy under which there is a balance of a coherent overall reward philosophy with empowerment of business units and an emphasis on incentivising exceptional performance through arrangements appropriate to the level of responsibility.

Linking reward to performance

The Remuneration Committee considers that reward should be commensurate with performance. In reviewing and determining base pay, payments of annual bonuses and the award and vesting of long-term incentives, the Remuneration Committee examines the Group's underlying safety, financial and sustainable development performance. The Remuneration Committee is able to justify high reward when there is exceptional performance.

The following achievements during 2010 evidence exceptional performance and have supported the Remuneration Committee's approach when setting current remuneration levels:

- By the end of the year, the Group's total recordable injury frequency rate, lost time injury frequency rate and disabling injury severity rate had improved by 20%, 10% and 11% respectively compared to 2009
- Whilst any fatality whatsoever is regarded as unacceptable by the Group, there was a reduction in the number of fatalities at managed operations from nine in 2009 to three in 2010
- Xstrata management's emphasis on operational excellence, including cost improvements, has enabled record cost efficiencies of $541 million to be achieved across the Group in 2010; savings were achieved in all of the Group's businesses and represent an unbroken record of annual real cost savings since Xstrata's IPO in 2002
- EBITDA increased by 53% to $10.4 billion in 2010, with pre-exceptional attributable net profit of $5.2 billion which was 86% higher than in 2009
- Xstrata management demonstrated excellent operational and fiscal management throughout 2010. Xstrata's working capital increased by only 6% despite upward pressure on receivables balances and purchased inventory from higher commodity prices during 2010
- In 2010, Xstrata was named Mining Sector Leader for the fourth consecutive in the Dow Jones Sustainability Index and was awarded PwC's Building Public Trust award for its sustainability reporting
- The successful acquisition of Sphere Minerals has provided Xstrata with a meaningful entry into the iron ore market
- Xstrata continued to execute its organic growth strategy by approving a number of major projects during the year which will significantly increase production capacity. These included the $672 million (ZAR4.9 billion) development of the second phase of the Lion ferrochrome complex expansion in South Africa, a $1.47 billion investment to develop the Antapaccay copper project as a major long-life, low cost brownfield expansion to the Tintaya copper mine in southern Peru, the low cost, long-life $4.2 billion Las Bambas copper project in Peru, the development of the $1.1 billion Ulan West underground thermal coal mine in the central west of New South Wales, Australia, the $1.1 billion Ravensworth North project and the AUD274 million George Fisher Mine expansion
- Xstrata's ongoing positive momentum in developing its industry-leading pipeline of organic growth projects resulted in the successful commissioning of major Nickel Rim South, Blakefield South coal and Goedgevonden coal growth projects in the first half of 2010 and completion of construction of a magnetite plant at Ernest Henry mine, part of the operation's $542 million transformation into a major underground copper-gold mine
- Xstrata's share price during 2010 rose by 34.3% compared to 27.8% for the FTSE 350 Mining Index and by 9% for the FTSE 100 index over the same period

Elements of remuneration

The total remuneration package for executive directors comprises the following elements:

- base salary;
- annual bonus plan including a deferred element;
- participation in long-term incentive arrangements;
- retirement benefits; and
- other benefits including housing allowance (where essential for the performance of duties), permanent health, life and private medical insurance, provision of short-term interest-free loans to assist with funding double taxation liabilities where appropriate and, in the case of the Chief Executive, limited private use of the Company's leased aircraft.

Base salary

The base salary of the executive directors is subject to annual review by the Remuneration Committee. The Remuneration Committee reviews external pay data to ensure that the levels of remuneration remain competitive in line with Group policy. The Remuneration Committee is also responsible for ensuring that the positioning of the Group's remuneration relative to its peers does not result in increases in remuneration without a corresponding increase in performance or responsibilities. When setting base salaries, the Remuneration Committee also considers the impact on retirement benefits contributions and associated costs. As disclosed in the 2009 Remuneration report, base salary increases for Mick Davis, Trevor Reid and Santiago Zaldumbide (with effect from 1 January 2010) were 3%, 3% and 3.1% respectively. Respective base salaries, effective 1 January 2011, will be £1,430,000, £750,000 and €1,040,000, representing increases of 5.9%, 10.3% and 4% respectively. This is broadly in line with the treatment of base salary reviews for other Group staff, except that the increase for Trevor Reid was determined by the Remuneration Committee in the context of his outstanding contribution to the performance of the business and to bring him in line with his peers in other companies of comparable market size.

Executive Committee Bonus Plan

Executive directors and the other members of the Executive Committee are eligible to participate in the Executive Committee Bonus Plan (the Bonus Plan). The Bonus Plan focuses on the achievement of annual objectives that align the short-term financial performance of the Group with the creation of shareholder value.

The bonus is based on Xstrata's operational performance as measured by return on equity and net profit. Specific targets for return on equity and the proportion of net profits that make up the bonus pool are determined each year by the Remuneration Committee. Before the pool is finalised, the Remuneration Committee actively considers whether the pool is appropriate in light of the other key financial and non-financial drivers of future shareholder value, including the Company's health, safety, environment, and community performance.

For both 2008 and 2009, despite the Group's robust return on equity and net profits, the available bonus pool was not fully utilised. This was in recognition of the general market conditions and the impact of the global financial crisis. Despite exceptional performance in 2010, the Remuneration Committee has exercised active discretion and taken a holistic view of performance against a backdrop of ongoing market recovery from the global financial crisis and, as such, will again not utilise the entire bonus pool available.

Any payment under the Bonus Plan is subject to a performance hurdle; for the financial years ending 31 December 2010 and 2011 it will be set such that the Group's return on equity will be at least equal to the Group's average cost of borrowing. If this hurdle is not reached, the bonus pool will be zero. The Remuneration Committee has the discretion to vary the basis of calculation and the performance targets for subsequent years.

The amount of the bonus pool that is distributed in any one year, and the relative proportions payable to each participant (or, at the discretion of the Remuneration Committee, to a trust for his/her benefit) will be at the discretion of the Remuneration Committee. Individual performance criteria have been agreed with each participant and include health, safety, environmental, community, employee development, operational, financial and other criteria. Performance against these individual criteria will be evaluated by the Remuneration Committee in determining individual allocations from the bonus pool.

The maximum bonus payable under the Bonus Plan for executive directors is 300% of salary. The highest level of bonus will only be available for truly outstanding performance. Bonuses will be payable in up to three tranches, as follows:

- the maximum bonus a 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 up to the further maximum 100% of base salary will be deferred for a period of two years.

The deferred elements take the form of an award of Xstrata shares granted either on a net or gross basis subject to conditions or an award of a nil-cost option over Xstrata shares.

In respect of a net deferred award, the appropriate amounts of tax and social security are deducted from the deferred portion of the bonus and remitted to the relevant tax authority. The remainder (or net amount) is invested in Xstrata shares acquired in the market which are held by the trustees on behalf of the executive director, subject to transfer restrictions and forfeiture conditions. The removal of transfer restrictions and forfeiture conditions is subject to the executive director remaining in employment throughout the deferral period. If the net deferred award shares are forfeited, the executive director must reimburse the tax and social security paid. Net deferred awards may be transferred with the consent of the Remuneration Committee and on such terms and to such persons (or categories of person) as they specify. Such transfers will normally only be permitted where there will be no immediate realisation of economic benefit by means of a sale to an unconnected third party.

Awards made on a gross basis are a conditional right to receive Xstrata shares. The number of shares awarded is determined by reference to the price at which concurrent awards under the Xstrata plc Long Term Incentive Plan (LTIP) are made. The vesting of the gross deferred awards is also subject to the executive director remaining in employment with Xstrata throughout the deferral period. Tax and social security will be payable by the executive director upon vesting. Gross deferred awards are not transferable.

A nil-cost option award is structured on the same basis as a gross deferred award except that the executive director may call the shares under option following vesting at any time during the exercise period. The number of shares awarded under option is determined by reference to the price at which concurrent awards under the LTIP are made. The vesting of an option is subject to the executive director remaining in employment with Xstrata throughout the deferral period. The Remuneration Committee may determine the life of the option up to a maximum of 10 years. The option is not transferable and is equity settled following exercise. Tax and social security will be payable by the executive director upon exercise of the option or such earlier date as relevant local tax law may provide. The executive director must reimburse his employer to the extent that any social security liability payable by his employer in respect of the exercise of the option exceeds the social security liability that would have been payable had the option been exercised on the vesting date at the then prevailing share price.

There is no intention to use newly issued ordinary shares for the Bonus Plan and any shares required for the satisfaction of deferred bonus awards will be acquired by market purchase. Deferred bonus awards are not pensionable.

Long-term incentive arrangements

All equity-based awards are subject to an overall limitation on the number of shares issued, transferred from treasury, or that remain issuable pursuant to awards of 10% within any 10-year period after the listing date.

Added Value Incentive Plan

The Added Value Incentive Plan (AVP) was designed to incentivise the Chief Executive by providing a share of the long-term value he creates for shareholders over and above the value created by Xstrata's peer companies and to create alignment with shareholders by means of share ownership.

During 2010, the AVP terminated in respect of the grant of new awards with the consequence that no further awards will be granted under it. The last award under the AVP was made in 2009 and, as from 2010, the Chief Executive has participated in the LTIP. Only the plan cycles commencing in 2008 and 2009 remain open under the AVP. The 2005 plan cycle, which vested in 2008, did not proceed to Phase 2 and the 2006 and 2007 plan cycles, in each case, neither vested nor proceeded to Phase 2. The Chief Executive's participation in any open plan cycle of the AVP is contingent on his maintaining a holding of at least 350,000 ordinary Xstrata shares.

Payments under the AVP are based upon the growth in the Company's total shareholder return (TSR) over the relevant performance period relative to an index of global mining companies, which form the Xstrata TSR Index. Performance is assessed over periods of both three years (Phase 1) and five years (Phase 2) from the date of award.

At the end of a Phase 1 performance period, Xstrata's TSR is calculated and compared to the Xstrata TSR Index which determines the added value created over the performance period.

If this figure is positive, it is multiplied by a participation percentage (which is 0.5% for the 2008 plan cycle and 0.3% for the 2009 plan cycle) to calculate the Phase 1 base reward. No payments will be made if Xstrata underperforms against the Xstrata TSR Index.

There is a cap which applies to the calculation at the end of the Phase 1 performance period. If the cap has been applied then the Chief Executive will become eligible for Phase 2 of a plan cycle.

At the end of the Phase 2 performance period, the calculation will be carried out in the same way as at the end of Phase 1, but only to the extent that performance exceeds the applicable cap. Neither the 2006 nor the 2007 plan cycles entered Phase 2. It is not expected that the 2008 plan cycle will enter Phase 2.

The Remuneration Committee recognises that the absolute value received by shareholders is higher when outperforming a rising market than outperforming a market which is static or falling. Two modifiers are therefore applied. First, the Phase 1 and Phase 2 base rewards are increased or decreased in line with the Xstrata share price index measured against the comparator group. Second, a reduction is made for lower levels of absolute performance, by applying a multiplier to the indexed base rewards to calculate the final rewards. For the 2008 and 2009 plan cycles, for absolute TSR of 25% and above, a multiplier of 1 will be applied; and for absolute TSR of -25% or below, a multiplier of 0.5 will be applied. Between -25% and +25% straight-line interpolation will apply. Provided Xstrata's TSR is at least equal to the Xstrata TSR Index, the Phase 1 final reward under each plan cycle will be at least $1 million.

50% of the final reward for a phase of a plan cycle shall be payable in cash or in shares, as determined by the Remuneration Committee, as soon as practicable following determination of the final reward for that phase by the Remuneration Committee. Of the remaining 50% of a Phase 1 final reward, 25% shall be deferred for a period of one year and 25% shall be deferred for a period of two years. Phase 2 is calculated over a five-year period, with 50% of any additional award paid at the end of that period and the remaining 50% deferred for a further year. Deferred awards are indexed to the Xstrata share price over the period of deferral.

The Xstrata TSR and share price indices will be weighted by market capitalisation. The comparator group for the 2008 and 2009 open plan cycles comprises relevant global mining firms. This group is identical to that used for the LTIP described below:

The comparator group for the TSR and share price indices

2008	2009	2010	2011
Alcoa Inc	Alcoa Inc	As for 2009	As for 2009
Anglo American plc	Anglo American plc		
Arch Coal Inc	Arch Coal Inc		
BHP Billiton plc	BHP Billiton plc		
Coal & Allied Industries Ltd	Eramet SA		
Eramet SA	Freeport McMoran Copper & Gold Inc		
Grupo Mexico SA de CV	Grupo Mexico SA de CV		
Korea Zinc Inc	Impala Platinum Holdings Ltd		
Lonmin plc	Korea Zinc Inc		
Norddeutsche Affinerie AG	MMC Norilsk Nickel		
Peabody Energy Corp	Norddeutsche Affinerie AG		
Rio Tinto plc	Peabody Energy Corp		
Teck Cominco Ltd	Rio Tinto plc		
Umicore SA	Teck Cominco Ltd		
	Companhia Vale do Rio Doce (Vale)		
	Vedanta Resources plc		

In the event of one or more constituents undergoing a takeover, merger, dissolution, variation in capital or any other event that will materially affect calculation of an index, the Remuneration Committee shall determine how this should be reflected in the index calculation. The Remuneration Committee may add other relevant competitors to the index if required.

In the event of a change of control, all open plan cycles will vest immediately, subject to and to the extent of satisfaction of the vesting criteria at that time. The final reward under each open plan cycle will be calculated as if the performance period terminated on the date of the transaction, save that the Remuneration Committee has discretion to disapply the cap that would otherwise apply in the calculation of the Phase 1 return. In the event of the Chief Executive ceasing to be an Xstrata employee as a result of death, ill health or disability, all open plan cycles will vest immediately, subject to and to the extent of satisfaction of the vesting criteria at that time. The final reward under each open plan cycle will be calculated as if the performance period terminated on the date of cessation of employment. In the event of the Chief Executive ceasing to be an Xstrata employee other than in the circumstances described above, all plan cycles will lapse and no payments will be made unless the Remuneration Committee in its absolute discretion determines otherwise. In the event of a variation in the capital of Xstrata, the participation percentages may be adjusted in such a way as the Remuneration Committee determines.

2008 AVP cycle

As at 31 December 2010, the decrease of Xstrata's TSR was 46.44%, the decrease of the Xstrata TSR index was 1.2% and the decrease of the Xstrata Share Price Index was 7.16%, as calculated under the AVP for the 2008 plan cycle. If this is the outcome at the end of the three-year period on 26 March 2011, no payment will be made under the plan.

2009 AVP Cycle

As at 31 December 2010, the increase of Xstrata's TSR was 210.77%, the increase of the Xstrata TSR index was 160.58%, and the growth of the Xstrata Share Price Index was 152.01%, as calculated under the AVP for the 2009 plan cycle. The determination of any award under the 2009 plan cycle will be made at the end of the Phase 1 performance period on 17 April 2012 and, if appropriate, at the end of the Phase 2 performance period on 17 April 2014.

Vested awards under the AVP can be settled in cash. The Remuneration Committee has discretion, however, to settle deferred awards in shares if it considers this to be appropriate.

Long Term Incentive Plan

Executive directors are eligible to participate in the LTIP. The LTIP is designed to promote the long-term success of the Group as it aims to focus management's attention on continuous and sustainable improvements in the underlying financial performance of the Group and on the delivery of superior long-term returns to Xstrata's shareholders. It provides executives with the opportunity to earn superior levels of reward but only for outstanding performance. Participation in the LTIP is targeted at those employees with ability to influence shareholder value. In addition, the LTIP further aligns the interests of shareholders and management by encouraging executives to build a shareholding in the Group.

An award under the LTIP comprises a conditional award of shares (Free Shares) and a grant of market value share options. The two elements are complementary and ensure that the cyclical nature of the industry does not have an excessively adverse effect on employee remuneration in circumstances where the performance of the Group has otherwise been good, relative to that of competitors.

The LTIP provides for the form of award to be varied in jurisdictions where this is desirable for tax or regulatory reasons. For example, in some countries, Free Shares are structured as nil-cost options or bonus options.

The Free Share awards are subject to stretching performance conditions and will ensure that where the Group has performed well over the specified performance period of three years, participants will be rewarded even if there is no substantial share price growth due to external factors, such as commodity prices or general economic conditions. The option element will only provide a benefit to participants when shareholders also benefit from future share price growth. The options will be subject to stretching performance targets to ensure that windfall growth in the share price as a result of external factors does not deliver rewards that are not justified by the performance of the Group, relative to its peer group. The policy regarding performance targets is discussed in more detail below.

In determining the value of Free Share awards the value of the underlying shares will be used. The value of the option at grant will be based on a Black-Scholes valuation of the option (or a similar approach), which the Remuneration Committee considers represents both the cost to Xstrata of providing the benefit and the value of the option itself as a component of the total remuneration package. The option value at grant will be subject to a lower and upper limit as determined by the Remuneration Committee from time to time. This valuation will be used to determine the number of shares over which an option will be granted.

Using the method above, the value ratio of Free Share awards to share options for awards made during 2010 was in general 1:1, based on the value at the time of grant. The Remuneration Committee has determined that this 1:1 ratio should be maintained for the 2011 LTIP awards but may change the ratio for future awards if it is thought appropriate.

The Remuneration Committee has determined that awards will be made annually under the LTIP to minimise the impact of share price volatility and to reflect existing best practice. The rules of the LTIP provide that the aggregate value of options and Free Share Awards made to an individual in any one year may not exceed an amount equal to two times base salary in normal circumstances (although, in exceptional circumstances, the limit may be up to, but may not exceed, four times base salary).

The current LTIP will expire in May 2012.

Summary of performance conditions

During 2008, 2009 and 2010, executive directors were granted market value options and Free Share awards under the LTIP. The vesting of both the options and Free Share awards is subject to the satisfaction of stretching performance conditions over a three-year performance period. Half of the options and Free Share awards are conditional on Xstrata's TSR relative to a peer group and half are conditional on the Group's real cost savings relative to targets set on a stretching scale over the three-year period, as set out below.

For the awards conditional on TSR, 25% of the combined award will vest if TSR growth is at the median of the specified peer group, the full 50% of the combined award will vest for TSR growth at or above the second decile, with straight-line vesting between these points. No vesting will occur for TSR growth below median performance.

For the remaining award, vesting is conditional on the Group's real cost savings relative to targets set on a stretching scale: 5% of the combined award will vest for 1% cost savings, 35% for 2% cost savings and 50% for 3% or more cost savings, with straight-line vesting between these points. No vesting will occur for cost savings that are less than 1%. Real cost savings will be measured in relation to operating costs after adjusting for the effects of inflation, exceptional events/items such as natural disasters, excluding depreciation, commodity price-linked costs, effects of currencies on translation of local currency costs and planned life of mine adjustments.

Since the Group's share price and those of its peers are significantly influenced by the cycle in commodity prices, the Remuneration Committee considers TSR relative to a peer group to be an appropriate performance measure as it rewards relative success in growing shareholder value through the development and execution of the corporate strategy. The Remuneration Committee is also satisfied that TSR will be a genuine reflection of the Group's underlying financial performance. The use of the second measure, Group real cost savings relative to targets, reflects the Group's strategic initiative to add shareholder value through productivity and cost efficiencies. The Remuneration Committee is also mindful of the Group's commitment to ethical and sustainable practices and that a positive approach in this area should support solid TSR performance.

The performance targets are not capable of being retested at the end of the performance period, so that any proportion of a Free Share award or option that does not vest after three years will lapse, although vested options will remain exercisable for a maximum of seven years or such shorter period as the Remuneration Committee may specify (after which they will lapse).

In the event of a change of control, all Free Share awards and options will vest in full or (in certain circumstances) may be exchanged for equivalent options or LTIP awards over shares in the acquiring company.

The peer group of global mining companies used to determine the vesting of the options and Free Share awards conditional on TSR under the LTIP, comprises the same comparator group used to form the Xstrata Share Indices for the Chief Executive's AVP for the relevant year, as detailed above. The Remuneration Committee may, at its absolute discretion, vary, add, remove or alter the companies making up the peer group when events happen that cause the Remuneration Committee to consider that such a change is appropriate to ensure that the performance condition continues to represent a fair measure of performance. This is with the provision or on the condition that the Remuneration Committee reasonably considers such a varied or amended performance condition is not materially easier or more difficult to satisfy.

In calculating the TSR, the common currency of US dollars will be used and the share price of a notional parcel of shares of the Group and the companies in the specified peer group will be averaged over a period preceding both the start and end of the relevant performance period. The Remuneration Committee has resolved that averaging over a three-month period eliminates the volatility in spot share prices that could otherwise distort the assessment of whether the target has been met.

The TSR of the Group and each member of the peer group over any performance period is calculated by taking the growth between the closing value and the base value of 100 shares expressed as a percentage of the base value, on the assumption that any net dividend per share paid by any company during the relevant performance period is reinvested in shares on the last day of the month during which the relevant shares go ex-dividend. This calculation is subject to such adjustments to closing value and base value as the Remuneration Committee considers appropriate to reflect any variation of share capital or any merger, takeover, reconstruction, demerger or change in listing status by any member of the peer group or upon any other events that the Remuneration Committee considers may materially distort the calculation.

2008 LTIP award

At 31 December 2010, the Group was ranked 13th out of the peer group of 15 companies (including Xstrata) in terms of TSR for the 2008 award. If this is the outcome at the end of the three-year performance period on 4 April 2011 then no part of the 2008 award linked to TSR will vest (although up to 50% of the overall combined award could vest depending on the extent to which the cost saving targets are met).

2009 LTIP award

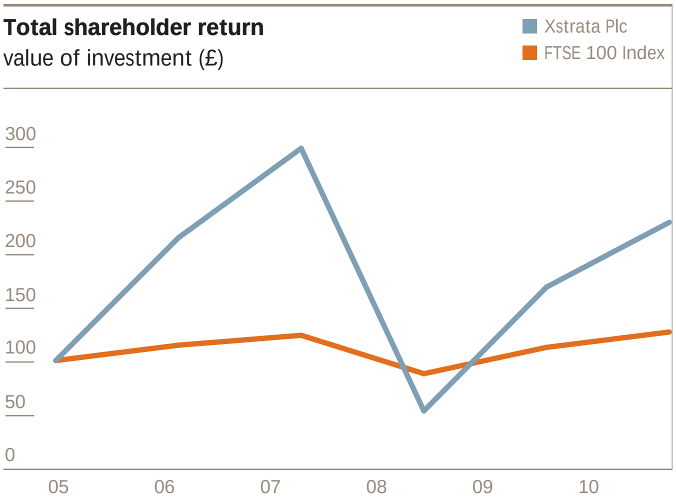
As at 31 December 2010, the Group was ranked sixth out of the peer group of 17 companies (including Xstrata) in terms of TSR for the 2009 award. If this is the outcome at the end of the three-year performance period on 12 March 2012 then 77.78% of each executive director's 2009 award linked to TSR will vest (i.e. 38.89% of the overall combined award, and a further 50% of the overall combined award could vest depending on the extent to which the cost saving targets are met).

2010 LTIP award

As at 31 December 2010, the Group was ranked 10th out of the peer group of 17 companies (including Xstrata) in terms of TSR for the 2010 award. If this is the outcome at the end of the three-year performance period on 18 February 2013 then no part of the 2010 award linked to TSR will vest (although up to 50% of the overall combined award could vest depending on the extent to which the cost saving targets are met).

It should be noted that these amounts are based on the Group's results at this provisional stage and do not necessarily reflect the eventual outcome.

Performance graph (£)



The performance graph set out above shows the value at 31 December 2010 of £100 invested in Xstrata shares on 31 December 2005 compared with the value of £100 invested in a hypothetical holding of shares of the same kind and number as those by reference to which the FTSE 100 index is calculated. The other points plotted are the values at intervening financial year ends. The Board considers that the FTSE 100 currently represents the most appropriate of the published indices for these purposes.

The value shown is based on TSR, which has been calculated assuming that dividends are invested in additional shares. Benefits receivable in the form of shares are also added to the relevant holding.

Retirement benefits

Mick Davis and Trevor Reid have participated in targeted money purchase retirement plans from their respective dates of joining the Group. The plans are designed having regard to the taxation and employment status of each executive.

Group contributions are reassessed at regular intervals and are based on actuarial advice, with the objective of accumulating sufficient funds over the working lifetime of each executive to provide an overall target retirement benefit that is currently intended to be equivalent to approximately 60% of final salary at normal retirement age for executives who begin participating in the plans at the age of 40. The financial dynamics of the arrangement therefore have similarities to a defined benefit scheme at the point of contribution. The actual benefits payable from the retirement benefit plans will be based on the amount that has accumulated in that member's money purchase accounts. Prior to 6 April 2006, these contributions were paid to a combination of an approved money purchase retirement plan and a funded unapproved retirement benefits scheme (FURBS). From 6 April 2006, contributions have been made through a combination of payments to a registered retirement benefit plan and cash sums to each executive, having regard to the tax limits on contributions and benefits from registered UK retirement benefits plans (with only cash payments being made after 2007). No employee contributions are currently payable by Mick Davis and Trevor Reid.

As noted below, Santiago Zaldumbide receives no retirement benefits under the terms of his professional services agreement.

Other benefits

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

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

External appointments

No executive directors held external directorships or offices as at 31 December 2010.

Non-Executive Directors

The level of fees for non-executive directors is set at the level considered necessary to obtain the services of individuals with the relevant skills and experience to bring added depth and breadth to the composition of the Board.

Non-executive directors' fees are reviewed annually by the Chairman and the Chief Executive in the light of fees payable to non-executive directors of comparable companies and the importance attached to the retention and attraction of high-calibre individuals as non-executive directors.

Non-executive directors are eligible to forego all or part of their directors' fees to acquire shares in Xstrata, after deduction of applicable income tax and social security contributions.

The non-executive directors do not, and it is anticipated that they will not in the future, participate in the Bonus Plan or LTIP or any other form of performance-related incentive arrangement or retirement benefit that may be introduced from time to time.

Entitlements under service contracts

Executive Directors

Mick Davis and Trevor Reid have employment agreements with Xstrata Services (UK) Limited (XSL) effective from 1 February 2002. Their services as Chief Executive and Chief Financial Officer, respectively, are provided to the Group under a secondment agreement entered into between the Group and XSL on 19 March 2002. Mick Davis and Trevor Reid were both seconded to the Group for a fixed term of two years, with XSL and the Group subsequently renewing for further two-year fixed periods.

The employment of Mick Davis and Trevor Reid may be terminated by at least 12 months' notice being given by XSL or the director concerned or by a payment in lieu of notice by XSL. On termination of their employment by XSL in breach, or on a change of control, or if Mick Davis or Trevor Reid resigns in circumstances where they cannot in good faith be expected to continue in employment, each director is entitled to be paid a sum equal to 100% of his annual salary plus retirement benefits and other benefits and his previous year's bonus (plus any accrued basic salary and expenses) and to have all entitlements under his retirement benefit plans paid in accordance with the plan rules. As both Mick Davis and Trevor Reid participate in money purchase arrangements, it is not expected that any significant additional liability would arise in respect of retirement plan entitlements beyond that already accrued in the Group's accounts. For the purposes of calculating termination payments, annual bonus is capped at 300% of annual salary (which is in any event the maximum allowable under the Bonus Plan). The terms of Mick Davis's and Trevor Reid's contracts are considered to be in line with those operated by other global businesses listed in London.

In addition, each of the executive directors is eligible to participate in the Bonus Plan which provides that deferred amounts up to an aggregate ceiling of 200% of salary remain payable in the event of cessation of employment by reason of death, injury, ill health or disability (in which case they are payable immediately) or retirement (in which case they are payable on the normal vesting date). No deferred amounts are payable in the event of cessation by dismissal for cause. In the case of termination by reason of death, injury, ill health or disability before the date the bonus is awarded for a financial year, or if the Remuneration Committee in its discretion so resolves, a proportion of the annual bonus pool may still be awarded subject to the normal discretion of the Remuneration Committee.

Executive directors are entitled to any outstanding LTIP awards on cessation of employment by reason of death, injury, ill health or disability (in which case they vest immediately in full) or retirement (in which case they are payable on the normal vesting date to the extent they vest for performance at that time).

Santiago Zaldumbide provides his services to the Group under a professional services agreement entered into between him and Asturiana on 23 July 2007, pursuant to which Santiago Zaldumbide agreed to act as Chairman and Chief Executive Officer of Xstrata Zinc. This agreement continues indefinitely unless terminated by one of the parties on at least six months' written notice. The annual gross fee payable to Santiago Zaldumbide for the year ended 31 December 2010 was €1,000,000. This annual fee is subject to review in line with the other executive directors. Santiago Zaldumbide receives no retirement benefits under the terms of his professional services agreement but is eligible to participate in the Bonus Plan and the LTIP.

On termination of his professional services agreement, other than on his voluntary termination or termination for gross negligence, Santiago Zaldumbide is entitled to be paid a sum equal to 100% of his annual salary and other benefits and his previous year's bonus (plus any accrued basic salary and expenses). Pursuant to a letter of appointment dated 18 March 2002 and subject to the continuing existence of his agreement with Asturiana, Santiago Zaldumbide is engaged as a director of Xstrata. Santiago Zaldumbide receives no additional remuneration for his position as director of Xstrata and is not entitled to any compensation in respect of the termination of his office as a director of Xstrata.

Non-executive directors

Willy Strothotte is engaged by the Group as a non-executive director and Chairman on the terms of a letter of appointment. He will retire from the Board and from the Remuneration Committee at the end of the AGM on 4 May 2011.

David Rough is engaged by the Group as the Senior Independent Director and Deputy Chairman on the terms of a letter of appointment. The appointment may be terminated by six months' notice by David Rough. The Group may terminate David Rough's appointment at any time and on such termination David Rough will not be entitled to any compensation for loss of office. The term of his appointment may be renewed by the Board. However, in accordance with the UK Corporate Governance Code, all directors will retire at the forthcoming AGM and all directors, other than Willy Strothotte, will offer themselves for re-election.

Ivan Glasenberg, Dr. Con Fauconnier, Peter Hooley, Sir Steve Robson, Ian Strachan and Claude Lamoureux are each engaged by the Group as a non-executive director on the terms of a letter of appointment. Each appointment may be terminated by six months' notice by the non-executive director.

Dr. Con Fauconnier's appointment commenced on 5 May 2010.

Paul Hazen retired as a non-executive director of the Board at the Annual General Meeting (AGM) in May 2010.

The Group may terminate each non-executive director's appointment at any time and on such termination the non-executive director will not be entitled to any compensation for loss of office. Each term of his appointment may be renewed by the Board.

There is no arrangement under which a director has agreed to waive future emoluments nor have there been any such waivers during the financial year.

There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of any of the non-executive directors.

No significant awards have been made in the financial year to any past director.

The information in the tables set out on pages 127 to 129 has been subject to audit.

Emoluments and compensation (US$)

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

US$	Salary and fees[1]	Bonus	Deferred bonus*	Housing allowances	Health, life and private medical insurance	Other benefits	**Total**	Year ended 31.12.09 Total
Executives								
Mick Davis	2,087,100[2]	2,147,027[6a]	4,294,053[6a]	183,000[7a]	168,693[8]	205,340[10]	**9,085,213**	7,752,149
Trevor Reid	1,051,280[2]	1,081,465[6a]	2,162,930[6a]	141,660[7b]	22,575[9]	–	**4,459,910**	6,044,883
Santiago Zaldumbide	1,326,000[3]	1,364,170[6b]	2,399,055[6b]	–	–	–	**5,089,225**	6,035,193
Non-executives								
Willy Strothotte	386,500[4]	–	–	–	–	–	**386,500**	378,972
Paul Hazen[5]	48,608[4]	–	–	–	–	–	**48,608**	137,808
Claude Lamoureux	161,557[4]	–	–	–	–	–	**161,557**	158,479
Ivan Glasenberg	140,531[4]	–	–	–	–	–	**140,531**	137,808
Sir Steve Robson CB	194,951[4]	–	–	–	–	–	**194,951**	184,318
David Rough	272,251[4]	–	–	–	–	–	**272,251**	267,003
Ian Strachan	175,626[4]	–	–	–	–	–	**175,626**	172,260
Peter Hooley	162,337[4]	–	–	–	–	–	**162,337**	114,839
Con Fauconnier[5]	151,044[4]	–	–	–	–	–	**151,044**	0
	6,157,785	4,592,662	8,856,038	324,660	191,268	205,340	**20,327,753**	21,383,712

Notes:

1. Salary and fees includes non-executive directors' fees which may be paid in shares.
2. In 2010, Mick Davis's and Trevor Reid's salaries were set and paid in UK pounds sterling. The salary figures above have been converted to US dollars based on the average £/$ exchange rate for the year of 1.546 (2009: 1.566) and therefore reflect the impact of the exchange rate fluctuations during the year.
3. In 2010, Santiago Zaldumbide's base salary and benefits were set and paid in Euros. The figures above have been converted to US dollars based on the average €/$ exchange rate for the year of 1.326 (2009: 1.394) and therefore reflect the impact of the exchange rate fluctuations during the year.
4. All non-executive director fees except those for Ian Strachan and Claude Lamoureux were set and paid in UK pounds sterling. Ian Strachan's fees were set in UK pounds sterling, and paid in US dollars. Claude Lamoureux's fees were set in UK pounds sterling and paid in Canadian dollars. The figures above have been converted to US dollars based on the average £/$ exchange rate for the year of 1.546 (2009: 1.566) and therefore reflect the impact of the exchange rate fluctuations during the year.
5. Paul Hazen resigned and Con Fauconnier was appointed at the AGM on 5 May 2010.

6a. Bonuses awarded in February 2011 in relation to the 2010 performance year. The bonuses were awarded in UK pounds sterling and converted at a rate of 1.590, the exchange rate prevailing on the date of the award.

6b. Bonuses awarded in February 2011 in relation to the 2010 performance year. The bonuses were awarded in Euros and converted at a rate of 1.364, the exchange rate prevailing on the date of the award.

7a. In 2010, Mick Davis's housing allowance was awarded and paid in US dollars.

7b. In 2010, Trevor Reid's housing allowance was awarded in US dollars and paid in UK pounds sterling.

8. In 2010, Mick Davis's benefits were set and paid in UK pounds sterling. The benefits have been converted to US dollars based on the average £/$ exchange rate for the year of 1.546 (2009: 1.566) and therefore reflect the impact of the exchange rate fluctuations during the year. This includes an amount for life insurance of £90,234.
9. In 2010, Trevor Reid's benefits were set and paid in UK pounds sterling. The benefits have been converted to US dollars based on the average £/$ exchange rate for the year of 1.546 (2009: 1.566) and therefore reflect the impact of the exchange rate fluctuations during the year. This includes an amount for life insurance of £10,796.
10. In order to facilitate travel to the Group's operations, many of which are located in remote locations not served by commercial flight routes, Xstrata leases private aircraft to be used from time to time for business travel by Xstrata executives. The Remuneration Committee has approved the private use of the company leased aircraft for Mick Davis, subject to any private usage not conflicting with company requirements, for a limited number of hours per annum. The benefit shown above has been calculated based on marginal flight costs for the hours used and converted to US dollars at the average £/$ exchange rate for the year of 1.546 (2009: 1.566) and therefore reflects the impact of the exchange rate fluctuations during the year.
11. No consideration has been paid to or is receivable by third parties for making available the qualifying services of any directors during the year or in connection with the management affairs of Xstrata.

* Deferred bonus payable in shares. The number of shares awarded pursuant to deferred bonuses payable in shares is determined by reference to the market value of the shares at the date concurrent awards under the LTIP are made. The amount also includes $11,757 in respect of dividend equivalents accrued during the year in respect of prior years' deferred bonus awards which will vest on the date of the underlying award for Santiago Zaldumbide. The deferred bonus awards made to Mick Davis and Trevor Reid in 2010 were structured as net deferred awards and therefore dividends rather than dividend equivalents were paid.

Remuneration report *continued*

Shares

Details of the Company's ordinary shares over which those directors who served during the year have restricted or conditional rights under the LTIP, the Bonus Plan and the AVP:

Director	Scheme interest at 01.01.10	Awarded	End of the period for interim qualifying conditions to be fulfilled	Lapsed/ expired	Vested	**At 31.12.10**
Mick Davis						
AVP – 2005 cycle Phase 1 – 2 year deferral	1,132,821	*[6]	9-May-08		1,132,821	**0**
AVP – 2005 cycle Phase 2		*	9-May-10			
AVP – 2007 cycle		*	15-Mar-10			
AVP – 2008 cycle		*	26-Mar-11			
AVP – 2009 cycle		*	17-Apr-12			
LTIP	0	209,043[2]	18-Feb-13			**209,043**
Deferred Bonus	54,954		26-Feb-10		54,954[3]	**0**
Deferred Bonus	560,119		2-Mar-10		560,119[4]	**0**
Deferred Bonus	0	109,072[2,7]	18-Feb-10			**109,072**
Trevor Reid						
LTIP	55,334		15-Mar-10	27,667	27,667[5]	**0**
LTIP	56,205		4-Apr-11			**56,205**
LTIP	253,378		12-Mar-12			**253,378**
LTIP	0	105,319[2]	18-Feb-13			**105,319**
Deferred Bonus	25,630		26-Feb-10		25,630[3]	**0**
Deferred Bonus	280,060		2-Mar-10		280,060[4]	**0**
Deferred Bonus	0	54,952[2,7]	18-Feb-10			**54,952**
Santiago Zaldumbide						
LTIP	54,279		15-Mar-10	27,140	27,139[5]	**0**
LTIP	53,456		4-Apr-11			**53,456**
LTIP	251,070		12-Mar-12			**251,070**
LTIP	0	103,286[2]	18-Feb-13			**103,286**
Deferred Bonus	33,143		26-Feb-10		33,143[3]	**0**
Deferred Bonus	375,410		2-Mar-10		375,410[4]	**0**
Deferred Bonus	0	90,442[2]	18-Feb-10			**90,442**
	3,185,859	672,114		54,807	2,516,943	**1,286,223**

Notes

1. Details of performance conditions are described on pages 123 to 125.
2. The market value of a share on the date of award under the LTIP and the Bonus Plan on 18 February 2010 was £10.86.
3. These shares were awarded on 26 February 2008 when the closing market price was £23.15. The closing market price on the date of vesting was £10.30.
4. These shares were awarded on 2 March 2009 when the closing market price was £3.41. The closing market price on the date of vesting was £10.98.
5. These shares were awarded on 15 March 2007 when the closing market price was £13.76. The closing market price on the date of vesting was £11.57.
6. On 16 March 2010, following approval by the Remuneration Committee, Mick Davis surrendered his subsisting award in relation to the AVP 2005 cycle (which was originally intended to be cash settled) in exchange for an award of Xstrata shares calculated net of income tax and NIC liability with such shares to be held by a trustee subject to transfer restrictions and forfeiture until expiry of the deferral period. In the event of forfeiture prior to expiry of the deferral period, Mick Davis was liable to repay an amount equal to the tax remitted. On 9 May 2010, the deferral period expired and the net deferred Xstrata shares were released.
7. The deferred bonus awards made to Mick Davis and Trevor Reid in 2010 were structured as net deferred awards as detailed on page 125.

*** 2005 – 2008 AVP**
Amounts due under the Xstrata AVP may be settled in cash or shares on vesting. For the performance period from 9 May 2005 to 9 May 2008, Xstrata's total shareholder return (TSR) was 404.26%, representing outperformance of 166.1% over TSR performance of 238.16% for the Xstrata TSR Index of global mining companies. On 9 May 2010, the two-year deferral period for the award made in respect of Phase 1 of the Xstrata AVP 2005 cycle expired and, as stated in note 6 above, the net deferred Xstrata shares were released.
Mick Davis received £179,106 on the vesting date in respect of dividend equivalents accrued during the deferral period. No payment was made under Phase 2 of the AVP 2005 cycle.
For the AVP 2005 cycle the participation percentage was 0.5% and the market capitalisation on the date of award was £6,026,084,544.

*** 2006 – 2009 AVP**
No payment was made under Phase 1 of the AVP 2006 cycle and it did not proceed to Phase 2.

*** 2007 – 2010 AVP**
No payment was made under Phase 1 of the AVP 2007 cycle and it did not proceed to Phase 2.

Subsequent periods
For the AVP 2008 cycle the participation percentage was 0.5% and the market capitalisation on the date of award was £38,029,287,854.

For the AVP 2009 cycle the participation percentage was 0.3% and the market capitalisation on the date of award was £14,697,000.

Share options

Details of share options of those directors who served during the year are as follows:

Director	At 01.01.10	Awarded	Lapsed/expired unexercised	Exercised	**At 31.12.10**	Exercise price	Earliest date of exercise	Expiry date
Mick Davis								
LTIP options	661,590	–	–	–	**661,590**	£1.82	10-Feb-06	10-Feb-13
LTIP options	1,361,071	–	–	–	**1,361,071**	£3.72	4-Mar-07	4-Mar-14
LTIP options	0	696,809	–	–	**696,809**	£10.31	18-Feb-13	18-Feb-20
Trevor Reid			–					
LTIP options	310,822	–	–	–	**310,822**	£3.72	4-Mar-07	4-Mar-14
LTIP options	379,178	–	–	–	**379,178**	£5.37	11-Mar-08	11-Mar-15
LTIP options	117,788	–	–	–	**117,788**	£8.70	10-Mar-09	10-Mar-16
LTIP options	184,447	–	92,224	–	**92,223**	£13.59	15-Mar-10	15-Mar-17
LTIP options	187,353	–	–	–	**187,353**	£20.02	4-Apr-11	4-Apr-18
LTIP options	844,595	–	–	–	**844,595**	£3.35	12-Mar-12	12-Mar-19
LTIP options	0	351,064	–	–	**351,064**	£10.31	18-Feb-13	18-Feb-20
Santiago Zaldumbide								
LTIP options	117,132	–	–	–	**117,132**	£8.70	10-Mar-09	10-Mar-16
LTIP options	180,934	–	90,467	–	**90,467**	£13.59	15-Mar-10	15-Mar-17
LTIP options	178,190	–	–	–	**178,190**	£20.02	4-Apr-11	4-Apr-18
LTIP options	836,900	–	–	–	**836,900**	£3.35	12-Mar-12	12-Mar-19
LTIP options	0	344,286	–	–	**344,286**	£10.31	18-Feb-13	18-Feb-20
	5,360,000	1,392,159	182,691	0	**6,569,468**			

Notes:
1. The LTIP options are subject to performance conditions as described on pages 123 to 125.
2. Mick Davis's and Trevor Reid's LTIP options may be settled in cash at the discretion of the Remuneration Committee.
3. The highest and lowest prices of the Company's shares during the year were £15.35 and £8.46 respectively (2009: £11.48 and £2.98). The price at the year end was £15.06 (2009: £11.21).

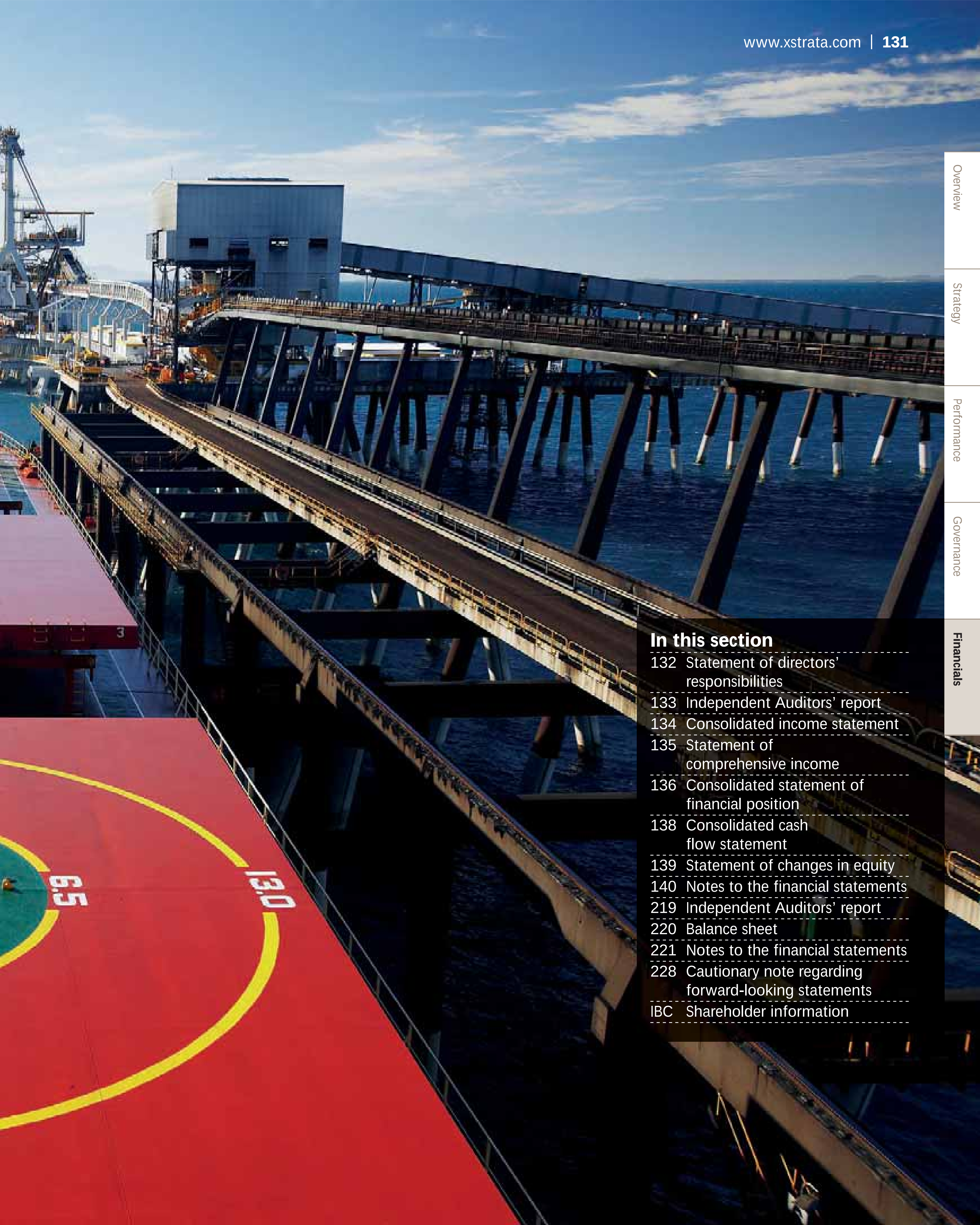
Retirement Benefits

Mick Davis and Trevor Reid have participated in targeted money purchase retirement plans. During the year retirement benefit related payments were made as follows:

US$	**2010 Mick Davis**	2009 Mick Davis	**2010 Trevor Reid**	2009 Trevor Reid	**2010 Total**	2009 Total
Retirement benefit related payments	**4,022,301**	3,284,947	**2,227,267**	1,800,839	**6,249,567**	5,085,785

Notes:
1. Further details of the retirement benefit arrangements are explained on page 125.
2. Santiago Zaldumbide received no retirement benefits under the terms of his fixed cost remuneration arrangement which is detailed on page 125.
3. Based on the average £/$ exchange rate for the year of 1.546 (2009: 1.566). Payments for Mick Davis and Trevor Reid in both years were made in UK pounds sterling.

Financial statements



In this section

Statement of directors' responsibilities in relation to the Group and the Parent Company financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and regulations. Under company law, the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and have elected to prepare Company financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP). The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In the case of the Group's IFRS financial statements, the directors are required to prepare Group financial statements for each financial year that present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing the Group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Group has complied with IFRS.

In the case of the Company's UK GAAP financial statements, the directors are required to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Group and Company financial statements and directors' remuneration report comply with the Companies Act 2006 and that the Group financial statements comply with Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable UK law and regulations the directors are responsible for the preparation of a Directors' report, directors' Remuneration report and Corporate Governance report that comply with the Companies Act 2006 and regulations. In addition the directors are responsible for the maintenance and integrity of the corporate and financial information included on Xstrata's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' report to the members of Xstrata plc

We have audited the Group financial statements of Xstrata plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 132, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those Standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance report as set out on page 110 to 118 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance report has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' report, set out on page 109, in relation to going concern;
- the part of the Corporate Governance report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of Xstrata plc for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mirco Bardella (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom

16 March 2011

The maintenance and integrity of the Xstrata plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Consolidated income statement

For the year ended 31 December 2010

US$m	Notes	Before exceptional items	Exceptional items†	Total 2010	Before exceptional items	Exceptional items†	Total 2009
Revenue		**30,499**	**–**	**30,499**	22,732	–	22,732
Operating costs*	10	**(20,113)**	**7**	**(20,106)**	(15,944)	388	(15,556)
Operating profit before interest, taxation, depreciation and amortisation		**10,386**	**7**	**10,393**	6,788	388	7,176
Depreciation and amortisation	10	**(2,732)**	**–**	**(2,732)**	(2,419)	–	(2,419)
Impairment of assets		**–**	**(559)**	**(559)**	–	(2,553)	(2,553)
Operating profit		**7,654**	**(552)**	**7,102**	4,369	(2,165)	2,204
Share of results from associates	20	**15**	**(6)**	**9**	(56)	(277)	(333)
Profit before interest and taxation		**7,669**	**(558)**	**7,111**	4,313	(2,442)	1,871
Finance income	10	**152**	**–**	**152**	407	47	454
Finance costs	10	**(620)**	**(35)**	**(655)**	(754)	(41)	(795)
Profit before taxation		**7,201**	**(593)**	**6,608**	3,966	(2,436)	1,530
Income tax (charge)/credit	11	**(1,782)**	**129**	**(1,653)**	(993)	324	(669)
Profit/(loss) for the year		**5,419**	**(464)**	**4,955**	2,973	(2,112)	861
Attributable to:							
Equity holders of the parent		**5,152**	**(464)**	**4,688**	2,773	(2,112)	661
Non-controlling interests		**267**	**–**	**267**	200	–	200
		5,419	**(464)**	**4,955**	2,973	(2,112)	861
Earnings per share (US$)							
– basic	12	**1.77**	**(0.16)**	**1.61**	1.05	(0.80)	0.25
– diluted	12	**1.74**	**(0.16)**	**1.58**	1.03	(0.78)	0.25

† 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.

Statement of comprehensive income

For the year ended 31 December 2010

US$m	2010	2009
Profit for the year	**4,955**	861
Income and expenses recognised directly in equity:		
Actuarial losses on defined benefit pension plans	**(301)**	(122)
Income tax	**76**	40
Gains on available-for-sale financial assets	**118**	209
Income tax	**(13)**	(9)
Gains on cash flow hedges	**88**	456
Income tax	**(41)**	(105)
Foreign currency translation differences	**2,459**	3,930
Income tax	**(48)**	(73)
	2,338	4,326
Transfers to the income statement:		
Gains on cash flow hedges	**(115)**	(312)
Income tax	**45**	55
(Gains)/losses on available-for-sale financial assets	**(73)**	1
Other comprehensive income	**2,195**	4,070
Total comprehensive income for the year	**7,150**	4,931
Attributable to:		
Equity holders of the parent	**6,896**	4,731
Non-controlling interests	**254**	200
	7,150	4,931

Consolidated statement of financial position

As at 31 December 2010

US$m	Notes	2010	2009
Assets			
Non-current assets			
Intangible assets	14, 15	**8,403**	8,422
Property, plant and equipment	16	**45,884**	39,397
Biological assets	17	**23**	20
Inventories	18	**45**	44
Trade and other receivables	19	**168**	81
Investments in associates	20	**1,786**	1,790
Available-for-sale financial assets	22	**347**	364
Derivative financial assets	23	**570**	698
Other financial assets	24	**514**	348
Pension assets	35	**1**	1
Prepayments		**32**	29
Deferred tax assets	11	**299**	213
		58,072	51,407
Current assets			
Inventories	18	**4,763**	4,570
Trade and other receivables	19	**4,463**	3,306
Derivative financial assets	23	**236**	159
Other financial assets	24	**–**	2,424
Prepayments		**270**	232
Cash and cash equivalents	25	**1,722**	1,177
Assets classified as held-for-sale	8	**183**	549
		11,637	12,417
Total assets		**69,709**	63,824

US$m	Notes	2010	2009
Equity and liabilities			
Capital and reserves – attributable to equity holders of Xstrata plc			
Issued capital	26	**1,482**	1,469
Share premium	26	**15,478**	15,096
Own shares	26	**(1,181)**	(1,306)
Convertible borrowings – equity component	26, 29	**–**	56
Other reserves	26	**8,039**	5,606
Retained earnings		**16,458**	12,361
		40,276	33,282
Non-controlling interests		**1,745**	1,637
Total equity		**42,021**	34,919
Non-current liabilities			
Trade and other payables	27	**88**	32
Interest-bearing loans and borrowings	28	**7,154**	13,252
Convertible borrowings	29	**–**	335
Derivative financial liabilities	30	**366**	505
Other financial liabilities	31	**656**	538
Provisions	32	**3,368**	2,844
Pension deficit	35	**625**	412
Deferred tax liabilities	11	**6,368**	5,775
Other liabilities	33	**9**	9
		18,634	23,702
Current liabilities			
Trade and other payables	27	**4,802**	3,697
Interest-bearing loans and borrowings	28	**2,318**	206
Derivative financial liabilities	30	**383**	52
Provisions	32	**711**	623
Income taxes payable		**654**	526
Other liabilities	33	**30**	39
Liabilities classified as held-for-sale	8	**156**	60
		9,054	5,203
Total liabilities		**27,688**	28,905
Total equity and liabilities		**69,709**	63,824

The financial statements on pages 134 to 218 were approved by the Board of Directors on 16 March 2011 and signed on its behalf by:

Trevor Reid
Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 December 2010

US$m	Notes	2010	2009
Profit before taxation		**6,608**	1,530
Adjustments for:			
Finance income	10	**(152)**	(454)
Finance cost	10	**655**	795
Share of results from associates	20	**(9)**	333
Net profit on disposal of property, plant and equipment		**(1)**	–
Liability fair value adjustments	10	**(19)**	(350)
Profit on loss of control of joint venture	10	**–**	(194)
Depreciation	10	**2,639**	2,334
Amortisation	10	**93**	85
Impairment of assets	10, 15	**559**	2,553
Share-based compensation plans	10	**178**	334
Increase in trade and other receivables		**(1,178)**	(1,344)
Increase in other assets		**(414)**	(186)
Increase in inventories		**(38)**	(665)
Increase in trade and other payables		**691**	318
Increase in provisions		**332**	218
Other non-cash movements		**5**	(3)
Cash generated from operations		**9,949**	5,304
Income tax paid		**(1,442)**	(749)
Interest paid		**(332)**	(498)
Interest received		**34**	73
Dividends received – other		**4**	1
Net cash flow from operating activities		**8,213**	4,131
Purchase of property, plant and equipment		**(5,819)**	(3,568)
Proceeds from sale of property, plant and equipment		**22**	10
Purchase of intangible assets	14	**(11)**	(16)
Proceeds from the sale of available-for-sale assets	22	**135**	1
Proceeds from restructure of joint venture		**–**	43
Purchase of other financial assets		**–**	(2,000)
Proceeds from disposal of other financial assets	24	**2,250**	–
Acquisition of interest in associates	20	**(58)**	(112)
Acquisition of subsidiaries, net of cash acquired	7	**(365)**	–
Proceeds from disposal of joint ventures, net of disposal costs and cash disposed	8	**463**	–
Proceeds from disposal of subsidiaries, net of disposal costs and cash disposed	8	**3**	–
Investment in other financial assets		**–**	(110)
Distributions from other financial assets		**184**	–
Net cash flow used in investing activities		**(3,196)**	(5,752)
Issue of share capital		**–**	5,667
Purchase of own shares	26	**(11)**	(6)
Disposal of own shares		**14**	15
Proceeds from interest-bearing loans and borrowings		**79**	4,892
Repayment of interest-bearing loans and borrowings		**(3,930)**	(8,748)
Payment of finance lease liabilities		**(51)**	(21)
Dividends paid to equity holders of the parent	13	**(379)**	–
Dividends paid to non-controlling interests		**(243)**	(199)
Net cash flow from financing activities		**(4,521)**	1,600
Net (decrease)/increase in cash and cash equivalents		**496**	(21)
Net foreign exchange difference		**49**	41
Cash and cash equivalents at 1 January		**1,165**	1,145
Cash and cash equivalents at 31 December	25	**1,710**	1,165

Statement of changes in equity

For the year ended 31 December 2010

	Attributable to equity holders of the parent								
US$m	Issued capital	Share premium	Own shares	Convertible borrowings – equity component	Other reserves (refer to note 26)	Retained earnings	Total	Non-controlling interests	Total equity
At 1 January 2009	488	10,308	(1,332)	56	1,454	11,789	22,763	1,636	24,399
Comprehensive income	–	–	–	–	4,152	579	4,731	200	4,931
Issue of share capital	981	4,788	(102)	–	–	–	5,667	–	5,667
Own share purchases	–	–	(6)	–	–	–	(6)	–	(6)
Own share disposals	–	–	134	–	–	(119)	15	–	15
Cost of IFRS 2 equity-settled share-based compensation plans	–	–	–	–	–	112	112	–	112
Dividends paid (refer to note 13)	–	–	–	–	–	–	–	(199)	(199)
At 31 December 2009	1,469	15,096	(1,306)	56	5,606	12,361	33,282	1,637	34,919
Comprehensive income	–	–	–	–	2,433	4,463	6,896	254	7,150
Issue of share capital	13	382	–	(56)	–	–	339	–	339
Own share purchases	–	–	(11)	–	–	–	(11)	–	(11)
Own share disposals	–	–	136	–	–	(122)	14	–	14
Cost of IFRS 2 equity-settled share-based compensation plans	–	–	–	–	–	135	135	–	135
Acquisition of subsidiaries	–	–	–	–	–	–	–	97	97
Dividends paid (refer to note 13)	–	–	–	–	–	(379)	(379)	(243)	(622)
At 31 December 2010	**1,482**	**15,478**	**(1,181)**	**–**	**8,039**	**16,458**	**40,276**	**1,745**	**42,021**

Notes to the financial statements

1. Corporate information

The consolidated financial statements were authorised for issue in accordance with a directors' resolution on 16 March 2011. The ultimate parent entity of the Group, Xstrata plc, is a publicly traded limited company incorporated in England and Wales and domiciled in Switzerland. Its ordinary shares are traded on the London and Swiss stock exchanges.

The principal activities of the Group are described in note 9.

2. Statement of compliance

The consolidated financial statements of Xstrata plc and its subsidiaries (the Group) are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union, effective for the Group's reporting for the year ended 31 December 2010.

3. Basis of preparation

The consolidated financial statements are presented in US dollars, which is the parent's functional and presentation currency, and all values are rounded to the nearest million except where otherwise indicated.

The accounting policies in note 6 have been applied in preparing the consolidated financial statements.

4. Significant accounting estimates

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the date of the financial statements. Actual outcomes could differ from these estimates.

The below are the most critical judgements, estimates and assumptions:

Estimated recoverable reserves and resources
Estimated recoverable reserves and resources are used to determine the depreciation of mine production assets, in accounting for deferred stripping costs and in performing impairment testing. Estimates are prepared by appropriately qualified persons, but will be impacted by forecast commodity prices, exchange rates, production costs and recoveries amongst other factors. Changes in assumptions will impact the carrying value of assets and depreciation and impairment charges recorded in the income statement.

Environmental rehabilitation costs
The provisions for rehabilitation costs are based on estimated future costs using information available at the balance sheet date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be impacted (refer to note 32).

Impairment testing
Note 15 outlines the significant judgements and assumptions made in performing impairment testing of non-current assets. Changes in these assumptions may alter the results of impairment testing, impairment charges recorded in the income statement and the resulting carrying values of assets.

Share-based payments, defined benefit pension plans and post-retirement medical plans
Note 35 outlines the significant assumptions made when accounting for share-based payments, defined benefit pension plans and post-retirement medical plans. Changes to these assumptions may alter the resulting accounting and ultimately the amount charged to the income statement.

5. Changes in accounting policies, new standards and interpretations not applied

Changes in accounting policies
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of the following new standards and interpretations:

- IFRS 2 'Group Cash-settled Share-based Payment Arrangements'
  The Group adopted IFRS 2 'Group Cash-settled Share-based Payment Arrangements' which clarifies the accounting for Group cash-settled transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment has no impact on Group earnings or equity in the current or prior years.

- IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)'
  The Group adopted IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)' which addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or a portion in particular situations. The adoption of this amendment has no impact on Group earnings or equity in the current or prior years.

- IAS 39 'Amendments to IFRIC 9 and IFRS 39: Embedded Derivatives'
  The Group adopted IAS 39 'Amendments to IFRIC 9 and IFRS 39: Embedded Derivatives' which clarifies where a prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The adoption of this amendment has no impact on Group earnings or equity in the current or prior years.

- IFRIC 17 'Distribution of Non-cash Assets to Owners'
  The Group adopted IFRIC 17 'Distribution of Non-cash Assets to Owners' which provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as distribution of reserves or as dividends. The adoption of this amendment has no impact on Group earnings or equity in the current or prior years.

- 'Improvements to IFRSs' (issued 2009)
  In May 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each amendment. The adoption of the amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with effective dates that are subsequent to 1 January 2010. Consequently, these pronouncements will impact the Group's financial statements in future periods.

	Effective date
IAS 24 'Related Party Disclosures (Amendment)'	1 January 2011
IFRS 9 'Financial Instruments: Classification and Measurement'	1 January 2013
IFRIC 14 'Prepayments of a Minimum Funding Requirement (Amendment)'	1 January 2011
IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'	1 July 2010

With the exception of IFRS 9, the Directors do not anticipate that the adoption of these standards and interpretations on their effective dates will have a material impact on the Group's financial statements in the period of initial application. The Group will quantify the effect of IFRS 9 in conjunction with other phases, when issued, to present a comprehensive picture.

6. Principal accounting policies

Basis of consolidation

The financial statements consolidate the financial statements of Xstrata plc (the Company) and its subsidiaries (the Group). All inter-entity balances and transactions, including unrealised profits and losses arising from intra-Group transactions, have been eliminated in full. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes. Control is achieved where the Group has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities. This occurs when the Group has more than 50% voting power through ownership or agreements, except where minority rights are such that a minority shareholder is able to prevent the Group from exercising control. In addition, control may exist without having more than 50% voting power through ownership or agreements, or in the circumstances of enhanced minority rights, as a consequence of de facto control. De facto control is control without the legal right to exercise unilateral control, and involves decision-making ability that is not shared with others and the ability to give directions with respect to the operating and financial policies of the entity concerned. Where there is a loss of control of a subsidiary, the financial statements include the results for the part of the reporting period during which Xstrata plc has control. Subsidiaries use the same reporting period and same accounting policies as Xstrata plc.

Interests in joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The financial statements of the joint ventures are generally prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist in the underlying records of the joint venture.

Jointly controlled operations

A jointly controlled operation involves the use of assets and other resources of the Group and other venturers rather than the establishment of a corporation, partnership or other entity.

The Group accounts for the assets it controls and the liabilities it incurs, the expenses it incurs and the share of income that it earns from the sale of goods or services by the joint venture.

Jointly controlled assets

A jointly controlled asset involves joint control and ownership by the Group and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity.

The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Jointly controlled entities

A jointly controlled entity involves the establishment of a corporation, partnership or other legal entity in which the Group has an interest along with other venturers.

The Group recognises its interest in jointly controlled entities using the proportionate method of consolidation, whereby the Group's share of each of the assets, liabilities, income and expenses of the joint venture are combined with the similar items, line by line, in its consolidated financial statements.

When the Group contributes or sells assets to a joint venture, any gain or loss from the transaction is recognised based on the substance of the transaction. When the Group has transferred the risk and rewards of ownership to the joint venture, the Group only recognises the portion of the gain or loss attributable to the other venturers, unless the loss is reflective of an impairment, in which case the loss is recognised in full. When the Group purchases assets from the joint venture, it does not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. Losses are accounted for in a similar manner unless they represent an impairment loss, in which case they are recognised immediately.

Joint ventures are accounted for in the manner outlined above, until the date on which the Group ceases to have joint control over the joint venture.

Notes to the financial statements *continued*

6. Principal accounting policies *continued*

Investments in associates
Entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures, are associates, and are accounted for using the equity method of accounting.

Under the equity method of accounting, the investment in the associate is recognised on the balance sheet on the date of acquisition at the fair value of the purchase consideration where this is higher than the fair value of the identifiable net assets acquired, or, if the purchase consideration is less than the fair value of the identifiable net assets acquired, at the fair value of the identifiable net assets acquired. In this way, goodwill is included within the associate balance when the fair value of the investment is less than the consideration paid. The carrying amount is adjusted by the Group's share of the post-acquisition profit or loss, depreciation, amortisation or impairment arising from fair value adjustments made at date of acquisition and certain inter-entity transactions together with a reduction for any dividends received or receivable from the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes in equity.

The financial statements of the associates are generally prepared for the same reporting period as the Group, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist in the underlying records of the associate. Where an associate prepares its financial statements using a different reporting period, an estimate of the Group's share of the associate's profit or loss is made based on the most reliable information available. Adjustments are made in the consolidated financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its associates.

The Group discontinues its use of the equity method from the date on which it ceases to have significant influence, and from that date accounts for the investment in accordance with IAS 39 (with its initial cost being the carrying amount of the associate at that date), provided the investment does not then qualify as a subsidiary or joint venture.

The Group's income statement reflects the share of associates' results after tax and the Group's statement of recognised income and expense includes any amounts recognised by associates outside of the income statement.

Business combinations
On the acquisition of a subsidiary, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. Those mining rights, mineral reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and mineral rights, for which in the Directors' opinion values cannot be reliably determined, are not recognised. Acquisition costs are expensed.

When the cost of acquisition exceeds the fair values attributable to the Group's share of the identifiable net assets, the difference is treated as purchased goodwill, which is not amortised but is reviewed for impairment annually or where there is an indication of impairment. If the fair value attributable to the Group's share of the identifiable net assets exceeds the cost of acquisition, the difference is immediately recognised in the income statement.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented in equity in the consolidated balance sheet, separately from the parent's shareholders' equity.

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

Similar procedures are applied in accounting for the purchases of interests in associates. Any goodwill arising on such purchases is included within the carrying amount of the investment in the associates, but not thereafter amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included in income in the period of the purchase.

Foreign currencies
Financial statements of subsidiaries, joint ventures and associates are maintained in their functional currencies and converted to US dollars for consolidation of the Group results. The functional currency of each entity is determined after consideration of the primary economic environment of the entity.

Transactions in foreign currencies are translated at the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at year-end exchange rates. All differences that arise are recorded in the income statement except for differences arising on rehabilitation provisions which are capitalised for operating mines. Non-monetary assets measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Where non-monetary assets are measured at fair value in a foreign currency, they are translated at the exchange rates when the fair value was determined. Where the exchange difference relates to an item which has been recorded in equity, the related exchange difference is also recorded in equity.

On consolidation of foreign operations into US dollars, income statement items are translated at weighted average rates of exchange where this is a reasonable approximation of the exchange rate at the dates of the transactions. Balance sheet items are translated at closing exchange rates. Exchange differences on the re-translation of the investments in foreign subsidiaries, joint ventures and associates at closing rates, together with differences between income statements translated at average and at closing rates, are recorded in a separate component of equity. Exchange differences relating to quasi-equity inter-company loan balances with the foreign operations that form part of the net investment in the foreign operation are also recognised in this component of equity. On disposal or partial disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

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

	31 December 2010	**Average 12 months 2010**	31 December 2009	Average 12 months 2009
Argentine pesos (US$:ARS)	**3.9759**	**3.9119**	3.7990	3.7279
Australian dollars (AUD:US$)	**1.0233**	**0.9208**	0.8974	0.7934
Canadian dollars (US$:CAD)	**0.9983**	**1.0302**	1.0533	1.1405
Chilean pesos (US$:CLP)	**468.00**	**510.19**	507.45	558.62
Colombian pesos (US$:COP)	**1,920**	**1,898**	2,043	2,153
Euros (EUR:US$)	**1.3387**	**1.3266**	1.4327	1.3949
Great Britain pounds (GBP:US$)	**1.5613**	**1.5456**	1.6173	1.5669
Peruvian nuevo sol (US$:PEN)	**2.8063**	**2.8245**	2.8870	3.0098
South African rand (US$:ZAR)	**6.6276**	**7.3159**	7.3890	8.4057
Swiss francs (US$:CHF)	**0.9346**	**1.0424**	1.0356	1.0850

Revenue

Revenue associated with the sale of commodities is recognised when all significant risks and rewards of ownership of the asset sold are transferred to the customer, usually when insurance risk has passed to the customer and the commodity has been delivered to the shipping agent. At this point the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the commodities and the costs incurred, or to be incurred, in respect of the sale can be reliably measured. Revenue is recognised, at fair value of the consideration receivable, to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Sales revenue is recognised at the fair value of consideration received, which in most cases is invoiced amounts, with most sales being priced free on board (FOB), free on rail (FOR) or cost, insurance and freight (CIF). Revenues from the sale of by-products are also included in sales revenue. Revenue excludes treatment and refining charges unless payment of these amounts can be enforced by the Group at the time of the sale.

For some commodities the sales price is determined provisionally at the date of sale, with the final price determined at a mutually agreed date, generally at a quoted market price at that time. This contractual feature has the character of a commodity derivative. As a result, the invoice price on these sales are marked-to-market at balance sheet date based on the forward metal prices for the relevant quotational period. This ensures that revenue is recorded at the fair value of consideration to be received. All mark-to-market adjustments are recorded in sales revenue.

Interest income

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

Exceptional items

Exceptional items represent significant items of income and expense that, due to their nature or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statement to give a better understanding to shareholders of the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance. Exceptional items include, but are not limited to, impairment charges, liability fair value adjustments, profits and losses on the sale of investments, profits and losses from the sale of operations, restructuring and closure costs, inventory write-downs, foreign currency gains and losses on borrowings, loan issue costs written-off on facility refinancing and the related tax impacts of these items.

Property, plant and equipment

On initial acquisition, land and buildings and plant and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management.

In subsequent periods, buildings, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, whilst land is stated at cost less any impairment in value and is not depreciated.

Notes to the financial statements *continued*

6. Principal accounting policies *continued*

Depreciation is provided so as to write off the costs, less estimated residual values of buildings, plant and equipment (based on prices prevailing at the balance sheet date), on the following bases:

Mine production assets are depreciated using a unit-of-production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves. Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives.

Where parts of an asset have different useful lives, depreciation is calculated on each separate part. Each asset or part's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

The expected useful lives are as follows:

Buildings	15 – 40 years
Plant and equipment	4 – 30 years

The net carrying amounts of land, buildings and plant and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amounts may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined.

Expenditure on major maintenance or repairs includes the cost of the replacement of parts of assets and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Group, the expenditure is capitalised and the carrying amount of the item replaced derecognised. Similarly, overhaul costs associated with major maintenance are capitalised and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognised. All other costs are expensed as incurred.

Where an item of property, plant and equipment is disposed of, it is derecognised and the difference between its carrying value and net sales proceeds is disclosed as a profit or loss on disposal in the income statement.

Any items of property, plant or equipment that cease to have future economic benefits are derecognised with any gain or loss included in the income statement in the financial year in which the item is derecognised.

Exploration and evaluation expenditure

Exploration and evaluation expenditure relates to costs incurred on the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration and evaluation expenditure for each area of interest, other than that acquired from the purchase of another mining company, is carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial year in which this is determined. Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met.

Expenditure is transferred to mine development assets or capital work in progress once the work completed to date supports the future development of the property and such development receives appropriate approvals.

Mineral properties and mine development expenditure

The cost of acquiring mineral reserves and mineral resources is capitalised on the balance sheet as incurred. Capitalised costs (development expenditure) include costs associated with a start-up period where the asset is available for use but incapable of operating at normal levels without a commissioning period.

Mineral reserves and capitalised mine development expenditure are, upon commencement of production, depreciated using a unit of production method based on the estimated economically recoverable reserves to which they relate or are written off if the property is abandoned. The net carrying amounts of mineral reserves and resources and capitalised mine development expenditure at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined.

Capital work in progress
Assets in the course of construction are capitalised in the capital work in progress account. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment.

The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use.

Costs associated with a start-up period are capitalised where the asset is available for use but incapable of operating at normal levels without a commissioning period.

Capital work in progress is not depreciated. The net carrying amounts of capital work in progress at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined.

Leasing and hire purchase commitments
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset. A reassessment after inception is only made in specific circumstances.

Assets held under finance leases, where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts, are capitalised in the balance sheet at the lower of the fair value of the leased property or the present value of the minimum lease payments during the lease term calculated using the interest rate implicit in the lease agreement. These amounts are determined at the inception of the lease and are depreciated over the shorter of their estimated useful lives or lease term. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the lease or hire purchase obligations are charged to the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Leases where substantially all the risks and rewards of ownership have not passed to the Group are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

Deferred stripping costs
In open pit mining operations, it is necessary to remove overburden and other waste in order to access the ore body. During the pre-production phase, these costs are capitalised as part of the cost of the mine property and depreciated based on the mine's strip ratio.

The costs of removal of the waste material during a mine's production phase are deferred where they give rise to future benefits. The deferral of these costs, and subsequent charges to the income statement, are determined with reference to the mine's strip ratio.

The mine's strip ratio represents the ratio of the estimated total volume of waste, to the estimated total quantity of economically recoverable ore, over the life of the mine. These costs are deferred where the actual stripping ratios are higher than the average life of mine strip ratio. The costs charged to the income statement are based on application of the mine's strip ratio to the quantity of ore mined in the period. Where the ore is expected to be evenly distributed, waste removal is expensed as incurred.

Biological assets
Biological assets, being cattle, are carried at their fair value less estimated selling costs. Any changes in fair value less estimated selling costs are included in the income statement in the period in which they arise.

Intangible assets
Purchased intangible assets are recorded at the cost of acquisition including expenses incidental to the acquisition, less accumulated amortisation and any impairment in value.

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition.

Internally generated goodwill is not recognised.

Intangible assets are amortised over their estimated useful lives, except goodwill and those intangible assets that the Directors regard as having indefinite useful lives, that are not amortised but are reviewed for impairment at least annually, and whenever events or circumstances indicate that the carrying amount may not be recoverable. Intangible assets are regarded as having an indefinite life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash flows. Such analyses are performed annually. Estimated useful lives are determined as the period over which the Group expects to use the asset or the number of production (or similar) units expected to be obtained from the asset by the Group and for which the Group retains control of access to those benefits.

For intangible assets with a finite useful life, the amortisation method and period are reviewed annually and impairment testing is undertaken when circumstances indicate the carrying amount may not be recoverable.

Where an intangible asset is disposed of, it is derecognised and the difference between its carrying value and the net sales proceeds is reported as a profit or loss on disposal in the income statement in the financial year the disposal occurs.

6. Principal accounting policies *continued*

Coal export rights

Coal export rights are carried at cost and amortised using a unit-of-production method based on the reserves that exist in the location that has access to such rights.

Software and technology patents

Software and technology patents are carried at cost and amortised over a period of three years and 20 years respectively.

Hydroelectricity rights

Hydroelectricity rights acquired will be amortised over the expected life of the operation following the completion of construction.

Long-term feed contract

A long-term feed contract is amortised over the remaining contract term.

Impairment of assets

The carrying amounts of non-current assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less costs to sell and its value-in-use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash-generating unit level.

Where a cash-generating unit, or group of cash-generating units, has goodwill allocated to it, or includes intangible assets that are either not available for use or that have an indefinite useful life (and which can only be tested as part of a cash-generating unit), an impairment test is performed at least annually or whenever there is an indication that the carrying amounts of such assets may be impaired.

If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recorded in the income statement to reflect the asset at the lower amount. In assessing the value-in-use, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal are discounted to their present value using a market-determined pre-tax discount rate that reflects current market assessments of the time value of money and asset-specific risks for which the cash flow estimates have not been adjusted. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. For mining assets this would generally be determined based on the present value of the estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing these cash flows and discounting them to present value, assumptions used are those that an independent market participant would consider appropriate.

An impairment loss is reversed in the income statement if there is a change in the estimates used to determine the recoverable amount since the prior impairment loss was recognised. The carrying amount is increased to the recoverable amount, but not beyond the carrying amount, net of depreciation or amortisation that would have arisen if the prior impairment loss had not been recognised. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. Goodwill impairments are not reversed.

Non-current assets held-for-sale and discontinued operations

Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal groups are available for immediate sale in their present condition. The Group must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

Non-current assets (or disposal groups) held-for-sale are carried at the lower of the carrying amount prior to being classified as held-for-sale, and the fair value less costs to sell. A non-current asset is not depreciated while classified as held-for-sale.

A non-current asset held-for-sale is presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held-for-sale are presented separately as one line in the assets and liabilities sections on the face of the balance sheet.

Discontinued operations

A discontinued operation is a component of an entity, whose operations and cash flows are clearly distinguished both operationally and for financial reporting purposes from the rest of the entity, that has been disposed of or classified as held-for-sale. To be classified as a discontinued operation one of the following criteria must be met:

- the operation must represent a separate major line of business or geographical area of operations; or
- the operation must be part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the operation must be a subsidiary acquired exclusively with a view to resale.

Where the operation is discontinued at the balance sheet date, the results are presented in one line on the face of the income statement, and prior period results are represented as discontinued.

Financial instruments

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. Where, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, the investment is reclassified into the available-for-sale category. When financial assets are recognised initially, they are measured at fair value on the trade date, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All financial liabilities are initially recognised at their fair value. Subsequently, all financial liabilities with the exception of derivatives are carried at amortised cost.

The Group considers whether a contract contains an embedded derivative when the Group becomes a party to the contract. Embedded derivatives are separated from the host contract if it is not measured at fair value through profit and loss and when the economic characteristics and risks are not closely related to the host contract.

Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in the category financial assets at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held-for-trading unless they are designated as and are effective hedging instruments. Gains or losses on these items are recognised in income.

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method.

Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Trade and other receivables are recognised and carried at their original invoiced value, adjusted, where appropriate, for provisional pricing or their recoverable amount if this differs from the invoiced amount. Where the time value of money is material, receivables are discounted and are carried at their present value. A provision is made where the estimated recoverable amount is lower than the carrying amount.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three stated categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Listed share investments are carried at fair value based on stock exchange quoted prices at the balance sheet date. Unlisted shares are carried at fair value where it can be reliably obtained, otherwise they are stated at cost less any impairment.

Fair values

The fair value of quoted financial assets is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include recent arm's-length market transactions; reference to current market value of another instrument which is substantially the same; discounted cash flow analysis; and pricing models.

Derivative financial instruments are valued using applicable valuation techniques such as those outlined above.

De-recognition of financial assets and liabilities

Financial assets

A financial asset is de-recognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, it continues to recognise the financial asset to the extent of its continuing involvement in the asset.

Notes to the financial statements *continued*

6. Principal accounting policies *continued*

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Gains and losses on de-recognition are recognised within finance income and finance costs respectively.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. Objective evidence of impairment of loans and receivables exists if the counter-party is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counter-party that would not normally be granted, or it is probable that the counter-party will enter into bankruptcy or a financial reorganisation.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can objectively be related to an event occurring after the impairment loss was recognised in profit or loss.

Rehabilitation trust fund

Investments in the rehabilitation trust fund are measured at fair value based on the market price of investments held by the trust. In accordance with IFRIC 5, movements in the fair value are recognised in the income statement. Such amounts relate to trusts in South Africa which receive cash contributions to accumulate funds for the Group's rehabilitation liabilities relating to the eventual closure of the Group's coal operations.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps, forward currency and commodity contracts to hedge its risks associated with interest rate, foreign currency and commodity price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss for the year.

The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates and prices for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges;
- cash flow hedges; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges that are expected to be highly effective in achieving offsetting changes in fair value or cash flows are assessed on an ongoing basis to determine if they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability that could affect profit or loss. The carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value, and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss.

Amortisation begins when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes the designation.

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or roll-over, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Own shares

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

Own shares purchased under the Equity Capital Management Program (ECMP) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of such shares. Such gains and losses are recognised directly in equity.

Interest-bearing loans and borrowings

Loans are recognised at inception at the fair value of proceeds received, net of directly attributable transaction costs. Subsequently they are measured at amortised cost using the effective interest method. Finance costs are recognised in the income statement using the effective interest method.

Convertible borrowings

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis or using a first-in-first-out basis and includes all costs incurred in the normal course of business including direct material and direct labour costs and an allocation of production overheads, depreciation and amortisation and other costs, based on normal production capacity, incurred in bringing each product to its present location and condition. Cost of inventories includes the transfers from equity of gains and losses on

6. Principal accounting policies *continued*

qualifying cash flow hedges in respect of the purchase of materials. Inventories are categorised, as follows:

- Raw materials and consumables: materials, goods or supplies (including energy sources) to be either directly or indirectly consumed in the production process;
- Work in progress: items stored in an intermediate state that have not yet passed through all the stages of production; and
- Finished goods: products and materials that have passed all stages of the production process.

Net realisable value represents estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less. For the cash flow statement, cash and cash equivalents include certain bank overdrafts where the facility forms part of the working capital cash management activities.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all the attaching conditions will be complied with. Government grants in respect of capital expenditure are credited to the carrying amount of the related asset and are released to the income statement over the expected useful lives of the relevant assets. Grants that are not associated with an asset are credited to income so as to match them with the expense to which they relate.

Environmental protection, rehabilitation and closure costs

Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the balance sheet date. The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is included in interest expense. At the time of establishing the provision, a corresponding asset is capitalised, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates.

The provision is reviewed on an annual basis for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

Rehabilitation trust funds holding monies committed for use in satisfying environmental obligations are included within Other financial assets on the balance sheet.

Employee entitlements

Provisions are recognised for short-term employee entitlements, on an undiscounted basis, for services rendered by employees that remain unpaid at the balance sheet date.

Provisions for long-term employee entitlements are measured using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the liabilities.

In some of the Group's Australian operations, long service leave (an employee entitlement for which a provision is recorded) is administered by an independent fund. The fund collects levies from employers throughout the industry based on the expected cost of future liabilities. When the Group makes long service leave payments to employees covered by the fund, it is reimbursed for the majority of the payment. To reflect the expected reimbursement for future long service leave payments from the fund, a receivable is recorded based on the present value of the future amounts expected to be reimbursed.

Other provisions

Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted to net present value using an appropriate current market-based pre-tax discount rate and the unwinding of the discount is included in finance costs.

Taxation

Current tax

Current tax for each taxable entity in the Group is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred tax

Deferred tax is recognised using the balance sheet method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below:

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. To the extent that an asset not previously recognised fulfils the criteria for recognition, a deferred income tax asset is recorded.

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

Current and deferred tax relating to items recognised directly in equity are recognised in equity and not in the income statement.

Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax.

Pensions and other post-retirement obligations
The Group's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate.

The Group contributes to separately administered defined benefit pension plans.

For defined benefit funds, plan assets are measured at fair value, while plan liabilities are measured on an actuarial basis using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. In measuring its defined benefit liability, past service costs are recognised as an expense on a straight-line basis over the period until the benefits become vested. To the extent that the benefits vest immediately following the introduction of, or changes to, a defined benefit plan, the past service costs are recognised immediately. When a settlement (eliminating all obligations for part or all of the benefits that have already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss is recognised in the income statement during the period in which the settlement or curtailment occurs.

The service cost of providing pension benefits to employees for the year is determined using the projected unit method and is recognised in the income statement. The difference between the expected return on plan assets and the unwinding of the discount on plan liabilities is recognised in the income statement.

Actuarial gains or losses are recognised directly in equity through the statement of recognised income and expenses. The full pension surplus or deficit is recorded in the balance sheet, with the exception of the impact of any recognition of past service costs. Surpluses recorded are restricted to the sum of any unrecognised past service costs and present value of any amounts the Group expects to recover by way of refunds from the plan or reductions in future contributions.

The Group also provides post-retirement healthcare benefits to certain employees in Canada, the Dominican Republic, South Africa and the United States. These are accounted for in a similar manner to the defined benefit pension plans. These benefits are unfunded.

Ordinary share capital
Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

Share-based compensation plans
The Group makes share-based awards, including free shares and options, to certain employees.

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

6. Principal accounting policies *continued*

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified over the original vesting period. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification, over the remainder of the new vesting period.

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

Cash-settled awards

For cash-settled awards, the fair value is recalculated at each balance date until the awards are settled based on the estimated number of awards that are expected to vest, adjusting for market and non-market based performance conditions. During the vesting period, a liability is recognised representing the portion of the vesting period that has expired at the balance sheet date multiplied by the fair value of the awards at that date. After vesting, the full fair value of the unsettled awards at each balance date is recognised as a liability. Movements in the liability are recognised in the income statement. The fair value is recalculated using an option pricing model (refer to note 35).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised and amortised over the useful life of the asset. Borrowing costs related to the establishment of a loan facility are capitalised and amortised over the life of the facility. Other borrowing costs are recognised as an expense in the financial period incurred.

Comparatives

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

7. Acquisitions

Business combinations

Sphere Minerals Limited

On 24 August 2010, the Group made an AUD2.50 per share cash offer for all of the shares in Sphere Minerals Limited (Sphere). On 3 November 2010, the Group increased its offer price to AUD3.00 cash for each Sphere share. The Group declared the offer free from all conditions on 11 November 2010, following the receipt of acceptances in respect of more than 50% of Sphere's share capital. As at 31 December 2010 the Group held 75.45% of Sphere. The Group has extended the offer period to 25 March 2011, unless further extended. Under IFRS 3 the acquisition has been accounted for as one transaction occurring on 16 November 2010, being the date that the Group obtained control of the Board of Sphere. The total cost of the acquisition was US$391 million. Sphere is a West Africa focused iron ore company, with interests in three iron ore projects in Mauritania.

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

US$m	IFRS carrying value	Fair value adjustments	Fair value at acquisition
Property, plant and equipment	86	408	494
Trade and other receivables	2	–	2
	88	408	496
Trade and other payables	(4)	–	(4)
Deferred tax liabilities	–	(122)	(122)
Net assets	84	286	370
Non-controlling interests	(27)	(70)	(97)
Net attributable assets	57	216	273
Goodwill arising on acquisition	–	92	92
	57	308	365

Consideration:	
Net cash acquired with the subsidiary	(26)
Cash paid	391
	365

The goodwill balance is the result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases.

There was only one acquisition in 2010 therefore this represents the aggregated assets and liabilities for all business combinations.

Prior year business combinations

There were no business combinations in 2009.

Notes to the financial statements *continued*

8. Discontinued operations and disposals

Maloma mine

In June 2010, the Maloma mine in Swaziland was sold for a cash consideration of US$3 million, resulting in the Group realising a gain of US$3 million.

Prior year discontinued operations and disposals

Profit on loss of control of joint venture

In October 2009, the Group entered into an irrevocable sale agreement to dispose of the Group's 70% interest in El Morro SCM, the holder of the El Morro copper-gold project in Chile, and associated rights and assets, to Barrick Gold Corporation (or New Gold Incorporated upon the exercise of their right of first refusal) for a total cash consideration of US$463 million (refer to note 10). As the Group recovered the carrying value of this asset through a sale transaction, the asset was classified as held-for-sale at 31 December 2009. The sale proceeds were received from New Gold Incorporated on 17 February 2010.

The net balance of other held-for-sale assets and liabilities at 31 December 2010 was US$27 million (31 December 2009 US$26 million) relating to a coal mine in South Africa.

Consolidated information

The information below is provided in aggregate for the 2010 and 2009 disposals:

US$m	**2010**	2009
Property, plant and equipment	**7**	–
Inventories	**1**	–
Trade and other receivables	**1**	–
	9	–
Trade and other payables	**(9)**	–
Net assets	**–**	–
Consideration:		
Cash received	**3**	–
Total consideration	**3**	–
Gain on disposal of discontinued operations	**3**	–

9. Segmental analysis

Operating segments

Xstrata's business is organised into five global commodity businesses, each of which operates with a high degree of autonomy. In addition to the five global segments, the Xstrata Technology Services and Xstrata Iron Ore businesses, which are not significant parts of the business, are also included below for disclosure purposes.

Management monitors the operating results of each business as a standalone entity. Segment performance is evaluated based on a number of measures including return on capital employed and operating profit before interest and tax. Finance income and costs, and income tax, are managed on a Group basis.

Transfer prices between business segments are set on an arm's-length basis in a manner similar to transactions with third parties.

The following tables present revenue and profit information and certain asset and liability information regarding the Group's operating segments for the years ended 31 December 2010 and 2009.

US$m	**Before exceptional items**	**Exceptional items**	**2010**	Before exceptional items	Exceptional items	2009
Revenue						
External parties:						
Coal – Thermal	**6,167**	**–**	**6,167**	5,762	–	5,762
Coal – Coking	**1,621**	**–**	**1,621**	987	–	987
Coal	**7,788**	**–**	**7,788**	6,749	–	6,749
Alloys	**1,894**	**–**	**1,894**	1,305	–	1,305
Copper	**14,004**	**–**	**14,004**	9,223	–	9,223
Nickel	**2,738**	**–**	**2,738**	1,891	–	1,891
Zinc Lead	**3,922**	**–**	**3,922**	3,450	–	3,450
Technology	**153**	**–**	**153**	114	–	114
Revenue	**30,499**	**–**	**30,499**	22,732	–	22,732
Inter-segmental:						
Copper	**139**	**–**	**139**	119	–	119
Nickel	**256**	**–**	**256**	83	–	83
Zinc Lead	**544**	**–**	**544**	282	–	282
Technology	**6**	**–**	**6**	9	–	9
Eliminations	**(945)**	**–**	**(945)**	(493)	–	(493)
Total	**30,499**	**–**	**30,499**	22,732	–	22,732

Notes to the financial statements *continued*

9. Segmental analysis *continued*

US$m	**Before exceptional items**	**Exceptional items**	**2010**	Before exceptional items	Exceptional items	2009
Profit before interest, taxation, depreciation and amortisation (EBITDA)						
Coal – Thermal	**2,150**	**16**	**2,166**	2,325	350	2,675
Coal – Coking	**911**	**–**	**911**	430	–	430
Coal	**3,061**	**16**	**3,077**	2,755	350	3,105
Alloys	**477**	**–**	**477**	70	(11)	59
Copper	**4,693**	**–**	**4,693**	2,922	154	3,076
Iron Ore	**(1)**	**(4)**	**(5)**	–	–	–
Nickel	**973**	**–**	**973**	427	(40)	387
Zinc Lead	**1,327**	**(5)**	**1,322**	860	(65)	795
Technology	**32**	**–**	**32**	28	–	28
Segment EBITDA	**10,562**	**7**	**10,569**	7,062	388	7,450
Unallocated	**(176)**	**–**	**(176)**	(274)	–	(274)
Operating EBITDA	**10,386**	**7**	**10,393**	6,788	388	7,176
Share of results from associates (net of tax):						
Coal	**4**	**–**	**4**	3	–	3
Alloys	**5**	**(6)**	**(1)**	(58)	(277)	(335)
Zinc Lead	**6**	**–**	**6**	(1)	–	(1)
Total	**10,401**	**1**	**10,402**	6,732	111	6,843

US$m	**Before exceptional items**	**Exceptional items**	**2010**	Before exceptional items	Exceptional items	2009
Depreciation and amortisation						
Coal	**845**	**–**	**845**	717	–	717
Alloys	**124**	**–**	**124**	93	–	93
Copper	**873**	**–**	**873**	796	–	796
Nickel	**470**	**–**	**470**	445	–	445
Zinc Lead	**410**	**–**	**410**	354	–	354
Technology	**6**	**–**	**6**	6	–	6
Depreciation and amortisation	**2,728**	**–**	**2,728**	2,411	–	2,411
Unallocated	**4**	**–**	**4**	8	–	8
Total	**2,732**	**–**	**2,732**	2,419	–	2,419

US$m	**Before exceptional items**	**Exceptional items**	**2010**	Before exceptional items	Exceptional items	2009
Impairment of assets						
Copper	**–**	**–**	**–**	–	325	325
Nickel	**–**	**559**	**559**	–	2,110	2,110
Zinc Lead	**–**	**–**	**–**	–	118	118
Total	**–**	**559**	**559**	–	2,553	2,553

US$m	Before exceptional items	Exceptional items	2010	Before exceptional items	Exceptional items	2009
Profit before interest and taxation (EBIT)						
Coal – Thermal	**1,415**	**16**	**1,431**	1,695	350	2,045
Coal – Coking	**801**	**–**	**801**	343	–	343
Coal	**2,216**	**16**	**2,232**	2,038	350	2,388
Alloys	**353**	**–**	**353**	(23)	(11)	(34)
Copper	**3,820**	**–**	**3,820**	2,126	(171)	1,955
Iron Ore	**(1)**	**(4)**	**(5)**	–	–	–
Nickel	**503**	**(559)**	**(56)**	(18)	(2,150)	(2,168)
Zinc Lead	**917**	**(5)**	**912**	506	(183)	323
Technology	**26**	**–**	**26**	22	–	22
Segment EBIT	**7,834**	**(552)**	**7,282**	4,651	(2,165)	2,486
Unallocated	**(180)**	**–**	**(180)**	(282)	–	(282)
Operating profit	**7,654**	**(552)**	**7,102**	4,369	(2,165)	2,204
Share of results from associates (net of tax):						
Coal	**4**	**–**	**4**	3	–	3
Alloys	**5**	**(6)**	**(1)**	(58)	(277)	(335)
Zinc Lead	**6**	**–**	**6**	(1)	–	(1)
EBIT	**7,669**	**(558)**	**7,111**	4,313	(2,442)	1,871
Finance income	**152**	**–**	**152**	407	47	454
Finance expense	**(620)**	**(35)**	**(655)**	(754)	(41)	(795)
Profit before taxation	**7,201**	**(593)**	**6,608**	3,966	(2,436)	1,530
Income tax (charge)/credit	**(1,782)**	**129**	**(1,653)**	(993)	324	(669)
Profit/(loss) for the year	**5,419**	**(464)**	**4,955**	2,973	(2,112)	861

Notes to the financial statements *continued*

9. Segmental analysis *continued*

US$m	At 31.12.10	At 31.12.09
Total assets		
Coal	**18,302**	17,341
Alloys	**6,066**	5,354
Copper	**22,264**	20,603
Iron Ore	**721**	23
Nickel	**12,962**	11,788
Zinc Lead	**7,567**	7,179
Technology	**154**	133
Total assets	**68,036**	62,421
Unallocated*	**1,673**	1,403
Total assets	**69,709**	63,824
Total liabilities		
Coal	**4,616**	4,165
Alloys	**971**	847
Copper	**5,887**	4,693
Iron Ore	**131**	–
Nickel	**3,360**	2,773
Zinc Lead	**1,869**	1,639
Technology	**72**	69
Total liabilities	**16,906**	14,186
Unallocated**	**10,782**	14,719
Total	**27,688**	28,905
Net assets		
Coal	**13,686**	13,176
Alloys	**5,095**	4,507
Copper	**16,377**	15,910
Iron Ore	**590**	23
Nickel	**9,602**	9,015
Zinc Lead	**5,698**	5,540
Technology	**82**	64
Net assets	**51,130**	48,235
Unallocated*,**	**(9,109)**	(13,316)
Total	**42,021**	34,919

* Includes corporate assets not directly attributable to operating segments. Such unallocated assets include corporate cash and cash equivalents of US$595 million (2009 US$189 million), deferred tax assets of US$299 million (2009 US$213 million), derivative financial assets that have mainly been used to provide an economic hedge of capital market notes of US$680 million (2009 US$709 million) and other assets of US$99 million (2009 US$292 million).

** Includes corporate liabilities not directly attributable to operating segments. Such unallocated liabilities include interest-bearing loans and borrowings of US$8,742 million (2009 US$13,182 million), share based compensation plan provisions of US$252 million (2009 US$224 million), other provisions of US$127 million (2009 US$75 million), deferred and current tax liabilities of US$863 million (2009 US$537 million), derivative financial liabilities that have mainly been used to provide an economic hedge of capital market notes of US$699 million (2009 US$501 million) and other liabilities of US$99 million (2009 US$200 million).

US$m	2010	2009
Capital expenditure		
Sustaining:		
Coal	**568**	424
Alloys	**126**	114
Copper	**572**	498
Nickel	**237**	93
Zinc Lead	**316**	133
Technology	**2**	2
Total sustaining	**1,821**	1,264
Unallocated	**2**	1
Total	**1,823**	1,265
Expansionary:		
Coal	**1,430**	687
Alloys	**141**	49
Copper	**1,162**	436
Iron Ore	**67**	23
Nickel	**1,319**	1,049
Zinc Lead	**177**	114
Technology	**–**	1
Total expansionary	**4,296**	2,359
Total capital expenditure:		
Coal	**1,998**	1,111
Alloys	**267**	163
Copper	**1,734**	934
Iron Ore	**67**	23
Nickel	**1,556**	1,142
Zinc Lead	**493**	247
Technology	**2**	3
Total	**6,117**	3,623
Unallocated	**2**	1
Total	**6,119**	3,624

The average number of employees, which includes executive directors and excludes contractors, during the year are as follows:

Coal	**10,473**	10,009
Alloys	**8,337**	8,199
Copper	**11,483**	11,319
Iron Ore	**4**	–
Nickel	**3,340**	3,098
Zinc Lead	**4,645**	4,939
Technology	**167**	177
Total	**38,449**	37,741
Unallocated	**112**	104
Total	**38,561**	37,845

Notes to the financial statements *continued*

9. Segmental analysis *continued*

The average number of contractors during the year is as follows:

	2010	2009
Coal	**9,330**	6,940
Alloys	**7,561**	5,694
Copper	**9,079**	8,231
Iron Ore	**1**	–
Nickel	**5,110**	2,501
Zinc Lead	**1,038**	785
Technology	**63**	24
Total	**32,182**	24,175
Unallocated	**4**	6
Total	**32,186**	24,181

Geographical areas

The following tables present revenue and profit information and certain asset and liability information regarding the Group's geographical areas for the years ended 31 December 2010 and 2009.

US$m	Before exceptional items	Exceptional items	2010	Before exceptional items	Exceptional items	2009
Revenue by origin						
External parties:						
Africa	**2,909**	**–**	**2,909**	2,302	–	2,302
Americas North	**6,504**	**–**	**6,504**	4,936	–	4,936
Americas South	**8,744**	**–**	**8,744**	7,051	–	7,051
Australasia	**8,938**	**–**	**8,938**	6,025	–	6,025
Europe	**3,404**	**–**	**3,404**	2,418	–	2,418
Total	**30,499**	**–**	**30,499**	22,732	–	22,732
Revenue by destination						
External parties:						
Africa	**793**	**–**	**793**	562	–	562
Americas North	**5,790**	**–**	**5,790**	4,202	–	4,202
Americas South	**2,013**	**–**	**2,013**	1,264	–	1,264
Asia	**13,414**	**–**	**13,414**	10,127	–	10,127
Australasia	**795**	**–**	**795**	769	–	769
Europe	**7,597**	**–**	**7,597**	5,703	–	5,703
Middle East	**97**	**–**	**97**	105	–	105
Total	**30,499**	**–**	**30,499**	22,732	–	22,732

The revenue information above is based on the location of the customer.

Revenue from one customer was greater than 10% of total revenues and arising from sales within a number of different operating and geographical segments (refer to note 36).

US$m	Before exceptional items	Exceptional items	2010	Before exceptional items	Exceptional items	2009
EBITDA						
Africa	**752**	**16**	**768**	330	339	669
Americas North	**1,445**	**(5)**	**1,440**	608	(145)	463
Americas South	**3,798**	**–**	**3,798**	3,080	194	3,274
Australasia	**4,034**	**(4)**	**4,030**	2,765	–	2,765
Europe	**533**	**–**	**533**	279	–	279
Segment EBITDA	**10,562**	**7**	**10,569**	7,062	388	7,450
Unallocated	**(176)**	**–**	**(176)**	(274)	–	(274)
Operating EBITDA	**10,386**	**7**	**10,393**	6,788	388	7,176
Share of results from associates (net of tax):						
Americas North	**6**	**–**	**6**	(1)	–	(1)
Africa	**5**	**(6)**	**(1)**	(58)	(277)	(335)
Australasia	**4**	**–**	**4**	3	–	3
Total	**10,401**	**1**	**10,402**	6,732	111	6,843
Depreciation and amortisation						
Africa	**299**	**–**	**299**	242	–	242
Americas North	**442**	**–**	**442**	472	–	472
Americas South	**664**	**–**	**664**	676	–	676
Australasia	**1,214**	**–**	**1,214**	919	–	919
Europe	**109**	**–**	**109**	102	–	102
Depreciation and amortisation	**2,728**	**–**	**2,728**	2,411	–	2,411
Unallocated	**4**	**–**	**4**	8	–	8
Total	**2,732**	**–**	**2,732**	2,419	–	2,419
Impairment of assets						
Africa	**–**	**–**	**–**	–	–	–
Americas North	**–**	**–**	**–**	–	1,649	1,649
Americas South	**–**	**559**	**559**	–	170	170
Australasia	**–**	**–**	**–**	–	734	734
Total	**–**	**559**	**559**	–	2,553	2,553
EBIT						
Segment result:						
Africa	**453**	**16**	**469**	88	339	427
Americas North	**1,003**	**(5)**	**998**	137	(1,794)	(1,657)
Americas South	**3,134**	**(559)**	**2,575**	2,404	24	2,428
Australasia	**2,820**	**(4)**	**2,816**	1,845	(734)	1,111
Europe	**424**	**–**	**424**	177	–	177
Segment EBIT before exceptional items	**7,834**	**(552)**	**7,282**	4,651	(2,165)	2,486
Unallocated	**(180)**	**–**	**(180)**	(282)	–	(282)
Operating profit	**7,654**	**(552)**	**7,102**	4,369	(2,165)	2,204
Share of results from associates (net of tax):						
Americas North	**6**	**–**	**6**	(1)	–	(1)
Africa	**5**	**(6)**	**(1)**	(58)	(277)	(335)
Australasia	**4**	**–**	**4**	3	–	3
EBIT	**7,669**	**(558)**	**7,111**	4,313	(2,442)	1,871
Finance income	**152**	**–**	**152**	407	47	454
Finance expense	**(620)**	**(35)**	**(655)**	(754)	(41)	(795)
Profit before taxation	**7,201**	**(593)**	**6,608**	3,966	(2,436)	1,530
Income tax (expense)/ benefit	**(1,782)**	**129**	**(1,653)**	(993)	324	(669)
Profit/(loss) for the year	**5,419**	**(464)**	**4,955**	2,973	(2,112)	861

Notes to the financial statements *continued*

9. Segmental analysis *continued*

US$m	At 31.12.10	At 31.12.09
Total assets		
Africa	**11,456**	9,164
Americas North	**6,257**	6,282
Americas South	**19,702**	21,596
Australasia	**24,818**	19,684
Europe	**3,072**	2,964
Total segmental assets	**65,305**	59,690
Unallocated*	**4,404**	4,134
Total	**69,709**	63,824
Total liabilities		
Africa	**2,475**	1,934
Americas North	**3,361**	2,426
Americas South	**5,026**	4,770
Australasia	**5,308**	4,458
Europe	**736**	598
Total	**16,906**	14,186
Unallocated**	**10,782**	14,719
Total	**27,688**	28,905
Net assets		
Africa	**8,981**	7,230
Americas North	**2,896**	3,856
Americas South	**14,676**	16,826
Australasia	**19,510**	15,226
Europe	**2,336**	2,366
Total	**48,399**	45,504
Unallocated*,**	**(6,378)**	(10,585)
Total	**42,021**	34,919

* Includes corporate assets not directly attributable to geographical areas. Such unallocated assets include goodwill of US$2,731 million (2009 US$2,731 million), corporate cash and cash equivalents of US$595 million (2009 US$189 million), deferred tax assets of US$299 million (2009 US$213 million), derivative financial assets that have mainly been used to provide an economic hedge of capital market notes of US$680 million (2009 US$709 million) and other assets of US$99 million (2009 US$292 million).

** Includes corporate liabilities not directly attributable to geographical areas. Such unallocated liabilities include interest-bearing loans and borrowings of US$8,742 million (2009 US$13,182 million), share-based compensation plan provisions of US$252 million (2009 US$224 million), other provisions of US$127 million (2009 US$75 million), deferred and current tax liabilities of US$863 million (2009 US$537 million), derivative financial liabilities that have mainly been used to provide an economic hedge of capital market notes of US$699 million (2009 US$501 million) and other liabilities of US$99 million (2009 US$200 million).

US$m	2010	2009
Capital expenditure		
Sustaining:		
Africa	**187**	210
Americas North	**314**	169
Americas South	**390**	400
Australasia	**863**	443
Europe	**67**	42
Total sustaining	**1,821**	1,264
Unallocated	**2**	1
Total	**1,823**	1,265
Expansionary:		
Africa	**530**	364
Americas North	**117**	341
Americas South	**786**	265
Australasia	**2,813**	1,366
Europe	**50**	23
Total	**4,296**	2,359
Total capital expenditure:		
Africa	**717**	574
Americas North	**431**	510
Americas South	**1,176**	665
Australasia	**3,676**	1,809
Europe	**117**	65
Total	**6,117**	3,623
Unallocated	**2**	1
Total	**6,119**	3,624

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

Africa	**13,028**	12,851
Americas North	**5,700**	6,459
Americas South	**8,277**	7,641
Australasia	**9,414**	8,787
Europe	**2,013**	1,988
Middle East	**17**	15
Total	**38,449**	37,741
Unallocated	**112**	104
Total	**38,561**	37,845

The average number of contractors during the year is as follows:

Africa	**12,709**	9,003
Americas North	**1,572**	1,502
Americas South	**8,024**	6,999
Australasia	**9,572**	6,441
Europe	**303**	229
Middle East	**2**	1
Total	**32,182**	24,175
Unallocated	**4**	6
Total	**32,186**	24,181

Notes to the financial statements *continued*

10. Revenue and expenses

Revenue and expenses

US$m	2010	2009
Revenue – sales of goods	**30,499**	22,732
Less cost of sales*	**(20,405)**	(18,039)
Gross profit	**10,094**	4,693
Operating costs:		
Cost of sales**	**(17,135)**	(13,098)
Distribution costs	**(2,265)**	(1,852)
Administrative expenses**	**(661)**	(832)
Other income and expenses	**(52)**	(162)
Operating costs**	**(20,113)**	(15,944)
Depreciation and amortisation – cost of sales	**(2,711)**	(2,388)
Depreciation and amortisation – administrative expenses	**(21)**	(31)
Depreciation and amortisation	**(2,732)**	(2,419)
Operating costs – before exceptional items	**(22,845)**	(18,363)
Exceptional income/(costs):		
Acquisition costs	**(7)**	–
Liability fair value adjustments	**19**	350
Profit on loss of control of joint venture	**–**	194
Restructuring and closure costs	**(5)**	(156)
Exceptional income – before impairment of assets	**7**	388
Impairment of assets – cost of sales	**(559)**	(2,553)
Exceptional costs	**(552)**	(2,165)
Total operating costs	**(23,397)**	(20,528)

* After depreciation and amortisation and impairment of assets.
** Before depreciation and amortisation and impairment of assets.

Depreciation and amortisation		
Depreciation of owned assets	**(2,619)**	(2,324)
Depreciation of assets held under finance leases and hire purchase contracts	**(20)**	(10)
Total depreciation	**(2,639)**	(2,334)
Amortisation of intangible assets	**(93)**	(85)
Total depreciation and amortisation	**(2,732)**	(2,419)
Inventory recognised as an expense	**(19,846)**	(15,486)
Operating lease rental expense – minimum lease payments	**(62)**	(53)
Royalties paid	**(816)**	(524)
Research and development	**(3)**	(2)

Employee costs including directors' emoluments (refer to the Directors' Remuneration Report on pages 127 to 129 for details)

Wages and salaries	**2,759**	2,248
Pension and other post-retirement benefit costs (refer to note 35)	**215**	178
Social security and other benefits	**113**	128
Share-based compensation plans (refer to note 35)	**178**	334
Total employee costs	**3,265**	2,888

Auditors' remuneration

US$m	2010	2009
Auditors' remuneration[(a)]:		
– Group auditors – UK	1	1
– Group auditors – overseas	13	11
	14	12
Amounts paid to auditors for other work:		
– Corporate finance transactions[(b)]	1	3
– Taxation[(c)]	4	3
– Other[(d)]	1	1
	6	7
Other audit firms		
– Internal audit	2	1
– Other[(e)]	5	6
	7	7

(a) The Group audit fee includes US$47,000 (2009 US$45,000) in respect of the Parent Company.
(b) 2010 amounts relate to a number of ongoing projects and transactional support. 2009 amounts relate to the ongoing integration of previous acquisitions and other transactional support.
(c) Includes corporate tax compliance and advisory services.
(d) Primarily relates to accounting advice and non-statutory assurance services.
(e) Includes tax advisory services, accounting assistance and acquisition due diligence.

The Corporate Governance report set out on pages 110 to 118 details the Group's policy with regard to the independence and objectivity of the external and internal auditors and the provision and approval of non-audit services provided by the external auditors.

Finance income

US$m	2010	2009
Bank and interest received from third parties	76	46
Call option premium	42	208
Dividends	4	1
Earnings from other financial assets	29	146
Other	1	6
Finance income before exceptional items	152	407
Gain on forward exchange contracts in respect of the rights issue (refer to notes 12 and 26)	–	47
Exceptional finance income	–	47
Total finance income	152	454

Finance costs

Amortisation of loan issue costs	12	5
Convertible borrowings amortised cost charge	4	4
Discount unwinding	117	100
Finance charges payable under finance leases and hire purchase contracts	24	6
Foreign currency losses on other loans*	186	182
Interest on bank loans and overdrafts	29	89
Interest on convertible borrowings and capital market notes	205	295
Interest on non-controlling interest loans	6	6
Interest on other financial liabilities	9	12
Hedge ineffectiveness	6	17
Other	22	38
Finance cost before exceptional items	620	754
Loan issue costs written-off on facility refinancing	35	41
Exceptional finance cost	35	41
Total finance cost	655	795

* These amounts mainly relate to foreign currency losses on US and Canadian dollar inter-company loans in Australian entities.

Total interest income and expense (calculated using the effective interest method) for financial assets and liabilities not at fair value through the profit and loss are US$76 million (2009 US$52 million) and US$271 million (2009 US$440 million) respectively.

Notes to the financial statements *continued*

10. Revenue and expenses *continued*

Exceptional items

US$m	2010	2009
Acquisition costs	**(7)**	–
Liability fair value adjustments	**19**	350
Profit on loss of control of joint venture	**–**	194
Restructuring and closure costs	**(5)**	(156)
Exceptional items – before impairment of assets	**7**	388
Impairment of assets	**(559)**	(2,553)
	(552)	(2,165)

Impairment of assets

2010

The Group completed impairment testing for all of its cash-generating units at 31 October 2010 and, for any assets where indicators of impairment were identified in November or December, performed updated testing at 31 December 2010. As a result of this testing, an impairment was identified. Nickel assets in Brazil were impaired by US$559 million (US$437 million after tax), including goodwill of US$201 million (refer to note 15), following a review of the Araguaia nickel project in Brazil.

2009

The Group completed impairment testing for all of its cash-generating units at 31 October 2009 and, for any assets where indicators of impairment were identified in November or December, performed updated testing at 31 December 2009. As a result of this testing, impairments were identified at certain locations. Nickel assets in Australia, Canada and Norway were impaired by US$2,110 million (US$1,884 million after tax), including goodwill of US$710 million (refer to note 15), following the restructuring of its business (refer below). Copper and zinc assets in Canada were impaired by US$273 million (US$194 million after tax), following the announcement on 8 December 2009, that the Kidd Metallurgical site would permanently cease the operation of its copper and zinc metallurgical plants on 1 May 2010, as part of a plan to restructure its Canadian metallurgical operations (refer below). The Altonorte copper operations in Chile recognised impairment charges against its carrying value of property, plant and equipment assets of US$170 million (US$141 million after tax) due to the ongoing challenging market conditions for custom smelting operations.

Acquisition costs

During 2010, the Group incurred acquisition costs of US$7 million in relation to offers made to acquire companies.

Liability fair value adjustments

The Group is required to recognise a liability at fair value representing African Rainbow Minerals Limited (ARM) Coal's interest in Xstrata's South African coal operations. During the year, a gain of US$19 million has been recognised mainly due to revisions to the timing of forecast dividend payments. In 2009, a gain of US$350 million has been recognised mainly due to the impact of decreasing coal prices and foreign exchange movements.

Profit on loss of control of joint venture

In October 2009, the Group entered into an irrevocable sale agreement to dispose of the Group's 70% interest in El Morro SCM, the holder of the El Morro copper-gold project in Chile, and associated rights and assets, to Barrick Gold Corporation for a total cash consideration of US$463 million. The agreement granted New Gold Incorporated a right of first refusal on the same terms as those granted to Barrick Gold Corporation. The terms of the agreement were such that Xstrata was obliged to sell the assets to Barrick Gold Corporation or (should it exercise its option) New Gold Incorporated, without any change to the terms or cash consideration. Xstrata lost joint control of El Morro upon entering into the sale agreement as a result of the contractual terms in the agreement which precluded Xstrata from making any decisions regarding El Morro's financial and operating policies. In January 2010, New Gold Incorporated notified the Group of its intention to exercise its right of first refusal to acquire Xstrata Copper's interest in the El Morro copper-gold project and the sales proceeds were received on 17 February 2010. The Group recognised a gain of US$194 million (US$144 million after tax) as a result of entering into the the sale agreement and the resulting loss of joint control of the asset (refer to note 8).

Restructuring and closure costs

During 2010, additional restructuring and closure costs of US$5 million were recognised in relation to the closure of the Kidd metallurgical plants on 1 May 2010.

During 2009, restructuring and closure costs of US$156 million (US$116 million after tax) were recognised. Xstrata Nickel recognised restructuring and closure costs of US$40 million which included the closure of high-cost, end-of-life mines in Sudbury, the suspension of the Montcalm operations, significant reductions in operational and corporate overheads and the deferral of the Fraser Morgan and Sinclair Underground growth projects. Restructuring and closure costs of US$105 million were recognised in relation to the closure of the Kidd metallurgical plants, commencing on 1 May 2010, mainly due to global smelting overcapacity, record low treatment and refining charges, increasing operating and capital costs to run and maintain the facilities, and lower demand and sales prices for sulphuric acid. Restructuring and closure costs of US$11 million were also incurred during 2009 in Xstrata Alloys.

Share of results from associates

An amount of US$6 million (2009 US$36 million) was recognised in relation to the Group's share of the restructuring and closure costs, impairments, and the loss on forward exchange contracts in respect of a rights issue recognised by Lonmin. During 2009, an impairment charge of US$241 million was recorded in respect of the Group's investment in Lonmin following changes in foreign exchange rates, operating costs, production and commodity price outlook that have occurred since the acquisition date.

Income tax credit

The Group realised an exceptional tax credit of US$129 million primarily as a result of the impairment of assets, acquisition costs and restructuring and closure costs. The 2009 credit of US$324 million was realised primarily as a result of impairment of assets, restructuring and closure costs and inventory write-downs offset by the tax charge recognised on the loss of control of El Morro.

11. Income taxes

Income tax charge

Significant components of the income tax charge for the years ended:

US$m	2010	2009
Consolidated income statement		
Current tax:		
Based on taxable income for the current year	**1,590**	1,093
Prior year adjustment	**(47)**	(72)
Total current taxation charge for the year	**1,543**	1,021
Deferred taxation:		
Origination and reversal of temporary differences	**205**	(549)
Change in tax rates	**3**	(9)
Deferred tax (credit)/charge arising from the write-down, or reversal of a previous write-down, of a deferred tax asset	**(96)**	149
Prior year adjustment	**(2)**	57
Total deferred taxation charge/(credit) for the year	**110**	(352)
Total taxation charge	**1,653**	669
UK taxation included above:		
Current tax	**–**	1
Deferred tax	**(37)**	–
Total taxation (credit)/charge	**(37)**	1
Recognised directly in equity		
Deferred tax:		
Available-for-sale financial assets	**13**	9
Cash flow hedges	**(4)**	50
Other equity classified items	**(28)**	33
Total taxation (credit)/charge reported in equity	**(19)**	92

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

11. Income taxes *continued*

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

	2010	2009
Profit before taxation	**6,608**	1,530
Expected tax charge at the weighted average statutory income tax rate 25.2% (2009: 22.3%)	**1,667**	341
Goodwill impairment	**68**	174
Mining and other taxes	**100**	(4)
Foreign currency gains and losses	**21**	21
Investment allowances	**(47)**	(7)
Non-deductible expenses	**–**	38
Rebatable dividends received	**(4)**	(1)
Research and development allowances	**(10)**	(20)
Change in tax rates	**3**	(9)
Deferred tax (credit)/charge arising from the write-down, or reversal of a previous write-down, of a deferred tax asset	**(96)**	149
Prior year adjustment	**(49)**	(15)
Other	**–**	2
Tax charge at an effective income tax rate	**1,653**	669

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

The weighted average statutory income tax rate is the average of the standard income tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the subsidiaries in the respective countries as included in the consolidated accounts.

The change in the average statutory income tax rate is mainly due to the variation in the weight of subsidiaries' profits.

Recognition of deferred tax assets

Deferred tax assets for the carry-forward of unused tax losses and unused tax credits are only recognised above the level of deferred tax liabilities to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised.

Unrecognised tax losses/unrecognised deductible temporary differences

The Group has unrecognised deferred tax assets in relation to tax losses that are available indefinitely of US$137 million (2009 US$190 million) to carry forward against future taxable income of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss-making for some time. There are no other deductible temporary differences that have not been recognised at balance sheet date.

Temporary differences associated with Group investments

At 31 December 2010, the Group had undistributed earnings of certain Group subsidiaries, associates or joint ventures totalling US$12,867 million (2009 US$9,495 million) for which no deferred tax liabilities have been recognised for any taxes that would be payable on the remittance of these earnings as:

- the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future;
- the earnings of the associates will not be distributed until they obtain the consent of the Group; and
- the investments are not held-for-resale and are expected to be recouped by continued use of these operations by the subsidiaries.

There are no income tax consequences for the Group attaching to the payment of dividends by the Company to its shareholders.

The deferred tax assets/(liabilities) included on the face of the balance sheet are as follows:

US$m	**2010**	2009
Deferred tax assets	**299**	213
Deferred tax liabilities	**(6,368)**	(5,775)
	(6,069)	(5,562)

The reconciliation of net deferred tax liabilities are as follows:

US$m	Tax losses	Employee and other provisions	Rehabilitation and closure	Accelerated depreciation and amortisation	Trade and other payables/ receivables	Equity-related items	Other	Total
At 1 January 2009	273	275	152	(6,154)	206	24	(17)	(5,241)
Tax charge/(credit) recognised in the income statement	49	18	210	285	(241)	–	31	352
Tax charge/(credit) recognised in equity	–	40	–	–	–	(132)	–	(92)
Translation adjustments	35	(12)	167	(684)	(78)	(5)	(4)	(581)
At 31 December 2009	357	321	529	(6,553)	(113)	(113)	10	(5,562)
Tax charge/(credit) recognised in the income statement	(178)	(9)	(201)	215	42	–	21	(110)
Tax charge/(credit) recognised in equity	–	76	–	–	–	(57)	–	19
Acquisition and disposals	–	–	–	(122)	–	–	–	(122)
Translation adjustments	25	33	(12)	(343)	(5)	5	3	(294)
At 31 December 2010	**204**	**421**	**316**	**(6,803)**	**(76)**	**(165)**	**34**	**(6,069)**

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

Tax audits

The Group periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters where it is probable that an adjustment will be made, the Group recorded its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax laws. Whilst management believes they have adequately provided for the probable outcome of these matters, future results may include favourable or unfavourable adjustments to these estimated tax liabilities in the period the assessments are made, or resolved, or when the status of limitation lapses. The final outcome of tax examinations may result in a materially different outcome than assumed in the tax liabilities.

Notes to the financial statements *continued*

12. Earnings per share

US$m	2010	2009
Profit before exceptional items attributable to ordinary equity holders of the parent	**5,152**	2,773
Exceptional items	**(464)**	(2,112)
Profit attributable to ordinary equity holders of the parent	**4,688**	661
Interest in respect of convertible borrowings	**14**	19
Profit attributable to ordinary equity holders of the parent for diluted earnings per share	**4,702**	680
Weighted average number of shares (000s) excluding own shares:		
For basic earnings per share	**2,910,942**	2,646,871
Effect of dilution:		
– Share-based payments	**35,613**	26,525
– Convertible borrowings	**17,941**	25,680
For diluted earnings per share	**2,964,496**	2,699,076
Basic earnings per share (US$)		
– basic before exceptional items	**1.77**	1.05
– exceptional items	**(0.16)**	(0.80)
	1.61	0.25
Diluted earnings per share (US$)		
– before exceptional items	**1.74**	1.03
– exceptional items	**(0.16)**	(0.78)
	1.58	0.25

On 18 March 2009, 1,955,341,080 ordinary shares were issued under a rights issue which was structured as an issue of two new ordinary shares at a price of GBP2.10 per share for every one existing ordinary share held. The theoretical ex-rights price for an ordinary share was GBP3.41.

Basic earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares outstanding for the year, excluding own shares. Adjustments are made before exceptional items and after exceptional items as outlined above, to present a meaningful basis for analysis.

Diluted earnings per share is based on basic earnings per share adjusted for the potential dilution if director and employee free shares and share options are exercised and the convertible borrowings are converted into ordinary shares. An adjustment is also made to net profit for the interest in respect of the convertible borrowings.

13. Dividends paid and proposed

US$m	2010	2009
Declared and paid during the year:		
Final dividend for 2009 – 8 cents per ordinary share (2008 – nil cents per ordinary share)	**233**	–
Interim dividend for 2010 – 5 cents per ordinary share (2009 – nil cents per ordinary share)	**146**	–
	379	–
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December):		
Final dividend for 2010 – 20 cents per ordinary share (2009 – 8 cents per ordinary share)	**586**	233

Dividends declared in respect of the year ended 31 December 2010 will be paid on 13 May 2011. The 2010 interim dividend was paid on 8 October 2010.

As stated in note 26, own shares held in the ESOP and by the ECMP have waived the right to receive dividends.

14. Intangible assets

US$m	Export rights*	Goodwill*	Technology patents*	Feed contract*	Hydro electricity rights*	Other	2010
At 1 January 2010	**944**	**6,538**	**51**	**256**	**501**	**132**	**8,422**
Acquisitions	**–**	**92**	**–**	**–**	**–**	**–**	**92**
Additions	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Amortisation charge	**(18)**	**–**	**(4)**	**(36)**	**–**	**(35)**	**(93)**
Impairment charge	**–**	**(201)**	**–**	**–**	**–**	**–**	**(201)**
Reclassifications	**–**	**–**	**–**	**(23)**	**–**	**–**	**(23)**
Translation adjustments	**91**	**79**	**7**	**–**	**–**	**18**	**195**
At 31 December 2010	**1,017**	**6,508**	**54**	**197**	**501**	**126**	**8,403**
At 1 January 2010:							
Cost	**1,026**	**9,285**	**75**	**425**	**501**	**215**	**11,527**
Accumulated amortisation	**(82)**	**(2,747)**	**(24)**	**(169)**	**–**	**(83)**	**(3,105)**
Net carrying amount	**944**	**6,538**	**51**	**256**	**501**	**132**	**8,422**
At 31 December 2010:							
Cost	**1,128**	**9,463**	**86**	**425**	**501**	**254**	**11,857**
Accumulated amortisation	**(111)**	**(2,955)**	**(32)**	**(228)**	**–**	**(128)**	**(3,454)**
Net carrying amount	**1,017**	**6,508**	**54**	**197**	**501**	**126**	**8,403**

US$m	Export rights*	Goodwill*	Technology patents*	Feed contract*	Hydro electricity rights*	Other	2009
At 1 January 2009	772	7,146	42	297	501	140	8,898
Acquisition and other adjustments	–	(49)	–	–	–	–	(49)
Additions	–	–	–	–	–	16	16
Amortisation charge	(16)	–	(3)	(41)	–	(25)	(85)
Disposals	–	–	–	–	–	(1)	(1)
Impairment charge	–	(710)	–	–	–	(5)	(715)
Transferred to assets classified as held-for-sale	–	(31)	–	–	–	–	(31)
Translation adjustments	188	182	12	–	–	7	389
At 31 December 2009	944	6,538	51	256	501	132	8,422
At 1 January 2009:							
Cost	822	9,183	58	425	501	180	11,169
Accumulated amortisation	(50)	(2,037)	(16)	(128)	–	(40)	(2,271)
Net carrying amount	772	7,146	42	297	501	140	8,898
At 31 December 2009:							
Cost	1,026	9,285	75	425	501	215	11,527
Accumulated amortisation	(82)	(2,747)	(24)	(169)	–	(83)	(3,105)
Net carrying amount	944	6,538	51	256	501	132	8,422

* Purchased as part of business combinations.

The Group has a 20.91% interest in the service organisation, Richards Bay Coal Terminal Company Limited, acquired in a business combination, through which the shareholders gain access to export markets enabling them to realise higher coal sales prices than in the domestic market. The export rights are amortised based on a units-of-production method.

The Group acquired the right to market to third parties various leading technologies for the mining, mineral processing and metals extraction industries, in a business combination. The technology patents are amortised over their useful economic lives of 20 years to June 2023.

The Group acquired hydroelectricity rights which will be amortised over the expected life of the operation, currently estimated as being 40 years, following commissioning.

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

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

15. Impairment testing

Goodwill

Goodwill has been allocated to cash-generating units (CGUs) or groups of CGUs no larger than the reportable segments that are expected to benefit from the related acquisitions. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This is usually considered a single operation or in some cases a number of operations that are in close geographical proximity or share operational efficiencies. The carrying values of goodwill by CGU are as follows:

US$m	2010	2009
Alloys – Africa	**49**	44
Copper – Americas	**1,185**	1,185
Zinc Lead	**1,546**	1,546
Zinc Lead – Europe	**203**	217
	2,983	2,992

The following goodwill balances result from the requirement on an acquisition to recognise a deferred tax liability, calculated as the difference between the tax effect of the fair value of the acquired assets and liabilities and their tax bases. For the purposes of testing this goodwill for impairment, any of the related deferred tax liabilities recognised on acquisition that remain at balance date are treated as part of the relevant CGU or group of CGUs.

US$m	2010	2009
Coal – Australia	**358**	314
Coal – Americas South	**464**	464
Copper – Americas South*	**1,445**	1,445
Copper – Australasia	**126**	126
Iron Ore – Africa	**95**	–
Nickel – Americas South*	**119**	320
Nickel – Africa	**78**	78
Nickel – Australasia*	**37**	37
Alloys – Africa	**399**	358
Zinc Lead – Americas North	**244**	244
Zinc Lead – Americas South	**160**	160
	3,525	3,546
	6,508	6,538

* Net of impairment losses discussed below.

The Group performs goodwill impairment testing on an annual basis and at the reporting date if there are indicators of impairment. The most recent test was undertaken at 31 October 2010 and, for any assets where additional indicators of impairment were identified in November or December, testing was updated at 31 December 2010.

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

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

US$m	Impairment method	2010	2009
Nickel – Americas North	FVLCS	**–**	655
Nickel – Americas South	FVLCS	**201**	–
Nickel – Australasia	FVLCS	**–**	55
		201	710

For the purpose of goodwill impairment testing in 2009 and 2010, recoverable amounts were determined based on ‘fair value less costs to sell’ (FVLCS) calculations, with the exception of Coal – Australia goodwill, Coal – Americas South goodwill and Chrome – Africa goodwill which were based on ‘value-in-use’ (VIU) calculations.

Where observable market prices are not available, FVLCS was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants.

VIU is based on the cash flows expected to be generated from mines, smelting and refining operations included within the CGUs or reportable segments. Cash flows are projected for periods up to the date that mining and refining are expected to cease, based on management's expectations at the time of completing the testing. This date depends on a number of variables, including recoverable reserves and resources, the forecast selling prices for such production and the treatment charges received from the refining operations. Cash flows have been projected for a maximum of 30 years (2009: 31 years).

Key assumptions

The key assumptions used in the VIU calculations and in determining the FVLCS are:

- recoverable reserves and resources;
- commodity prices;
- operating costs;
- treatment charges receivable by smelting and refining operations;
- capital expenditure;
- discount rates; and
- foreign exchange rates.

Economically recoverable reserves and resources represent management's expectations at the time of completing the impairment testing, based on reserves and resource statements and exploration and evaluation work undertaken by appropriately qualified persons. A summary of the mineral resources and ore reserves released in December 2010 is summarised as follows:

	Reserves		Resources		
Million tonnes	Proved	Probable	Measured	Indicated	Inferred
Chrome – Africa	53	14	116	100	209
Coal – Africa	812	84	2,496	999	661
Coal – Australia	2,182	1,601	5,244	4,726	13,189
Coal – Americas South	630	51	1,737	557	381
Copper – Americas North	15	3	21	2	5
Copper – Americas South	1,303	3,280	2,024	6,182	7,241
Copper – Australasia	53	99	888	1,225	1,016
Iron Ore – Africa	152	277	188	2,492	1,307
Nickel – Americas North	13	14	16	37	30
Nickel – Americas South	50	30	56	124	23
Nickel – Africa	–	–	14	23	21
Nickel – Australasia	18	46	35	84	97
Platinum – Africa	22	9	57	62	110
Vanadium – Africa	12	28	22	41	90
Zinc Lead – Americas North	12	2	14	2	2
Zinc Lead – Australasia	86	79	321	243	212
Zinc Lead – Europe	–	–	–	–	24

Long-term commodity prices and treatment charges are determined by reference to external market forecasts. Specific prices are determined using information available in the market after considering the nature of the commodity produced and long-term market expectations. Forecast prices vary in accordance with the year the sale is expected to occur. The commodity prices used in the impairment review are management estimates and are within the range of the available analyst forecasts at 31 October 2010 and 31 December 2010.

The attributable value to reserves and resources using the FVLCS method is based on management's best estimates using market-based forecasts and information available in the market.

Operating cost assumptions are based on management's best estimate at the date of impairment testing of the costs to be incurred. Costs are determined after considering current operating costs, future cost expectations and the nature and location of the operation.

Smelting and refining treatment charges vary in accordance with the commodity processes and time of processing.

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

Notes to the financial statements *continued*

15. Impairment testing *continued*

The discount rates that have been used are outlined below. In the case of FVLCS they represent real after-tax rates, whereas the VIU discount rates represent real pre-tax rates. These rates are based on the weighted average cost of capital specific to each CGU or reportable segment and the currency of the cash flows generated. The weighted average cost of capital reflects the current market assessment of the time value of money, equity market volatility and the risks specific to the CGU or reportable segment for which cash flows have not already been adjusted. These rates were calculated with reference to market information from third party advisers.

	Impairment method	Discount rate 2010	2009
Chrome	VIU	**10%**	10%
Coal	VIU	**10%**	10%
Copper	VIU	**n/a**	n/a
Copper	FVLCS	**7% – 11%**	7% – 11%
Nickel	FVLCS	**7% – 10%**	7% – 10%
Platinum	FVLCS	**7% – 8%**	7% – 8%
Zinc Lead	FVLCS	**7%**	7%

In assessing the FVLCS another key assumption that would be considered by market participants is foreign exchange rates. The rates that have been utilised are based on external market forecasts. Specific rates are determined from information available in the market after considering long-term market expectations and the countries in which the Group operates.

Sensitivity to changes in assumptions

Whilst commodity prices have generally increased since 31 December 2009, a significant amount of commodity price and foreign exchange volatility continues to exist in the market. Adverse changes in key assumptions as described below could result in changes to impairment charges specifically in relation to Copper – Americas, Zinc Lead and Zinc Lead – Europe.

A summary of the mineral resources and ore reserves related to the goodwill balances, released in December 2010, is summarised as follows:

	Reserves		Resources		
Million tonnes	Proved	Probable	Measured	Indicated	Inferred
Copper – Americas	**1,318**	**3,283**	**2,045**	**6,184**	**7,246**
Zinc Lead	**98**	**81**	**335**	**245**	**238**

A summary of the mineral resources and ore reserves related to the goodwill balances, released in January 2010, is summarised as follows:

	Reserves		Resources		
Million tonnes	Proved	Probable	Measured	Indicated	Inferred
Copper – Americas	1,159	2,726	2,986	6,374	5,626
Zinc Lead	82	82	306	197	175

Commodity prices – commodity price forecasts were based on external market consensus information. The copper prices ranged from US$2.14 per pound to US$3.76 per pound (2009 US$1.80 per pound to US$2.98 per pound), US$0.98 per pound to US$1.11 per pound (2009 US$0.77 per pound to US$1.02 per pound) for zinc and US$0.79 per pound to US$1.11 per pound (2009 US$0.58 per pound to US$1.06 per pound) for lead, varying in accordance with the year the sale was expected to occur.

Treatment charges received from smelting and refining – in performing the FVLCS calculation for Zinc Lead, treatment charges were estimated to be in the range of US$231 per tonne to US$275 per tonne (2009 US$207 per tonne to US$271 per tonne) for zinc and US$105 per tonne to US$127 per tonne (2009 US$107 per tonne to US$124 per tonne) for lead refining fees, based on the year of processing. As outlined above, these prices were based on external market consensus forecasts.

Foreign exchange rates – foreign exchange rates used were based on external market consensus forecasts. The US$:ARS rate ranged from 3.64 to 4.60 (2009: 3.75 to 4.12), AUD:US$ rate ranged from 0.80 to 0.96 (2009: 0.69 to 0.88), the US$:CAD rate ranged from 1.01 to 1.10 (2009: 1.05 to 1.25), the US$:CLP rate from 483 to 596 (2009: 522 to 685), the EUR:US$ rate ranged from 1.25 to 1.41 (2009: 1.27 to 1.49) and the US$:PEN from 2.80 to 3.07 (2009: 2.86 to 3.38) varying in accordance with the year the sale was expected to occur.

The impairment tests are particularly sensitive to changes in commodity prices, discount rates and foreign exchange rates. Changes to these assumptions could have resulted in changes to impairment charges. The table below summarises the change required to key assumptions that would result in the carrying value equalling the recoverable values:

2010	Excess of recoverable amount over carrying value (US$m)	Change in the key assumption that would result in the recoverable amount equalling the carrying value (%)		
		Commodity prices	Discount rate*	Foreign exchange rate
Copper – Americas	**5,192**	**15%**	**4%**	**55%**
Zinc Lead	**3,129**	**17%**	**4%**	**30%**
Zinc Lead – Europe	**1,426**	**23%**	**4%**	**37%**

* Amounts relate to absolute movement in discount rate.

2009	Excess of recoverable amount over carrying value (US$m)	Change in the key assumption that would result in the recoverable amount equalling the carrying value (%)		
		Commodity prices	Discount rate*	Foreign exchange rate
Copper – Americas	3,146	15%	2%	24%
Zinc Lead	1,371	14%	2%	22%
Zinc Lead – Europe	412	15%	3%	15%

* Amounts relate to absolute movement in discount rate.

For the purposes of testing for impairment of goodwill using the VIU basis for chrome, the excess of recoverable amount over the carrying value was US$3,328 million (2009 US$7,780 million) and management is of the opinion that no reasonably possible changes in the key assumptions could result in an impairment expense being recognised.

Other non-current assets

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

US$m	2010	2009
Copper – Americas North	**–**	155
Copper – Americas South	**–**	170
Nickel – Americas North	**–**	719
Nickel – Americas South	**358**	–
Nickel – Australasia	**–**	681
Zinc Lead – Americas North	**–**	118
	358	1,843

2010

Impairment charges of US$358 million were incurred following a review of the Araguaia nickel project in Brazil (refer to note 10).

2009

The impairment charges in Copper – Americas North of US$155 million and Zinc Lead – Americas North of US$118 million relate to the planned closure of the Kidd metallurgical plant scheduled for 1 May 2010 due to global smelting overcapacity, record low treatment and refining charges, increasing operating and capital costs and lower demand and sales prices for sulphuric acid. In respect of Copper – Americas South, an impairment charge of US$170 million has also been recorded as a result of these ongoing challenging market conditions for custom smelting operations (refer to note 10).

Impairment charges of US$1,400 million were incurred due to the restructuring of Xstrata Nickel which included the closure of high-cost, end-of-life mines in Sudbury, the suspension of the Montcalm operations, significant reductions in operational and corporate costs, and the deferral of the Fraser Morgan and Sinclair Underground growth projects (refer to note 10).

An impairment charge of US$241 million was recorded in respect of the Group's investment in Lonmin following changes in foreign exchange rates, operating costs, production, and commodity price outlook that have occurred since the acquisition date. An amount of US$36 million was also recognised during 2009 in relation to the Group's share of the restructuring and closure costs, impairments and loss on forward exchange contracts in respect of a rights issue recognised by Lonmin (refer to notes 10 and 20).

Notes to the financial statements *continued*

16. Property, plant and equipment

US$m	Exploration and evaluation	Land and buildings	Mining properties and leases	Plant and equipment	Capital works in progress	2010
At 1 January 2010, net of accumulated depreciation	**1,046**	**2,974**	**21,142**	**8,604**	**5,631**	**39,397**
Acquisitions	**86**	**–**	**408**	**(7)**	**–**	**487**
Additions	**367**	**270**	**427**	**1,591**	**3,684**	**6,339**
Disposals	**(2)**	**(6)**	**(3)**	**(12)**	**(3)**	**(26)**
Rehabilitation provision adjustments (refer to note 32)	**–**	**–**	**255**	**–**	**–**	**255**
Reclassifications	**(212)**	**(118)**	**1,842**	**715**	**(2,204)**	**23**
Depreciation charge	**–**	**(290)**	**(1,282)**	**(1,063)**	**(4)**	**(2,639)**
Impairment charge	**–**	**–**	**(358)**	**–**	**–**	**(358)**
Translation adjustments	**34**	**214**	**1,180**	**640**	**338**	**2,406**
At 31 December 2010, net of accumulated depreciation	**1,319**	**3,044**	**23,611**	**10,468**	**7,442**	**45,884**
At 1 January 2010:						
Cost	**1,409**	**4,246**	**27,038**	**13,849**	**5,652**	**52,194**
Accumulated depreciation	**(363)**	**(1,272)**	**(5,896)**	**(5,245)**	**(21)**	**(12,797)**
Net carrying amount	**1,046**	**2,974**	**21,142**	**8,604**	**5,631**	**39,397**
At 31 December 2010:						
Cost	**1,646**	**4,601**	**31,430**	**17,286**	**7,454**	**62,417**
Accumulated depreciation	**(327)**	**(1,557)**	**(7,819)**	**(6,818)**	**(12)**	**(16,533)**
Net carrying amount	**1,319**	**3,044**	**23,611**	**10,468**	**7,442**	**45,884**

US$m	Exploration and evaluation	Land and buildings	Mining properties and leases	Plant and equipment	Capital works in progress	2009
At 1 January 2009, net of accumulated depreciation	1,024	2,461	21,267	7,086	4,303	36,141
Additions	294	260	379	1,025	1,819	3,777
Disposals	–	(2)	(3)	(14)	(4)	(23)
Rehabilitation provision adjustments (refer to note 32)	–	–	181	–	–	181
Reclassifications	38	304	(441)	1,004	(905)	–
Depreciation charge	(15)	(203)	(1,033)	(1,080)	(3)	(2,334)
Impairment charge	(324)	(1)	(1,106)	(407)	–	(1,838)
Transferred to assets classified as held-for-sale	(89)	(70)	(164)	–	–	(323)
Translation adjustments	118	225	2,062	990	421	3,816
At 31 December 2009, net of accumulated depreciation	1,046	2,974	21,142	8,604	5,631	39,397
At 1 January 2009:						
Cost	1,046	3,336	24,667	10,245	4,321	43,615
Accumulated depreciation	(22)	(875)	(3,400)	(3,159)	(18)	(7,474)
Net carrying amount	1,024	2,461	21,267	7,086	4,303	36,141
At 31 December 2009:						
Cost	1,409	4,246	27,038	13,849	5,652	52,194
Accumulated depreciation	(363)	(1,272)	(5,896)	(5,245)	(21)	(12,797)
Net carrying amount	1,046	2,974	21,142	8,604	5,631	39,397

Land and buildings include non-depreciating freehold land amounting to US$662 million (2009 US$565 million).

Mining properties and leases at 31 December 2010 include deferred stripping costs of US$1,038 million (2009 US$850 million). US$231 million (2009 US$169 million) of deferred stripping costs were capitalised during the year. Capital expenditure (refer to note 9) comprises additions to intangible assets (refer to note 14) and property, plant and equipment excluding deferred stripping costs capitalised during the year.

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2010 is US$155 million (2009 US$109 million). Leased assets and assets under hire purchase contracts are pledged as security for the related finance leases and hire purchase liabilities. The carrying value of other property, plant and equipment pledged as security is US$18 million (2009 US$nil).

US$82 million (2009 US$17 million) of interest was capitalised during the year and there is US$122 million (2009 US$36 million) of capitalised interest within property, plant and equipment at 31 December 2010. The rate used to determine the amount of borrowing costs eligible for capitalisation was 5.7% (2009: 4.4%), which is the effective interest rate of the specific borrowing.

The carrying value of property, plant and equipment at 31 December 2010 that is temporarily idle is US$51 million (2009 US$68 million).

The Group has made commitments to acquire property, plant and equipment totalling US$730 million at 31 December 2010 (2009 US$1,163 million).

17. Biological assets

US$m	**2010**	2009
At 1 January	**20**	11
Additions	**7**	–
Disposals	**(7)**	–
Net gain/(loss) from fair value less estimated selling cost adjustments	**–**	5
Translation adjustments	**3**	4
At 31 December	**23**	20

Biological assets are stated at fair value less estimated selling costs, which has been determined based on independent valuations as at 31 December 2010 and 2009, on the basis of open market value, supported by market evidence. As at 31 December 2010, the Group owned 47,000 (2009: 46,000) cattle.

18. Inventories

US$m	**2010**	2009
Current:		
Raw materials and consumables	**1,493**	1,386
Work in progress	**2,285**	2,238
Finished goods	**985**	946
	4,763	4,570
Non-current:		
Work in progress	**45**	44
	45	44

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

19. Trade and other receivables

US$m	**2010**	2009
Current:		
Trade debtors	**3,930**	2,856
Advances	**81**	78
Employee entitlement receivables (refer to note 32)	**38**	18
Recoverable sales tax	**347**	275
Other debtors	**67**	79
	4,463	3,306
Non-current:		
Employee entitlement receivables (refer to note 32)	**51**	43
Other debtors	**117**	38
	168	81

20. Investment in associates

Lonmin plc

In August 2008, the Group acquired 16,706,481 shares in Lonmin plc for US$1,084 million. In October 2008, the Group acquired an additional 22,232,940 shares for US$794 million, resulting in a total acquisition price of US$1,878 million. Following the October 2008 transaction, the Group held 24.9% of Lonmin plc and determined it was an associate of the Group. Lonmin plc which is listed on the London Stock Exchange and Johannesburg Stock Exchange is one of the world's largest platinum producers with operations principally in South Africa. In June 2009, the Group acquired 8,653,204 shares in Lonmin plc for US$112 million as part of a 2 for 9 Rights Issue of 35.1 million new ordinary shares at GBP9.00 per new share for shareholders on the London Stock Exchange and at ZAR113.04 per new share for shareholders on the Johannesburg Stock Exchange. In May 2010, the Group acquired 2,233,600 shares in Lonmin plc for US$58 million as part of a Placement Issue of 9.1 million new ordinary shares at GBP17.65 per new share for shareholders on the London Stock Exchange and the Johannesburg Stock Exchange. The Group's current shareholding as at 31 December 2010 as a result of the dilution from the share placing is 24.67%.

The share price of Lonmin as listed on the London stock exchange at 31 December 2010 was GBP19.66 per share (2009 GBP19.59 per share). The Group believes that the recoverable amount of the investment using the VIU method was higher than the value based on the listed share price at that date because this share price continues to reflect ongoing uncertainty and volatility in world economic markets as opposed to the fundamental long-term value of this investment, therefore the carrying value is supported on a VIU basis. However, during 2009, the Group recognised a net exceptional impairment charge of US$241 million after determining the recoverable amount of the investment was lower than the carrying amount (refer to notes 10 and 15). The carrying amount of Lonmin at 31 December 2010 was US$1,558 million (2009 US$1,603 million).

Other associates

The Group's other associates are:

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

The Group held 12.5 million (2009: 12.5 million) units in the Noranda Income Fund and the unit price as listed on the Toronto stock exchange at 31 December 2010 was CAD4.65 per unit (2009 CAD2.55 per unit). The Group has determined that the recoverable amount of the investment calculated using the VIU method is higher than the value based on the listed unit price because of the continued uncertainty and volatility in world economic markets.

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

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

US$m	2010	2009
Share of associates' balance sheet:		
Non-current assets	**2,545**	2,548
Current assets	**608**	617
Total assets	**3,153**	3,165
Non-current liabilities	**(835)**	(815)
Current liabilities	**(317)**	(305)
Total liabilities	**(1,152)**	(1,120)
Non-controlling interests	**(215)**	(255)
Net attributable assets	**1,786**	1,790
Carrying amount of the investment	**1,786**	1,790
Share of associates' revenue and profit:		
Revenue	**594**	409
EBITDA	**116**	1
EBIT	**43**	(361)
Net interest paid	**(4)**	(16)
Income tax (expense)/benefit	**(24)**	35
Profit/(loss) for the year	**15**	(342)
Attributable to:		
Equity holders of the parent	**9**	(333)
Non-controlling interests	**6**	(9)
	15	(342)

All associates have a reporting date of 31 December, except for Lonmin, which has a reporting date of 30 September. The Group's share of results from associates is included above. The Group's share of Lonmin's results is based on Lonmin's financial statements for the year ended 30 September 2010 and adjusted for any significant known transactions between October and December 2010.

Notes to the financial statements *continued*

21. Interests in joint venture entities

The Group has various interests in jointly controlled entities, operations and assets as outlined in note 36. The Group recognises its interests in jointly controlled entities using the proportionate method of consolidation as outlined in note 6.

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

US$m	**2010**	2009
Share of joint ventures' balance sheets:		
Non-current assets	**10,207**	9,921
Current assets	**1,129**	994
Total assets	**11,336**	10,915
Non-current liabilities	**(2,025)**	(2,034)
Current liabilities	**(495)**	(362)
Total liabilities	**(2,520)**	(2,396)
Net assets	**8,816**	8,519
Net assets consolidated	**8,816**	8,519
Share of joint ventures' revenue and profit:		
Revenue	**2,803**	2,370
Operating costs (before depreciation and amortisation)	**(583)**	(622)
EBITDA	**2,220**	1,748
Depreciation and amortisation	**(366)**	(378)
EBIT	**1,854**	1,370
Finance income	**70**	354
Finance costs	**(24)**	(8)
Profit before tax	**1,900**	1,716
Income tax expense	**(371)**	(431)
Profit for the year	**1,529**	1,285

22. Available-for-sale financial assets

US$m	**2010**	2009
At fair value:		
Shares – listed	**160**	216
Shares – unlisted	**5**	4
Royalty contract	**182**	144
	347	364

Available-for-sale financial assets consist of a long-term royalty income contract and investments in listed and unlisted ordinary shares that have no fixed maturity date or coupon rate. These investments are held for strategic purposes.

In 2010 and 2009, the listed shares related to companies in the mining industry. The listed shares are carried at fair value. In 2010, listed shares with a carrying value of US$135 million were sold for a gain of US$73 million.

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

23. Derivative financial assets

US$m	2010	2009
Current:		
At fair value:		
Foreign currency cash flow hedges	**126**	144
Fair value interest rate hedges	**77**	–
Other interest rate derivatives	**1**	–
Other foreign currency derivatives	**32**	15
	236	159
Non-current:		
At fair value:		
Foreign currency cash flow hedges	**–**	84
Fair value interest rate hedges	**529**	566
Other interest rate derivatives	**41**	48
	570	698
Total	**806**	857

24. Other financial assets

US$m	2010	2009
Current:		
At amortised cost:		
Investment in operations	**–**	2,424
	–	2,424
Non-current:		
At fair value:		
Rehabilitation trust fund	**91**	77
Loans to joint venture partners	**375**	234
Other	**48**	37
	514	348
Total	**514**	2,772

Investment in operations

Following shareholder approval, the Group acquired 100% of the Prodeco Colombian coal operations (Prodeco) from Glencore International AG (Glencore) on 3 March 2009 for a net cost of US$2 billion and the rights to Prodeco's earnings from 1 January 2009. The Group agreed to grant Glencore a call option to repurchase Prodeco, on any business day up to 4 March 2010, for US$2.25 billion, plus/minus the net cash paid to/received from Prodeco and all profits of Prodeco accrued but not distributed to the Group. The investment in Prodeco is included on the balance sheet at 31 December 2009 within current other financial assets. The profits of Prodeco are recognised as finance income in the period earned and the call option premium is included in finance income proportionately over the life of the option (refer to note 10). On 4 March 2010, the Group received formal notification from Glencore of the exercise of its option to acquire the Prodeco coal operations for US$2.25 billion plus the balance of any profits accrued but not distributed to Xstrata during the period 1 January 2009 to the completion date and the net balance of any cash invested by Xstrata.

Rehabilitation trust fund

The rehabilitation trust fund in South Africa receives cash contributions to accumulate funds for the Group's rehabilitation liabilities relating to the eventual closure of the Group's coal operations. Amounts are paid out from the trust fund following completion and approval of the rehabilitation work by the South African Department of Minerals and Energy. The contributions to the trust fund are placed with investment banks that are responsible for making investments in equity and money market instruments. The trust fund is to be used according to the terms of the trust deed and the assets are not available for the general purposes of the Group. The trust fund is carried at fair value.

Loans to joint venture partners

ZAR denominated loans of US$375 million (2009 US$234 million) are receivable from ARM Coal. The loan is subject to a floating rate of interest with no fixed repayment date.

Notes to the financial statements *continued*

25. Cash and cash equivalents and non-cash transactions

US$m	2010	2009
Cash at bank and in hand	**733**	670
Short-term deposits	**989**	507
	1,722	1,177

The majority of cash at bank and in hand earns interest at floating rates of interest with a limited amount at fixed rates of interest or interest-free. Short-term deposits are made at call and for less than one week, dependent on the short-term cash requirements of the Group, and earn interest based on the respective short-term deposit rates. The fair value of cash and cash equivalents at 31 December 2010 and 31 December 2009 approximates carrying value.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

US$m	2010	2009
Cash at bank and in hand	**733**	670
Short-term deposits	**989**	507
Bank overdrafts (refer to note 28)	**(12)**	(12)
	1,710	1,165

During the year, the Group entered into new finance leases and hire purchase contracts to purchase various items of plant and equipment for US$68 million (2009 US$67 million), issued shares from the conversion of the convertible borrowings and issued shares to the ESOP for a market value of US$nil (2009 US$102 million) which did not require the use of cash and cash equivalents and are not included in the net cash flow used in investing and financing activities in the consolidated cash flow statement.

26. Capital and reserves

US$m	
Authorised:	
1,500,000,000 ordinary shares of US$0.50 each as at 1 January 2009	750
3,000,000,000 ordinary shares of US$0.50 each increased on 2 March 2009	1,500
4,500,000,000 ordinary shares of US$0.50 each as at 31 December 2009 and 31 December 2010	2,250
50,000 deferred shares of GBP1.00 each as at 31 December 2009 and at 31 December 2010	–
1 special voting share of US$0.50 as at 31 December 2009 and as at 31 December 2010	–
	2,250

Issued, called up and fully paid:	
977,670,540 ordinary shares of US$0.50 each as at 1 January 2009	488
1,955,341,080 ordinary shares issued on 18 March 2009 from a shareholder rights issue	978
6,000,000 ordinary shares issued on 17 December 2009 to the ESOP	3
2,939,011,620 ordinary shares of US$0.50 each as at 31 December 2009	1,469
25,680,456 ordinary shares issued on the exercise of convertible borrowings	13
2,964,692,076 ordinary shares of US$0.50 each as at 31 December 2010	**1,482**

Share premium:	
As at 1 January 2009	10,308
1,955,341,080 ordinary shares issued on 18 March 2009 from a shareholder rights issue	4,689
6,000,000 ordinary shares issued on 17 December 2009 to the ESOP	99
As at 31 December 2009	15,096
25,680,456 ordinary shares issued on the exercise of convertible borrowings	382
As at 31 December 2010	**15,478**

US$m	
Own shares:	
21,654,986 ordinary shares of US$0.50 each as at 1 January 2009	(1,332)
Proceeds from the sale of rights issue entitlements	48
16,377,594 ordinary shares acquired from rights issue on 18 March 2009	(48)
6,000,000 ordinary shares issued on 17 December 2009 to the ESOP	(102)
4,228,231 ordinary shares disposed during the year	134
822,529 ordinary shares purchased during the year	(6)
40,626,878 ordinary shares of US$0.50 each as at 31 December 2009	(1,306)
5,832,841 ordinary shares disposed during the year	136
521,098 ordinary shares purchased during the year	(11)
35,315,135 ordinary shares of US$0.50 each as at 31 December 2010	**(1,181)**

Details in respect of the various classes of shares are outlined in the Directors' Report on page 108.

Issue of ordinary shares

On 18 March 2009, 1,955,341,080 ordinary shares were issued under a rights issue which was structured as an issue of 2 new ordinary shares at a price of GBP2.10 per share for every 1 existing ordinary share held. The net proceeds from the rights issue were US$5,667 million (after US$126 million of capital raising costs) and the number of shares in issue of Xstrata plc following the completion of the rights issue was 2,933,011,620.

On 17 December 2009, 6,000,000 shares were issued to the ESOP at a market price of GBP10.47 per share.

During 2010, the US$375 million convertible borrowings were converted at the option of the holders into 25,680,456 ordinary shares in Xstrata plc (refer to note 29).

Own shares

Own shares comprise shares of Xstrata plc held in the ESOP and shares held by Batiss Investments (Batiss) for the ECMP.

The shares acquired by the ESOP are either stock market purchases or share issues from the Company. The ESOP is used to co-ordinate the funding and manages the delivery of ordinary shares for options and free share awards under the Group's employee award schemes. The trustee of the ESOP is permitted to place the shares back into the market and may hold up to 5% of the issued share capital of the Company at any one time. At 31 December 2010, 6,886,349 (2009: 12,198,092) shares, equivalent to 0.2% (2009: 0.4%) of the total issued share capital, were held by the trust with a cost of US$155 million (2009 US$280 million) and market value of US$162 million (2009 US$221 million). The trust has waived the right to receive dividends from the shares that it holds. Costs relating to the administration of the trust are expensed in the period in which they are incurred.

The shares acquired from the stock market by Batiss and held for the ECMP are used by the Group as a source of financing for future acquisitions, or placed back into the market. The decision as to when to place the shares in the market, use the shares to assist the Group in facilitating future transactions, or to repurchase shares for cancellation, is considered in light of the Group's funding requirements and capital structure.

Batiss is not permitted to hold more than 10% of the issued share capital of the Company at any one time. Batiss has entered into an option agreement with Xstrata Capital Corporation A.V.V. (Xstrata Capital), a wholly-owned subsidiary within the Xstrata Group, whereby Batiss has granted to Xstrata Capital a right to require Batiss to sell the purchased Xstrata shares to a third party (other than a subsidiary of Xstrata plc), as nominated by Xstrata Capital, at an exercise price of 1p per share. Under the option agreement, Xstrata Capital pays Batiss a premium for this right, the premium being the equivalent of the market price paid by Batiss for the shares plus associated costs less the 1p exercise price. This premium payment, together with funds from a subscription by Xstrata Capital for non-voting redeemable preference shares in Batiss, provides the funding for Batiss to acquire the shares in the market. These payments are sourced from the existing and future cash resources of Xstrata Capital. Xstrata Capital is able to exercise its right under the option agreement for a period of six years from the date of each purchase, but has not chosen to do so in either 2010 or 2009.

Batiss has waived its right to receive dividends on the shares that it holds. At 31 December 2010, 28,428,786 (2009: 28,428,786) shares, equivalent to 1.0% (2009: 1.0%) of the total issued share capital, were held by the trust with a cost of US$1,026 million (2009 US$1,026 million) and market value of US$668 million (2009 US$515 million). Costs relating to the administration of the trust are expensed in the period in which they are incurred.

Notes to the financial statements *continued*

26. Capital and reserves *continued*

Consolidated changes in equity
Other reserves

US$m	Revaluation reserves	Other reserves	Net unrealised gains/(losses)	Foreign currency translation	Total
At 31 December 2008	1,440	1,229	(107)	(1,108)	1,454
Gains on available-for-sale financial assets	–	–	209	–	209
Realised losses on available-for-sale financial assets	–	–	1	–	1
Gains on cash flow hedges	–	–	456	–	456
Realised gains on cash flow hedges*	–	–	(312)	–	(312)
Foreign currency translation differences	–	–	–	3,930	3,930
Deferred tax	–	–	(59)	(73)	(132)
At 31 December 2009	1,440	1,229	188	2,749	5,606
Gains on available-for-sale financial assets	–	–	118	–	118
Realised gains on available-for-sale financial assets	–	–	(73)	–	(73)
Gains on cash flow hedges	–	–	117	–	117
Realised gains on cash flow hedges*	–	–	(131)	–	(131)
Foreign currency translation differences	–	–	–	2,459	2,459
Deferred tax	–	–	(9)	(48)	(57)
At 31 December 2010	**1,440**	**1,229**	**210**	**5,160**	**8,039**

* Recycled gains of US$115 million (2009 US$312 million) are included in Revenue in the income statement, including non-controlling interests.

Revaluation reserves

This reserve principally records the remeasurement from cost of the 19.9% interest held in Falconbridge Limited (Falconbridge) to the fair value of 19.9% of the identifiable net assets of Falconbridge on 15 August 2006, the date the Group obtained control of Falconbridge.

Other reserves

This reserve principally originated during 2002 from the merger of Xstrata AG into Xstrata plc of US$279 million and the issue of shares from the acquisition of the Duiker and Enex Groups of US$935 million.

Net unrealised gains/(losses) reserve

This reserve records the remeasurement of available-for-sale financial assets to fair value (refer to note 22) and the effective portion of the gain or loss on cash flow hedging contracts (refer to notes 23, 30 and 37). Deferred tax is provided on the remeasurement at tax rates enacted or substantively enacted.

Foreign currency translation reserve

This is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the exchange differences from the translation of quasi equity inter-company loans in foreign operations. On disposal or partial disposal of a foreign entity, the deferred accumulated amount recognised in this reserve is transferred to the income statement.

Capital management

The capital of Xstrata plc is the total equity and long-term borrowings, including capital market notes (refer to note 28) and convertible borrowings (refer to note 29), on the Group's balance sheet. The objective of the Company's capital management is to grow and manage a diversified portfolio of metals and mining businesses with the aim of delivering industry-leading returns for its shareholders. The management of the Group's capital is performed by the Board of Directors. There are no externally imposed capital requirements.

27. Trade and other payables

US$m	2010	2009
Current:		
Trade payables	**2,544**	1,796
Sundry payables	**730**	619
Interest payable	**67**	72
Accruals and other payables	**1,461**	1,210
	4,802	3,697
Non-current:		
Accruals and other payables	**88**	32
	88	32
Total	**4,890**	3,729

All current payables are expected to be settled in the next 12 months and non-current payables are expected to be settled over a weighted average life of six years (2009: six years).

28. Interest-bearing loans and borrowings

US$m	2010	2009
Current:		
At amortised cost:		
Bank overdrafts	**12**	12
Bank loans – other unsecured	**40**	46
Capital market notes	**2,192**	97
Non-controlling interest loans	**–**	5
Obligations under finance leases and hire purchase contracts(i)	**74**	46
	2,318	206
Non-current:		
At amortised cost:		
Syndicated bank loans – unsecured	**–**	3,827
Bank loans – other unsecured	**173**	174
Capital market notes	**6,550**	8,924
Non-controlling interest loans	**243**	181
Obligations under finance leases and hire purchase contracts(i)	**177**	135
Other loans	**11**	11
	7,154	13,252
Non-current:		
At amortised cost:		
Convertible borrowings (refer to note 29)	**–**	335
Total	**9,472**	13,793
Less cash and cash equivalents (refer to note 25)	**(1,722)**	(1,177)
Net debt excluding hedges*	**7,750**	12,616
Hedges**	**(112)**	(326)
Net debt including hedges*	**7,638**	12,290

(i) Secured over specific items of plant and equipment (refer to note 16).
* Net debt is defined as loans and borrowings net of cash and cash equivalents.
** Derivative financial instruments that have been designated specifically to provide a hedge of capital market notes have been included above to reflect a more accurate economic position of the Group's overall net debt at year end.

Existing facilities in 2010

The Xstrata Group has entered into bank loans described below:

Syndicated bank loans

On 25 July 2007, the Group entered into a guaranteed US$4,680 million multi-currency revolving syndicated loan facility (Syndicated Facilities Agreement). Interest is payable on drawn down amounts at a rate that is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which is 27.5 basis points per annum. The facility matures on 25 July 2012. As of 31 December 2010, US$4,680 million (2009 US$840 million) was available to be drawn under this facility.

28. Interest-bearing loans and borrowings *continued*

On 17 September 2010, the Group entered into a guaranteed US$4,000 million multi-currency revolving syndicated loan facility (Syndicate Facilities Agreement) split into two US$2 billion tranches, with one tranche maturing three-years after the date of the facility and the other maturing five-years after the date of the facility. Interest is payable on drawn down amounts at a rate that is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which is 90.0 basis points per annum under the three-year tranche and 100.0 basis points per annum under the five-year tranche respectively. As of 31 December 2010, US$4,000 million was available to be drawn under this facility.

Repaid facilities

On 6 October 2008, the Group entered into a US$5,000 million multi-currency revolving syndicated loan facility (Club Facility) scheduled to mature on 30 September 2011. Interest is payable on drawn down amounts at a rate that is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which is 150 basis points per annum. The Club Facility was amended on 30 December 2008 to increase the facility amount to US$5,459 million and on 9 April 2010 to decrease the facility amount to US$3,000 million. During 2009, the amounts drawn down under this facility were fully repaid from the proceeds from the rights issue (refer to note 26). This facility was cancelled during 2010 and replaced with the US$4,000 million syndicated loan facility.

Capital market notes

As at 31 December 2010, other unsecured private placements included:

Facility	Denomination	**At 31 Dec 10 US$m**	Fixed or floating interest rate	**Effective interest rate % in 2010**	Maturity	At 31 Dec 09 US$m	Effective interest rate % in 2009
Series B senior unsecured notes[(a)]	US$	**13**	Fixed	**6.75**	Jun 11	26	6.75
Series B senior unsecured notes[(a)]	US$	**52**	Fixed	**7.00**	Jun 11	52	7.00
Unsecured notes[(b)]	US$	**751**	Fixed	**5.50**	Nov 11	770	5.50
Unsecured notes[(b)]	US$	**1,144**	Fixed	**5.80**	Nov 16	1,096	5.80
Unsecured notes[(c)]	EUR	**722**	Fixed	**4.88**	Jun 12	782	4.88
Unsecured notes[(c)]	EUR	**774**	Fixed	**5.25**	Jun 17	810	5.25
Unsecured notes[(d)]	US$	**494**	Fixed	**6.90**	Nov 37	494	6.90
Unsecured notes[(e)]	EUR	**1,039**	Fixed	**5.88**	May 11	1,133	5.88
Unsecured notes[(e)]	EUR	**874**	Fixed	**6.25**	May 15	919	6.25
Unsecured notes[(e)]	GBP	**842**	Fixed	**7.38**	May 20	845	7.38
Senior debentures[(f)]	US$	**308**	Fixed	**6.03**	Feb 11	327	6.03
Senior debentures[(f)]	US$	**265**	Fixed	**5.88**	Jun 12	271	5.88
Senior debentures[(f)]	US$	**305**	Fixed	**6.06**	Jul 12	308	6.06
Senior debentures[(f)]	US$	**391**	Fixed	**6.34**	Oct 15	377	6.34
Senior debentures[(f)]	US$	**264**	Fixed	**6.16**	Jun 15	257	6.16
Senior debentures[(f)]	US$	**240**	Fixed	**6.39**	Jun 17	238	6.39
Senior debentures[(f)]	US$	**234**	Fixed	**6.77**	Jun 35	234	6.77
Commercial paper[(g)]	US$	**30**	Floating	**0.42**	Jan 11	82	0.92
		8,742				9,021	

(a) An Australian subsidiary has designated the series B senior unsecured notes as a fair value hedge of an investment in South America (refer to note 37). The hedge is being used to reduce exposure to foreign currency risk.

(b) In November 2006, the Group issued guaranteed capital market notes to refinance existing debt facilities of a US$1,000 million 10-year note at a fixed interest rate of 5.8% and a US$750 million five-year note at a fixed interest rate of 5.5%.

(c) In June 2007 the Group issued a two-tranche EUR1,000 million guaranteed bond offering, comprising EUR500 million 4.875% fixed guaranteed notes due 2012 and EUR500 million 5.25% fixed guaranteed notes due 2017. These bonds have been swapped to US$. The swaps have been accounted for as cash flow hedges with an unrealised loss of US$12 million (2009 gain of US$82 million) at 31 December 2010 (refer to note 37).

(d) In November 2007, the Group issued guaranteed 30-year notes of US$500 million bearing interest at a fixed rate of 6.9%.

(e) In May 2008 the Group issued a two-tranche EUR1,350 million guaranteed bond offering, comprising EUR750 million 5.875% fixed guaranteed notes due 2011 and EUR600 million 6.25% fixed guaranteed notes due 2015. In May 2008 the Group issued a guaranteed bond offering of GBP500 million 7.375% fixed guaranteed notes due 2020. These bonds have been swapped to US$. The swaps have been accounted for as cash flow hedges with an unrealised loss of US$510 million at 31 December 2010 (2009 US$356 million).

(f) The guaranteed senior debentures were assumed by the Group through the acquisition of Falconbridge in 2006. Pursuant to the terms of the note indentures as amended by supplemental indentures, Xstrata plc has fully and unconditionally guaranteed in favour of the holders of the senior debentures the payment, within 15 days of when due, of all financial liabilities and obligations of Xstrata Canada Corporation to such holders under the terms of the senior debentures.

(g) In February 2008, the Group entered into a US$1,000 million commercial paper programme facility, with maturities of up to 12 months. Interest is payable on the notes at a rate that is based on LIBOR.

During 2009, the Group redeemed all of the three-year floating rate US$500 million capital market notes in November 2009 for US$499 million and US$31 million of the five-year fixed rate US$750 million capital market notes, maturing November 2011 for US$26 million, resulting in a gain of US$6 million.

A portion of the fixed interest rate of the unsecured notes and senior debentures has been swapped to a floating rate. The swaps have been accounted for as fair value hedges with an unrealised gain of US$609 million (2009 US$569 million gain) at 31 December 2010 (refer to note 37). Hedging ineffectiveness during 2010 resulted in other financial loss of US$6 million (2009 US$17 million).

Bank loans – other unsecured

The Group has debts of proportionally consolidated joint ventures of US$139 million (2009 US$139 million) which bear interest at a rate based on LIBOR plus 175 basis points, repayable in August 2012, US$34 million (2009 US$nil) which bear interest at a rate based on LIBOR plus 187 basis points, repayable in April 2015, and US$40 million (2009 US$81 million) which bear interest at a rate based on LIBOR plus 31 basis points, repayable by December 2011.

Bank overdrafts – unsecured

The Group has bank overdrafts that are subject to local and US$ prime floating interest rates in which they have been drawn down. The majority of the bank overdrafts are denominated in Canadian and US dollars.

Non-controlling interest loans

Non-controlling interest loans include US$81 million (2009 US$81 million) advanced to Minera Alumbrera Limited to fund operations that are subject to a fixed rate of 7.2% per annum (2009: 7.2% per annum), repayable by May 2012.

AUD denominated loans of US$162 million (2009 US$100 million) are payable to Indophil Resources Limited for the Tampakan copper project. The loan is subject to a fixed rate of interest of 4%, payable quarterly with no fixed repayment date, and is not payable within 12 months.

A non-controlling interest loan of US$nil (2009 US$5 million) has been advanced to Resource Pacific that is subject to a floating rate based on the Reserve Bank of Australia cash rate plus 2.0% per annum, no fixed repayment date, but is expected to be repaid within the next 12 months.

Other loans

Other loans include:

- US$ denominated loans of US$5 million (2009 US$105 million) payable to WMC International Resources Pty Limited for the Tampakan copper project. The loan is subject to a fixed rate of interest of 10%, with no fixed repayment date and is not payable within 12 months; and
- A loan of US$6 million (2009 US$6 million) from the Cantabria Government and the Spanish Ministry of Industry & Energy, unsecured and interest free.

29. Convertible borrowings

US$m	**2010**	2009
Convertible bond	–	335
	–	335

Convertible borrowings

On 6 September 2005, Xstrata Capital Corporation AVV issued a US$375 million convertible debenture to Brookfield, due 14 August 2017, convertible at the option of the holder into fully paid Xstrata plc ordinary shares. The convertible debenture was guaranteed by the Company and was issued at par, with a coupon of 4.0% per annum. On issue it was convertible at any time on or after 14 August 2006 at the option of the holder into 12,100,332 ordinary shares in Xstrata plc based on a conversion price of GBP17.13 (US$30.99 converted into GBP at a fixed exchange rate) per ordinary share, representing a 35% premium to the closing price of Xstrata plc's ordinary shares on 11 August 2005. Following the rights issue in October 2006, the total number of ordinary shares that could have been converted was increased to 13,575,432 and the conversion price was adjusted to GBP15.27 (US$27.62 converted into GBP at a fixed exchange rate). On the giving of not less than 30 days' notice, the convertible debenture could have been called by the Group at par plus accrued interest, at any time after 14 August 2010. Unless previously converted, redeemed or cancelled, the 2017 convertible debenture was redeemable on 14 August 2017 at its principal amount plus unpaid accrued interest. On 13 October 2006, the convertible debenture was cancelled and a 2017 convertible bond was issued to the holder of the convertible debenture. The terms of the convertible bond are consistent with those of the cancelled convertible debenture. On 16 October 2006, the Financial Services Authority approved the admission to the Official List by way of block listing of 13,575,432 ordinary shares of US$0.50 each to be issued upon conversion of the 2017 convertible bond. The 2017 convertible bond was listed on the Professional Securities Market of the London Stock Exchange.

The liability component of the convertible bonds was carried at amortised cost based on an effective interest rate of 5.74% per annum.

Notes to the financial statements *continued*

29. Convertible borrowings *continued*

During 2008, 0.03% of the US$375 million of convertible bonds was converted by the holders and, following the conversions that occurred during 2008, the remaining number of ordinary shares that could be issued under the bond at 31 December 2008 was 13,571,812.

Following the rights issue in March 2009, the total number of ordinary shares that could have been converted was increased to 25,680,492 and the conversion price was adjusted to GBP8.07 (US$14.60 converted into GBP at a fixed exchange rate).

During 2010, the balance of the US$375 million of convertible bonds was converted by the holders (refer to note 26).

30. Derivative financial liabilities

US$m	**2010**	2009
Current:		
At fair value:		
Commodity cash flow hedges	**50**	52
Foreign currency cash flow hedges	**170**	–
Other foreign currency derivatives	**163**	–
	383	52
Non-current:		
At fair value:		
Foreign currency cash flow hedges	**352**	356
Other foreign currency derivatives	**–**	135
Other interest rate derivatives	**14**	14
	366	505
Total	**749**	557

31. Other financial liabilities

US$m	**2010**	2009
Non-current:		
At fair value:		
Loans from joint venture partners	**236**	155
At amortised cost:		
Loans from development project partners	**420**	383
Total	**656**	538

Loans from joint venture partners
A ZAR denominated loan of US$236 million (2009 US$155 million) is payable to ARM Coal. The loan is subject to a floating rate of interest based on a dividend calculation with no fixed repayment date and is not callable within 12 months.

Loans from development project partners
A US$ denominated loan of US$420 million (2009 US$383 million) is payable to Société Minière du Sud Pacifique for the Koniambo nickel project. The loan is subject to a floating rate of interest based on a dividend calculation with no fixed repayment date and is not callable within 12 months.

32. Provisions

US$m	Employee entitlements	Share-based compensation plans	Post-retirement medical plans	Rehabilitation costs	Onerous contracts	Other	2010
At 1 January	477	224	444	1,860	182	280	3,467
Arising during the year	289	62	90	40	4	132	617
Discount unwinding	3	–	–	104	10	–	117
PPE asset adjustment (refer to note 16)	–	–	–	255	–	–	255
Utilised	(227)	(19)	(25)	(123)	(41)	(132)	(567)
Translation adjustments	54	(15)	26	93	23	9	190
At 31 December	596	252	535	2,229	178	289	4,079
Current	397	–	–	102	25	187	711
Non-current	199	252	535	2,127	153	102	3,368
	596	252	535	2,229	178	289	4,079

US$m	Employee entitlements	Share-based compensation plans	Post-retirement medical plans	Rehabilitation costs	Onerous contracts	Other	2009
At 1 January	430	16	345	1,551	198	194	2,734
Arising during the year	153	222	65	63	25	193	721
Discount unwinding	–	–	–	95	5	–	100
PPE asset adjustment (refer to note 16)	–	–	–	181	–	–	181
Transferred to assets classified as held-for-sale	(3)	–	–	(56)	–	–	(59)
Utilised	(183)	(14)	(22)	(97)	(72)	(120)	(508)
Unused amounts reversed	(2)	–	–	(12)	(18)	–	(32)
Translation adjustments	82	–	56	135	44	13	330
At 31 December	477	224	444	1,860	182	280	3,467
Current	325	–	–	92	29	177	623
Non-current	152	224	444	1,768	153	103	2,844
	477	224	444	1,860	182	280	3,467

Employee entitlements

The employee entitlement provisions mainly represent the value of excess leave entitlements allocated over the leave taken by the employees of the Group. These amounts are expected to be utilised as the employees either take their accrued leave or receive equivalent benefits upon ceasing employment. Current employee entitlements include excess short-term leave entitlements and the portion of non-current employee entitlements that are expected to be incurred within 12 months. Non-current entitlements include long service leave entitlements that are payable upon an employee attaining a certain period of service and workers, compensation provisions. For some entitlements, amounts will also be recovered from an independent fund (refer to note 19). The current portion of these costs is expected to be utilised in the next 12 months and the non-current portion of these costs is expected to be utilised over a weighted average life of eight years (2009: nine years).

Share-based compensation plans

The Group has granted various share-based compensation plans to certain executives and senior employees that will be cash-settled (refer to note 35). The intrinsic value of the cash settled share-based compensation plans that had vested at 31 December 2010 was US$53 million (2009 US$39 million).

Post-retirement medical plans

The Group operates unfunded post-retirement medical benefit plans in North America and a comparatively smaller plan in South Africa for a number of current and former employees. Independent qualified actuaries using the projected unit credit method assess the accumulated benefit obligation and annual cost of accrued benefits. The current portion of these costs is expected to be utilised in the next 12 months and the non-current portion of these costs is expected to be utilised over a weighted average life of 20 years (2009: 19 years) (refer to note 35).

Notes to the financial statements *continued*

32. Provisions *continued*

Rehabilitation costs

Rehabilitation provision represents the estimated costs required to provide adequate restoration and rehabilitation upon the completion of mining activities. These amounts will reverse when such rehabilitation has been performed. The current portion of these costs is expected to be utilised in the next 12 months and the non-current portion of these costs is expected to be utilised over a weighted average life of 29 years (2009: 21 years) (refer to note 24).

Onerous contracts

Onerous contract provisions represent the restatement of various long-term contracts to their current market value at the acquisition date of subsidiaries. These provisions are expected to be utilised over a weighted average life of 10 years (2009: 15 years).

Other

Other includes provisions for litigation of US$59 million (2009 US$60 million) and restructuring of US$23 million (2009 US$96 million). The current portion of these costs is expected to be utilised in the next 12 months and the non-current portion of these costs is expected to be utilised over a weighted average life of two years (2009: two years).

33. Other liabilities

US$m	**2010**	2009
Current:		
Deferred income	**30**	39
	30	39
Non-current:		
Deferred income	**9**	9
	9	9

34. Commitments and contingencies

Operating lease commitments – Group as lessee

The Group has entered into leases for buildings, motor vehicles and sundry plant and equipment. These leases have an average life of five years (2009: five years) with renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

US$m	**2010**	2009
Less than 1 year	**44**	43
Between 1 and 5 years	**83**	91
More than 5 years	**21**	30
	148	164

Finance lease and hire purchase commitments

The Group has entered into finance leases and hire purchase contracts for various items of plant and machinery. The majority of these leases include a residual balloon payment at the end of the lease term and title passing to the Group. Future minimum lease payments under finance leases and hire purchase contracts together with the future finance charges as at 31 December are as follows:

US$m	**Un-discounted minimum payments 2010**	**Present value of minimum payments 2010**	Un-discounted minimum payments 2009	Present value of minimum payments 2009
Less than 1 year	**96**	**74**	65	46
Between 1 and 5 years	**122**	**49**	168	109
More than 5 years	**190**	**128**	46	26
Total minimum lease payments	**408**	**251**	279	181
Less amounts representing finance lease charges	**(157)**	**–**	(98)	–
Present value of minimum lease payments	**251**	**251**	181	181

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to US$2,163 million (2009 US$2,048 million), including:

- Xstrata Coal US$140 million for fleet expansion at Mangoola and Liddell (2009 US$663 million);
- Xstrata Copper US$244 million for the Ernest Henry underground and magnetite facility and US$374 million for the Antapaccay expansion project (2009 US$ nil); and
- Xstrata Nickel US$523 million (2009 US$623 million) for the Koniambo project.

The balance of the other amounts contracted for but not provided relates to various minor commitments around the Group, mainly for the purchase of new property, plant and equipment.

Included in the above is US$272 million (2009 US$732 million) representing the Group's share of the capital commitments that have been incurred jointly with other venturers.

Finance leases entered into after 31 December 2010 amounted to US$nil (2009 US$nil).

Guarantees

Xstrata Coal Australia has contracted US$1,580 million (2009 US$1,676 million) for rail take or pay commitments, US$2,473 million (2009 US$2,358 million) for port take or pay commitments, US$114 million for tyres take or pay commitments (2009 US$127 million), US$30 million (2009 US$51 million) for electricity take or pay commitments, US$266 million (2009 US$262 million) for explosives take or pay commitments, US$126 million (2009 US$109 million) for performance guarantees to customers and suppliers under contracts for supply of coal and services and US$260 million (2009 US$312 million) for guarantees to the New South Wales and Queensland Departments for Mineral Resources in respect of various mining leases and the performance thereof.

Xstrata Coal South Africa has issued guarantees to the Department of Minerals and Energy to obtain certain prospecting permits of US$81 million (2009 US$66 million) and performance guarantees to suppliers of US$6 million (2009 US$8 million). Xstrata Coal South Africa has tyres take or pay commitments of US$37 million (2009 US$20 million).

Xstrata Alloys has issued guarantees to Eskom for power usage and early termination of power usage of US$16 million (2009 US$21 million) and to the Department of Mineral and Energy Mineral Resources, municipalities and governmental boards in respect of various mining leases and the performance thereof for US$31 million (2009 US$34 million).

Xstrata Copper and Xstrata Technology Australia have issued performance guarantees to customers for US$40 million (2009 US$36 million) and guarantees to the Queensland Departments for Mineral Resources and other government agencies in respect of various mining leases and the performance thereof, environmental bonds and self insurance licences for US$212 million (2009 US$195 million).

Xstrata Nickel has contracted US$299 million (2009 US$143 million) for energy purchase commitments of which US$10 million (2009 US$nil) has been issued to a supplier as a letter of credit, and issued bank guarantees to the Government of Western Australia for rehabilitation costs of US$3 million (2009 US$6 million).

Xstrata Zinc has issued performance guarantees to the Northern Territory government for an electricity supply and pipeline agreement of US$10 million (2009 US$14 million), and to suppliers of US$1 million (2009 US$2 million). It has provided bank guarantees to the Northern Territory government for rehabilitation costs of US$79 million (2009 US$68 million).

Xstrata Zinc has issued bank guarantees in Spain of US$60 million (2009 US$58 million). This includes US$5 million (2009 US$5 million) as a guarantee to the local government for the rehabilitation of the closed Reocin mine (Cantabria, Spain) and US$2 million (2009 US$2 million) as guarantee of the rehabilitation of a jarofix pond in San Juan de Nieva.

A letter of credit of US$194 million (2009 US$192 million) has been given for the pension liabilities of the Group's Canadian operations.

Letters of credit have been issued to the Canadian government for rehabilitation costs of US$124 million (2009 US$64 million).

Included in the above is US$4,697 million (2009 US$3,748 million) representing the Group's share of guarantees that have been incurred jointly with other venturers.

35. Employee benefits

Share-based payments

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

US$m	2010	2009
Expense arising from equity-settled transactions	**116**	112
Expense arising from cash-settled transactions	**62**	222
Total expense arising from share-based payment transactions	**178**	334

The Group operates a number of share-based payment plans which are outlined below. There have been no cancellations or modifications to any of the plans during 2010 or 2009.

Xstrata plc Long Term Incentive Plan (LTIP)

The LTIP has two elements:

(i) A contingent award of free ordinary shares that vests after three years, subject to, and to the extent that, performance criteria determined at the time of grant have been satisfied; and

(ii) An option to acquire ordinary shares at a specified exercise price after the third anniversary of grant, subject to, and to the extent that, performance criteria determined at the time of grant have been satisfied.

All LTIP awards that vest are subject to the satisfaction of certain performance criteria being met over a three-year performance period. The 2003 LTIP awards are only subject to the Total Shareholder Return (TSR) performance criteria. Half of the options and free share awards granted in 2004 and 2005 are conditional on TSR relative to a peer group, with the remainder conditional on the Group's real cost savings relative to targets set on a stretching scale over the three-year period. Options and free share awards made to corporate employees in 2006, 2007 and 2008 were granted on the same basis as in 2004 and 2005. 75% of options and free shares awarded to business unit employees in 2006, 2007 and 2008 are conditional on achieving real cost savings and the remaining 25% are conditional on TSR performance criteria. The allocation of performance criteria pertaining to the options and free share awards granted in 2009 and 2010 is summarised in the following table:

Award	Employees	Number	% TSR	% cost savings	TSR	Cost savings
2010:						
Options	Corporate	**3,610,726**	**50%**	**50%**	**1,805,363**	**1,805,363**
	Business units	**10,658,235**	**25%**	**75%**	**2,664,559**	**7,993,676**
		14,268,961			**4,469,922**	**9,799,039**
Free shares	Corporate	**1,329,146**	**50%**	**50%**	**664,573**	**664,573**
	Business units	**2,951,543**	**25%**	**75%**	**737,886**	**2,213,657**
		4,280,689			**1,402,459**	**2,878,230**
2009:						
Options	Corporate	8,507,151	50%	50%	4,253,576	4,253,575
	Business units	21,557,464	25%	75%	5,389,366	16,168,098
		30,064,615			9,642,942	20,421,673
Free shares	Corporate	2,552,144	50%	50%	1,276,072	1,276,072
	Business units	6,467,245	25%	75%	1,616,811	4,850,434
		9,019,389			2,892,883	6,126,506

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

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

Of the options listed below, 5.5 million (2009: 4.5 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

	2010 Number	2009 Number
Outstanding as at 1 January	**12,159,847**	2,765,198
Granted through rights issue	**–**	2,111,982
Granted during the year	**4,280,689**	9,019,389
Forfeited during the year	**(1,182,800)**	(732,221)
Exercised during the year	**(993,489)**[1]	(1,004,501)[2]
Outstanding as at 31 December	**14,264,247**[3]	12,159,847[3]
Exercisable at 31 December	**–**	–

1 The weighted average share price at the date of exercise of these awards was GBP11.72.
2 The weighted average share price at the date of exercise of these awards was GBP3.66.
3 All shares included in this balance have been accounted for in accordance with IFRS 2 Share-based payments.

The weighted average remaining contractual life for the free shares outstanding as at 31 December 2010 is 8.3 years (2009: 8.8 years).

The weighted average fair value of free shares granted during the year was GBP9.39 per share (2009 GBP2.86 per share).

Share options

	2010 Number	**2010 WAEP**	2009 Number	2009 WAEP
Outstanding as at 1 January	**50,157,996**	**GBP6.66**	13,328,705	GBP19.70[3]
Granted through rights issue	**–**	**–**	10,135,476	GBP11.15
Granted during the year	**14,268,961**	**GBP10.31**	30,064,615	GBP3.35
Forfeited during the year	**(4,109,304)**	**GBP10.13**	(2,442,727)	GBP10.04
Exercised during the year	**(1,302,276)**[1]	**GBP6.20**	(928,073)[2]	GBP5.01
Outstanding as at 31 December	**59,015,377**	**GBP7.31**[4]	50,157,996[4]	GBP6.66
Exercisable at 31 December	**11,917,584**	**GBP7.89**	9,728,118	GBP5.92

1 The weighted average share price at the date of exercise of these options was GBP12.37.
2 The weighted average share price at the date of exercise of these options was GBP9.55.
3 The weighted average share price after applying the rights issue adjustment factor of 0.57 was GBP11.15.
4 All the share options included in this balance have been accounted for in accordance with IFRS 2 Share-based payments, except for 50,229 options (2009: 53,417 options) issued in 2002.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2010 was 7.6 years (2009: 8.1 years).

The weighted average fair value of options granted during the year was GBP5.55 (2009 GBP1.53).

The range of exercise prices for options outstanding at the end of the year was GBP1.82 to GBP20.02 (2009 GBP1.82 to GBP20.02).

Notes to the financial statements *continued*

35. Employee benefits *continued*

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

	Date of grant 2010	Date of grant 2009
Dividend yield (%)	**1.4**	–
Expected volatility (%)	**69**	62
Risk-free interest rate (%)	**2.5**	2.2
Earliest exercise date	**18 Feb 13**	12 Mar 12
Latest exercise date	**18 Feb 20**	11 Mar 19
Expected exercise date	**3 Dec 13**	25 Dec 12
Share price at date of grant (GBP)	**10.86**	3.26
Exercise price (GBP)	**10.31**	3.35
Free share fair value at date of grant (GBP)	**9.39**	2.86
Option fair value at date of grant (GBP)	**5.25**	1.43

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

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

The fair value of the cash-settled options is measured at the date of grant and at each reporting date until the liability is settled, using binomial models, taking into account the terms and conditions of the award. At 31 December 2010 the provision held for cash settled awards was US$70 million (2009 US$44 million) (refer to note 32).

Deferred bonus

As detailed within the Directors' Remuneration Report on pages 119 to 129, the maximum bonus payable under the bonus plan for Executive Directors and the members of the Executive Committee is 300% of salary. Bonuses are payable in three tranches as follows:

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

The deferred elements will take the form of awards of Xstrata shares conditional on the participant remaining in employment throughout the deferral period. The number of shares awarded will be determined by reference to the market value of the shares at the date concurrent awards under the LTIP are made. The deferred elements have been treated as an equity-settled share-based payment in accordance with IFRS 2.

During the bonus deferral period dividend equivalents accrue and are delivered at the end of the deferral period, subject to the deferral award vesting.

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

The following deferred bonus awards have been made:

	2010	2009	2008
Market value of deferred bonus award (US$m)	**18**	10	10
Number of shares purchased	**777,678**	521,098	2,191,681

Chief Executive's Added Value Plan (AVP)

The AVP is a long-term incentive and retention plan for the Chief Executive which rewards outperformance in creating additional long-term shareholder value over the value created by Xstrata plc's peer companies (refer to the Directors' Remuneration Report on pages 122 to 123) and aligns interests with shareholders by means of share ownership by the Chief Executive. Performance is assessed over periods of three years and five years from the grant date of each cycle and is based upon the growth in the Company's TSR over the relevant performance period relative to an index of global mining companies, which form the Xstrata TSR Index. A description of the performance requirements and the vesting schedule of the plan are detailed within the Directors' Remuneration Report on pages 122 to 123. The first cycle of the AVP began in 2005 and has occurred annually until 2009. There was no 2010 AVP and no further awards will be granted.

For the 2009 plan cycle, the market capitalisation on 17 April 2009 was US$21.7 billion, the participation percentage was equal to 0.3% and the share price at the measurement date was US$8.73 (post rights issue). For the 2008 plan cycle, the market capitalisation on 26 March 2008 was US$76.4 billion, the participation percentage was equal to 0.5% and the share price at the measurement date was US$70.50. For the 2007 plan cycle, the market capitalisation on 15 March 2007 was US$45.2 billion, the participation percentage was equal to 0.3% and the share price at the measurement date was US$46.77. For the 2006 plan cycle, the market capitalisation on 10 March 2006 was US$18.6 billion, the participation percentage was equal to 0.3% and the share price at the measurement date was US$29.39. For the 2005 plan cycle, the market capitalisation on 9 May 2005 was US$11.4 billion, the participation percentage was equal to 0.5% and the share price at the measurement date was US$18.00. In 2009, 25% of the deferred interim award of the 2005 AVP cycle was cash-settled and in 2010, the remaining 25% of the deferred interim award of the 2005 AVP cycle was equity-settled as detailed in the Directors' Remuneration Report on pages 122 to 123. At 31 December 2010, the fair value of the outstanding deferred award was US$nil (2009 US$21 million).

The fair value of all awards, which are accounted for as cash-settled share-based payments to reflect the expected form of settlement, has been estimated in accordance with IFRS 2 using a Monte Carlo simulation model to incorporate the market-based features of the plan. The following table presents the fair value of each cycle of the award at grant date and the value of the unvested portion of each cycle if conditions that existed at 31 December 2010 are those at the time of vesting.

Plan cycle		Estimated fair value	Value of unvested award based on conditions at 31 December*	
US$m	Grant date	at grant date	2010	2009
2005	**9 May 2005**	**7**	**–**	21
2006	**10 Mar 2006**	**7**	**–**	–
2007	**15 Mar 2007**	**19**	**–**	–
2008	**26 Mar 2008**	**120**	**–**	–
2009	**17 Apr 2009**	**135**	**87**	61

* This amount represents the value of the award if it had vested as at 31 December 2010 and 31 December 2009.

In accordance with IFRS 2 as it applies to cash-settled share-based payments, a provision was recognised based on the fair value of each cycle adjusted for the vesting period yet to lapse. This model determined the fair value of each cycle at 31 December 2010 to estimate the final performance of the Group and its performance relative to its peers. Any ultimate payments may vary significantly from the estimated fair values determined at 31 December 2010 as a result of differences between the estimated outcomes determined by the simulation model and the actual outcomes. At 31 December 2010, the total provision held for the AVP was US$167 million (2009 US$180 million) comprising US$nil for the 2005 plan (2009 US$19 million), US$nil for the 2008 plan (2009 US$8 million) and US$167 million for the 2009 plan (2009 US$153 million). There was no 2010 AVP award (refer to note 32). The decrease in the provision during the year reflects the comparative rate of performance of the Company in the 2010 year against the peer group, to which the design of the plan gives additional weighting when that group itself is rising, offset by the settlement of the 2005 final award. The ultimate value of each cycle will reflect its intrinsic value at the date of vesting which depends on relative outperformance over the cycle as a whole.

Notes to the financial statements *continued*

35. Employee benefits *continued*

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

	2009	
	Xstrata plc	Xstrata share indices[1]
Dividend yield (%)	N/A	N/A[2]
Expected volatility to interim vesting (%)[3]	76	53
Expected volatility to final vesting (%)[3]	62	43
Risk-free interest rate to interim vesting (%)	2.4	2.4
Risk-free interest rate to final vesting (%)	2.6	2.6
Third anniversary of start of cycle	17 April 2012	17 April 2012
Fourth anniversary of start of cycle	17 April 2013	17 April 2013
Fifth anniversary of start of cycle	17 April 2014	17 April 2014

1 There are two Xstrata share indices used within the valuation model: one is a market capitalisation weighted TSR index comprising 16 global mining firms considered to be Xstrata's key competitors for both financial and human capital, the other is a market capitalisation price index comprising the same global mining firm constituents.
2 When simulating the Xstrata price index, a dividend yield is included to account for the suppressing impact that a dividend payment has on the constituent share prices. A yield of 4.2% has been used. For the simulation of Xstrata's TSR and the Index TSR, a dividend yield is not required as TSR comprises share price growth and dividend distributions which are assumed to be reinvested into the shares.
3 Volatility is calculated using daily historic share price data over the period up to the measurement date that is equal in length to the expected remaining life of the award.

Pensions and other post-employment benefit plans

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

US$m	**2010**	2009
Defined benefit pension plans	**45**	68
Defined contribution pension plans	**132**	81
Post-retirement medical plans	**38**	29
	215	178

Defined contribution pension plans

The Group participates in a number of defined contribution pension plans and industry-wide schemes covering the majority of its employees. The assets are held separately from those of the Group and are generally invested with insurance companies and regulated by local legislation.

Post-retirement medical plans

The Group participates in a number of post-retirement medical benefits. All material post-retirement medical benefit liabilities are in North America, with smaller exposures in South Africa. Independent qualified actuaries assess the accumulated benefit obligation and annual cost of accrued benefits using the projected unit credit method. The actuaries have updated the valuations to 31 December 2010.

Defined benefit pension plans

The Group contributes to defined benefit pension plans for a number of its employees. Independent professionally qualified actuaries assess the pension costs and funding of these plans using the projected unit method. The actuaries have updated the valuations to 31 December 2010. All significant pension assets and liabilities are in North America.

The following tables summarise the components of the net expense recognised in cost of sales in the income statement and the funded status and amounts recognised in the balance sheet for the defined benefit pension plans and post-retirement medical plans. The weighted average principal economic assumptions used to determine the actuarial values are as follows:

	Pension plans 2010	**Post-Retirement medical plans 2010**	Pension plans 2009	Post-Retirement medical plans 2009
Rate of salary increases	**3.3%**	**–**	3.3%	–
Rate of pension increases	**2.2%**	**–**	3.5%	–
Expected rate of return on plan assets:				
Equities	**8.1%**	**–**	9.3%	–
Bonds	**5.0%**	**–**	4.6%	–
Total	**6.1%**	**–**	6.7%	–
Discount rate	**5.3%**	**5.5%**	6.1%	6.4%
Inflation rate	**3.2%**	**5.5%**	3.5%	5.5%
Rate of medical cost increases	**–**	**8.0%**	–	8.0%

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

US$m	**Increase 2010**	**Decrease 2010**	Increase 2009	Decrease 2009
Effect on the current service cost and interest cost	**5**	**4**	4	3
Effect on the defined benefit obligation	**71**	**57**	57	32

The pension plan mortality rate used at 31 December 2010 and 31 December 2009 was UP-94 for North American pension and post-retirement medical plans. These rates refer to published projected mortality tables by actuarial bodies in North America and take into account the assumed increases in the life expectancy and are calculated for both current and future pensioners. There are no significant differences in these rates between schemes. The average life expectancy in the pension plans was 84 years (2009: 83 years) and in the medical plans was 82 years (2009: 82 years) as at 31 December 2010.

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

US$m	**Pension plans 2010**	**Post-retirement medical plans 2010**	Pension plans 2009	Post-retirement medical plans 2009
Present value of benefit obligations	**2,821**	**535**	2,556	444
Assets at fair value	**(2,197)**	**–**	(2,145)	–
Net liability	**624**	**535**	411	444
Net liability as at 31 December represented by:				
Pension deficits/provisions	**625**	**535**	412	444
Pension assets	**(1)**	**–**	(1)	–
Net liability	**624**	**535**	411	444

Historical adjustments are as follows:

US$m	**2010**	2009	2008	2007	2006
Defined benefit obligation	**2,821**	2,556	1,994	2,721	2,604
Plan assets	**(2,197)**	(2,145)	(1,677)	(2,495)	(2,393)
Net deficit	**624**	411	317	226	211
Experience (gain)/loss adjustments on plan liabilities	**(64)**	(12)	74	69	(4)
Experience (gain)/loss adjustments on plan assets	**(81)**	(131)	480	126	(96)

Notes to the financial statements *continued*

35. Employee benefits *continued*

The reconciliation of the net liability movement during the year in the net pension and post-retirement medical plan liability (before allowance of deferred tax) is as follows:

US$m	Pension plans 2010	Post-retirement medical plans 2010	Pension plans 2009	Post-retirement medical plans 2009
Net liability as at 1 January	**411**	**444**	317	345
Total benefit expense	**45**	**38**	68	29
Actuarial (gains)/losses	**249**	**52**	86	36
Employer contributions	**(108)**	**(25)**	(109)	(22)
Translation adjustments	**27**	**26**	49	56
Net liability as at 31 December	**624**	**535**	411	444

Additional contributions of US$83 million in 2011, US$82 million in 2012, US$86 million in 2013, US$81 million in 2014 and US$60 million in 2015 are being made in order to eliminate the deficiency in the North America plans. The total contributions to the defined benefit pension plans in 2011 including these further contributions are US$139 million.

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

US$m	Pension plans 2010	Post-retirement medical plans 2010	Pension plans 2009	Post-retirement medical plans 2009
Service cost	**26**	**9**	35	2
Interest cost	**151**	**29**	144	27
Expected return on plan assets (net of expected expenses)	**(132)**	**–**	(111)	–
	45	**38**	68	29

The components of actuarial losses/(gains) recognised in the statement of comprehensive income during the year are as follows:

US$m	Pension plans 2010	Post-retirement medical plans 2010	Pension plans 2009	Post-retirement medical plans 2009
Expected return on plan assets (net of expected expenses)	**132**	**–**	111	–
Actual return on plan assets	**(213)**	**–**	(242)	–
Actual return less expected return on plan assets	**(81)**	**–**	(131)	–
Actuarial gains on obligations	**(64)**	**–**	(12)	–
Uplift for minimum funding requirement	**194**	**–**	–	–
Change of assumptions	**200**	**52**	229	36
	249	**52**	86	36

The cumulative amount of net actuarial losses recognised in the statement of comprehensive income is US$521 million (2009 loss US$272 million).

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

US$m	Pension plans 2010	Post-retirement medical plans 2010	Pension plans 2009	Post-retirement medical plans 2009
Benefit obligation present value as at 1 January	**2,556**	**444**	1,994	345
Current service cost	**26**	**9**	35	2
Interest cost	**151**	**29**	144	27
Employee contributions	**1**	**–**	1	–
Actuarial gains	**(64)**	**–**	(12)	–
Actual benefit payments	**(182)**	**(25)**	(160)	(22)
Change of assumptions	**200**	**52**	229	36
Translation adjustments	**133**	**26**	325	56
Benefit obligation present value as at 31 December	**2,821**	**535**	2,556	444
Plan assets fair value as at 1 January	**2,145**	**–**	1,677	–
Actual return on plan assets	**213**	**–**	242	–
Company contributions	**108**	**–**	109	–
Employee contributions	**1**	**–**	1	–
Uplift for minimum funding requirement	**(194)**	**–**	–	–
Benefits paid from fund	**(182)**	**–**	(160)	–
Translation adjustments	**106**	**–**	276	–
Plan assets fair value as at 31 December	**2,197**	**–**	2,145	–
Net liability as at 31 December	**624**	**535**	411	444
Net liability as at 1 January	**411**	**444**	317	345

The defined benefit obligation present value included above for unfunded pension plans at 31 December 2010 was US$8 million (2009 US$7 million).

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

	Pension plans 2010	Pension plans 2009
Equities	**40%**	38%
Bonds	**57%**	59%
Other	**3%**	3%

Included in equities is US$nil (2009 US$nil) of Xstrata plc shares.

The overall expected rate of return on assets is determined based on the market value weighted expected return applicable to the underlying asset category.

Notes to the financial statements *continued*

36. Related parties

Name	Country of incorporation	Principal activities	% of ordinary shares held & voting rights
Principal subsidiaries			
Xstrata Coal:			
Abelshore Pty Limited	Australia	Coal operations	100%
AZSA Holdings Pty Limited	Australia	Holding company	100%
Coalex Holdings Pty Limited	Australia	Coal operations	78%
Cook Resources Mining Pty Limited	Australia	Coal operations	100%
Cumnock No. 1 Colliery Pty Limited	Australia	Coal operations	100%
Enex Foydell Limited	Australia	Coal operations	100%
Enex Liddell Pty Limited	Australia	Coal operations	100%
Enex Oakbridge Pty Limited	Australia	Coal operations	100%
Enex Togara Pty Limited	Australia	Coal project	100%
Jonsha Pty Limited	Australia	Coal operations	100%
Oakbridge Pty Limited	Australia	Coal operations	78%
Oceanic Coal Australia Limited	Australia	Coal operations	100%
Ravensworth Operations Pty Limited	Australia	Coal operations	100%
Resource Pacific Pty Limited	Australia	Coal operations	77.8%
Saxonvale Coal Pty Limited	Australia	Coal operations	78%
Tahmoor Coal Pty Limited	Australia	Coal operations	100%
The Wallerawang Collieries Limited	Australia	Coal operations	74.1%
Ulan Coal Mines Limited	Australia	Coal operations	90%
Ulan Power Company Pty Limited	Australia	Feasibility projects	100%
United Collieries Pty Limited	Australia	Coal operations	95%
Xstrata Coal Queensland Pty Limited	Australia	Coal operations	100%
Xstrata Mangoola Pty Limited	Australia	Coal project	100%
Xstrata Rail (NSW) Pty Limited	Australia	Rail project	100%
Xstrata Newpac Pty Limited	Australia	Investment company	100%
Xstrata Coal Donkin Limited	Canada	Coal project	100%
Tavistock Collieries (Pty) Limited	South Africa	Coal operations	100%
Tironimus AG	Switzerland	Holding company	100%
Xstrata Coal Marketing AG	Switzerland	Marketing & trading	100%
Xstrata Alloys:			
Xstrata South Africa (Pty) Limited	South Africa	Coal, chrome, platinum & vanadium operations	100%
Eland Platinum Holdings Limited	South Africa	Platinum operations	74%
African Carbon Union (Pty) Limited	South Africa	Char operations	74%
Char Technology (Pty) Limited	South Africa	Char operations	100%
African Fine Carbon (Pty) Limited	South Africa	Char operations	100%
African Carbon Manufacturers (Pty) Limited	South Africa	Char operations	100%
African Carbon Producers (Pty) Limited	South Africa	Char operations	100%

Name	Country of incorporation	Principal activities	% of ordinary shares held & voting rights
Xstrata Copper:			
Ernest Henry Mining Pty Limited	Australia	Copper operations	100%
Minera Alumbrera Limited*	Antigua	Copper operations	50%
Mount Isa Mines Limited	Australia	Copper, lead and zinc operations	100%
Sagittarius Mines, Inc	Philippines	Holding company	62.5%
Xstrata Tintaya S.A.	Peru	Copper operations	100%
Compania Minera Xstrata Lomas Bayas	Chile	Copper operations	100%
Xstrata Inversiones Chile Limitada	Chile	Holding company	100%
Xstrata Copper Chile S.A.	Chile	Copper smelter	100%
Xstrata Commodities Middle East DMCC††	UAE	Marketing	100%
Xstrata Recycling Inc.	USA	Copper recycling	100%
Xstrata Iron Ore:			
Xstrata Projects Pty Limited	Australia	Exploration company	100%
Ploutos Australia Pty Limited	Australia	Holding company	100%
Sidero Pty Limited	Australia	Holding company	100%
Sphere Minerals Limited	Australia	Exploration company	75.5%
Xstrata Nickel:			
Xstrata Nickel International Limited	Barbados	Nickel feeds acquisition	100%
Falconbridge Dominicana C por A	Dom. Republic	Ferronickel operations	85%
Xstrata Nickel Marketing S.A.	Belgium	Nickel marketing	100%
Xstrata Nikkelverk Aktieselskap AS	Norway	Nickel refinery	100%
Xstrata Nickel International S.A.	Belgium	Nickel procurement agent	100%
Xstrata Nickel Australasia Pty Ltd	Australia	Nickel operations	100%
Xstrata Brasil Exploracao Mineral Ltda	Brazil	Exploration	100%
Koniambo Nickel SAS**	New Caledonia	Ferronickel project	49%
Xstrata Zinc:			
Asturiana de Zinc SA	Spain	Zinc smelter	100%
Britannia Refined Metals Limited	UK	Lead smelter	100%
McArthur River Mining Pty Limited	Australia	Zinc operations	100%
Xstrata Zinc GmbH	Germany	Zinc smelter	100%
Xstrata Technology			
Xstrata Technology Pty Limited	Australia	Technology operations	100%
MIM Process Technology South Africa (Pty) Limited	South Africa	Technology operations	100%
Other:			
Xstrata (Schweiz) AG ***	Switzerland	Holding company	100%
Xstrata Capital Corporation AVV†	Aruba	Finance company	100%
Xstrata Finance (Dubai) Limited††	UAE	Finance company	100%
Xstrata Holdings Pty Limited	Australia	Holding company	100%
Xstrata Queensland Limited	Australia	Holding company	100%
Xstrata Canada Corporation	Canada	Copper, nickel and zinc operations	100%
Xstrata Canada Financial Corporation	Canada	Finance company	100%
Xstrata Finance (Canada) Limited	Canada	Finance company	100%
Alberta Limited	Canada	Holding company	100%

* This investment is treated as a subsidiary as the Group is entitled to two of the four Board positions of Minera Alumbrera Limited, including the Chairman who is the manager of the copper operations. The Chairman has the casting vote where any vote is split equally between the four board positions. However, in a limited number of situations the vote must be unanimous, including transactions with related parties.

** The Group has de facto control of Koniambo Nickel SAS as a result of its industry expertise and the ability to control the operating and financing decisions of the joint venture.

*** Directly held by the parent company.

† 51% held by the parent company.

†† 90% held by the parent company.

Notes to the financial statements *continued*

36. Related parties *continued*

Name	Principal place of operations/country of incorporation	Principal activities	Effective interest held
Principal joint ventures			
Xstrata Coal:			
Bulga Joint Venture	Australia	Coal operations	68.25%
Cerrejón Joint Venture	Colombia	Coal operations	33.33%
Cumnock Joint Venture	Australia	Coal operations	90%
Donkin Joint Venture	Canada	Coal project	75%
Goedgevonden Joint Venture	South Africa	Coal operations	73.99%
Foybrook Joint Venture	Australia	Coal operations	67.5%
Liddell Joint Venture	Australia	Coal operations	67.5%
Macquarie Coal Joint Venture	Australia	Coal operations	80%
Newlands, Collinsville, Abbot Point Joint Venture	Australia	Coal operations	55%
Newpac Coal Joint Venture	Australia	Coal operations	70%
Oaky Creek Coal Joint Venture	Australia	Coal operations	55%
Rolleston Pentland Wandoan Joint Venture	Australia	Coal operations	75%
Togara North Joint Venture	Australia	Coal project	61.6%
Ulan Coal Mines Joint Venture	Australia	Coal operations	90%
United Joint Venture	Australia	Coal operations	95%
Xstrata Alloys:			
Merafe Pooling and Sharing Venture	South Africa	Chrome operations	79.5%
Mototolo Joint Venture	South Africa	Platinum operations	37%
Xstrata Copper:			
Antamina Joint Venture	Peru	Copper & zinc operations	33.75%
Collahuasi Joint Venture	Chile	Copper operations	44%
Xstrata Nickel:			
Kabanga Joint Venture	Tanzania	Nickel project	50%
Xstrata Iron Ore:			
El Aouj Joint Venture	Mauritania	Iron ore project	50%
Principal associates			
Xstrata Alloys:			
Lonmin plc	UK	Platinum operations	24.67%
Xstrata Coal:			
ARM Coal (Pty) Limited	South Africa	Coal operations	49%
Newcastle Coal Shippers Pty Limited	Australia	Coal terminal	31%
Port Kembla Coal Terminal Limited	Australia	Coal terminal	33%
Richards Bay Coal Terminal Company Limited	South Africa	Coal terminal	20.2%
Xstrata Zinc:			
Noranda Income Fund	Canada	Zinc refinery	25%

The Group comprises a large number of companies and it is not practical to include all of these in the above list. All entities operate mainly in the country of incorporation and these interests are held indirectly by the parent company unless otherwise indicated.

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

	Glencore*		Joint venture entities		Associates	
US$m	**2010**	2009	**2010**	2009	**2010**	2009
Sales**	**9,319**	7,688	**–**	–	**543**	407
Purchases	**745**	537	**617**	541	**5**	–
Treatment and refining charges	**301**	344	**–**	–	**206**	165
Treatment and refining revenue	**13**	7	**–**	–	**–**	–
Agency and other charges	**89**	66	**–**	–	**–**	10
Interest and other revenue	**4**	–	**–**	3	**–**	–
Call option premium (refer to notes 10 and 24)	**42**	208	**–**	–	**–**	–
Earnings from other financial assets (refer to notes 10 and 24)	**29**	146	**–**	–	**–**	–
Amounts payable	**78**	80	**120**	531	**21**	20
Amounts receivable	**842**	622	**–**	–	**47**	72
Other financial assets (refer to note 24)	**–**	2,424	**–**	–	**–**	–

* Includes share of joint ventures.
** No provision for doubtful debts has been raised in respect of transactions with related parties.

Included in the transactions with Glencore International AG (Glencore) are US$980 million (2009 US$1,329 million) of back-to-back sales whereby the title to the goods has passed to Glencore but they are then on-sold to customers at the same sales price that the Group received.

Amounts receivable and payable are included in Trade and other receivables (refer to note 19) and in Trade and other payables (refer to note 27), are unsecured and will be settled in cash.

Glencore International AG – substantial shareholder

As at 31 December 2010, Glencore owned 34.1% (2009: 34.4%) of the issued share capital of the Company, representing 1,010,403,999 ordinary shares (2009: 1,010,403,999 ordinary shares).

Alloys

Xstrata Alloys entered into a ferrochrome marketing agreement with Glencore on 21 April 1995, appointing Glencore as its exclusive worldwide marketing agent for the sale of Xstrata Alloys' and Merafe's entire production of ferrochrome other than ferrochrome sold into the USA, Canada and certain Asian countries. The agreement continues for as long as Xstrata Alloys and Merafe produce ferrochrome. Glencore is obliged to use its best endeavours to arrange sales at prevailing market rates subject to initial agreement and approval by Xstrata Alloys and Merafe prior to effecting the sale. Glencore assists Xstrata Alloys in negotiating sales contracts with third parties. Glencore is entitled to receive an agency fee of 3.5% on FOB sales revenues and an additional fee of 0.75% on FOB sales revenues for assuming the risk of non-payment by customers on this material. Glencore assumes 60% of the risk of non-payment by customers in relation to ferrochrome sales.

If at any time Xstrata Alloys and Merafe notifies Glencore that it is able to find purchasers for its production at prices higher than those generally obtainable by Glencore, Xstrata Alloys may, unless Glencore is able to obtain similar prices, sell its products in the market. Glencore is nevertheless entitled to an agency fee of 3.5% of FOB sales revenue in respect of such sales. Glencore is also entitled to receive a US$50,000 monthly fee in connection with market analysis and certain administrative tasks it performs for Xstrata Alloys. Interest is charged by Xstrata Alloys on single monthly settlements made by Glencore, and Glencore charges interest on any selling expenses incurred on behalf of Xstrata Alloys at LIBOR and a margin of 150 basis points.

Ferrochrome sold into the USA and Canada is distributed by Glencore Ltd and Glencore Canada Inc respectively, under two distribution agreements. These agreements continue indefinitely, with both parties having the right to terminate the agreement at 12 months' notice. The percentage of distribution fees payable by the Group in respect of ferrochrome sold under the distribution agreement is substantially the same as the commission paid in respect of ferrochrome sold under the marketing agreement.

Mitsui & Co. Ltd is the appointed distributing agent for ferrochrome sales into China, Japan and South Korea up to a maximum of 105,000 tonnes per annum. A change in distributing agent for sales into these countries must be undertaken with the consent of Glencore.

Xstrata Alloys entered into a chrome ore marketing agreement with Glencore in July 2010, appointing Glencore as its exclusive worldwide marketing agent for the sale of Xstrata Alloys' and Merafe's entire production of chrome ore. The agreement is for a fixed term ending 20 May 2011. Glencore is entitled to receive an agency fee of 2% on FOB sales revenues loading port value. Glencore assumes 100% of the risk of non-payment by customers in relation to chrome ore sales. Interest is charged by Xstrata Alloys on single monthly settlements by Glencore at LIBOR and a margin of 150 basis points.

36. Related parties *continued*

In December 1997, the Group entered into a 20-year marketing agreement with Glencore in respect of Rhovan's and Vantech's (closed in 2004) entire production of vanadium other than vanadium sold into the USA and Canada.

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

If at any time Xstrata Alloys notifies Glencore that it is able to find purchasers for its production at prices higher than those generally obtainable by Glencore, Xstrata Alloys may, unless Glencore is able to obtain similar prices, sell its products in the market. Glencore is nevertheless entitled to the 3.5% agency fees described above in respect of such sales. Interest is charged by Xstrata Alloys on single monthly settlements made by Glencore, and Glencore charges interest on any selling expenses incurred on behalf of Xstrata Alloys at LIBOR and a margin of 150 basis points.

Vanadium pentoxide and ferrovanadium sold into the USA and Canada are distributed by Glencore Ltd and Glencore Canada Inc respectively, under two distribution agreements. The distribution agreements have the same term as the marketing agreement and consequently, the percentage of distribution fees payable by the Group in respect of vanadium pentoxide and ferrovanadium is substantially the same as the commission paid in respect of vanadium pentoxide and ferrovanadium sold under the marketing agreement.

Coal

In 2002, the Group entered into a 20-year market advisory agreement with Glencore with fee reviews at the end of every fifth year of the agreement. Pursuant to this agreement, Glencore acts as the Group's market adviser with respect to its export production of coal (other than for Xstrata Coal's share of production from the Cerrejón thermal coal operation in Colombia). The fee payable to Glencore is US$0.50 per attributable tonne of coal exported by the Group from Australia or South Africa.

In 2010, the Group entered into market standard forward commodity price derivatives for 1,070,000 tonnes (2009: 4,455,000 tonnes) and bought market standard forward commodity price derivatives for 385,000 tonnes (2009: nil tonnes) with Glencore as counterparty. During the year ended 31 December 2010, 3,360,000 sold tonnes and 385,000 bought tonnes were delivered at an average FOB price of US$76.73 and US$86.54 per tonne respectively (2009: 3,180,000 tonnes were sold at an average FOB price of US$71.78 per tonne). At 31 December 2010, 965,000 tonnes (2009: 3,255,000 tonnes) were contracted with Glencore for delivery in 2011 and 2012. These derivatives are on arm's-length terms and conditions and are included within derivative financial assets and liabilities (refer to notes 23, 30 and 37).

During the year ended 31 December 2010, nil tonnes were borrowed from Glencore (2009: 2,550 tonnes), and at 31 December 2010 nil tonnes were owed to Glencore (2009 nil tonnes) on arm's-length terms and conditions.

In April 2010, the Group entered into a five-year fuel supply agreement with Glencore to supply diesel fuels to coal mines and cattle stations in New South Wales and Queensland. Under this supply agreement US$147 million (2009 US$111 million) worth of fuel was delivered during the year ended 31 December 2010. The supply agreement is on arm's-length terms and prices change monthly according to the world market price per barrel.

In February 2010 Cerrejón entered into a five-year fuel supply agreement with Glencore to supply diesel fuels. The Group's share of the fuel purchases for the year ended 31 December 2010 was US$65 million (2009 US$44 million). The supply agreement is on arm's-length terms and prices change for each shipment according to the world market price per barrel.

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

Refer to note 24 for details of the Group's transactions in relation to the Prodeco coal assets with Glencore.

Copper

Xstrata Copper has entered into an 'evergreen' service agreement with Glencore with a 12-month cancellation notice for the supply of advice, support and assistance with regard to its marketing and operational hedging activities.

Copper cathode sales agreements were entered into between Xstrata Copper Canada/Xstrata Copper North Chile/Xstrata Commodities Middle East and Glencore for the period 1 January to 31 December 2010. All sales are based on either spot or benchmark terms in accordance with prevailing market conditions.

Xstrata Copper (Minera Alumbrera Limited) has entered into a five-year frame contract with Glencore on an 'evergreen' basis. The sales terms for the copper concentrate are negotiated annually on arm's-length terms and conditions. Minera Alumbrera Limited on occasions sells concentrate to Glencore at prevailing spot market prices.

A copper precipitate purchase agreement was entered into between Xstrata Copper Canada and Glencore for the period 1 January to 31 December 2010, at prevailing market terms.

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

Copper concentrate sales agreements were entered into between Xstrata Copper Tintaya and Glencore for the period 1 January to 31 December 2010. All sales are based on either spot or benchmark terms in accordance with prevailing market conditions.

A copper concentrate sales agreement was entered into between Xstrata Commodities Middle East and Glencore for a three-year period effective from 1 June 2008 and 'evergreen' thereafter at benchmark terms. Xstrata Commodities Middle East also sells concentrate to Glencore on a spot basis on occasions throughout the year at prevailing market terms.

Xstrata Copper North Queensland has entered into a sales agreement with Glencore for copper concentrate for a three-year period effective from 1 June 2008 and 'evergreen' thereafter. This agreement is based on annual benchmark terms.

Copper blister and anode sales agreements were entered into between Xstrata Commodities Middle East and Glencore between April and December 2010 at benchmark or spot terms.

A molybdenum concentrate spot sales contract was entered into between Minera Alumbrera Limited and Glencore in 2010 at market related terms.

A molybdenum concentrate contract was entered into between Xstrata Norte Exploraciones y Servicios Limitada and Minerales del Sur S.A. for 2010 off-take Collahuasi tonnes at market related terms.

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

Nickel

Xstrata Nickel has entered into long-term purchase agreements with Glencore for copper cobalt white alloy raw material feeds to the Sudbury smelter in Canada and Nikkelverk refinery in Norway. Contracts include both a metal purchase and a metal return component for cobalt. The terms of the contracts are to the end of 2011, continuing indefinitely thereafter unless terminated by either party with six months' notice given not earlier than 1 July 2011. Pricing terms are based on prevailing market rates. Other short-term or one-time feed purchase agreements were entered into with Glencore, with pricing terms based on prevailing market rates. During 2010, Xstrata Nickel purchased from Glencore 102 tonnes of nickel (2009: 287 tonnes), 109 tonnes of copper (2009: 563 tonnes), 15 tonnes of cobalt (2009: 250 tonnes) and 66 kilograms of Platinum Group Metals (2009: nil kilograms). In addition, during 2010, Xstrata Nickel returned to Glencore 64 tonnes of cobalt (2009: 297 tonnes).

In March 2007, Xstrata Nickel entered into sole distributorship agreements with Glencore, for its nickel, cobalt and ferronickel production. These agreements continue until 31 December 2012 and are automatically renewed for successive three-year periods unless terminated by either party with not less than 12 months' notice prior to the end of the original term or any renewal terms, or unless Xstrata Nickel permanently ceases production of these metals. Xstrata Nickel, at its sole discretion, may cease, suspend or reduce production at any time. Glencore is obliged to distribute the products with all due care and diligence and shall cultivate and maintain good relations with purchasers and potential purchasers in accordance with sound commercial principles and taking into account Xstrata Nickel's business principles.
All sales terms and conditions are set on an arm's-length basis. For nickel and cobalt sales, the price basis is the month following the month of delivery. For ferronickel sales, the price basis is the quotational period provided for in customer contracts. Accordingly, provisionally priced nickel, cobalt and ferronickel revenues are subject to final price adjustments due to future price changes. During 2010, Xstrata Nickel sold to Glencore 92,139 tonnes of nickel (2009: 88,457 tonnes), 3,104 tonnes of cobalt (2009: 3,066 tonnes) and nil tonnes of ferronickel (2009: 236 tonnes). In addition, Glencore prepays monthly to Xstrata Nickel in two equal instalments 100% of the value of the month's planned production. The prepayment balance as at 31 December 2010 amounted to US$36 million (2009 US$49 million).

Notes to the financial statements *continued*

36. Related parties *continued*

Xstrata Nickel sells refined copper to Glencore on arm's-length terms and conditions under spot arrangements, which are based on prevailing market rates. During 2010, Xstrata Nickel sold to Glencore 3,698 tonnes of copper (2009: 1,547 tonnes). Effective for the period 1 January to 31 December 2011, Glencore has agreed to purchase, on a monthly basis, all copper production not otherwise sold by Xstrata Nickel under long-term contracts.

Zinc

On 1 January 2007, Xstrata Zinc renewed a service agreement for a period of three years which shall continue in effect thereafter unless terminated by any of the parties giving the other prior written notice of no less than 12 calendar months with Glencore (the Xstrata Zinc Service Agreement), under the terms of which Glencore provides advice and assistance with respect to pricing and structural issues regarding hedging and the optimisation of internal flows of raw materials. The fees to be paid by Asturiana under the Xstrata Zinc Service Agreement are US$2 million per annum.

In 2010, Xstrata Zinc agreed to supply Glencore with 255,000 tonnes (2009: 315,000 tonnes) of SHG zinc slabs and CGG ingots from San Juan de Nieva and Nordenham smelters based on market prices plus the respective FOB/CPT market premium.

In 2010, Xstrata Zinc Canada has made agreements to supply Glencore with approximately 14,600 tonnes (2009: 63,700 tonnes) of SHG zinc slabs and jumbos based on market prices plus the respective delivery duty paid (DDP) premium.

In 2010, Britannia Refined Metals agreed to supply Glencore with between 12,000 and 18,000 tonnes of lead metal ingots. The agreement is 'evergreen' in nature. In addition, Britannia Refined Metals agreed to supply Glencore with a separate additional 7,500 tonnes of lead metal ingots. Both agreements are based on market prices plus the respective ex-works market premium.

In 2010, Xstrata Zinc Canada made agreements to supply Glencore with approximately 18,300 tonnes (2009: 32,000 tonnes) of lead metal ingots and jumbos. All agreements are based on market prices plus the respective DDP premium.

In 2010, Mount Isa Mine had an evergreen contract to supply 80,000 tonnes to Glencore (2009: 80,000 tonnes).

In 2010, Xstrata Zinc sold 300,000 tonnes of zinc concentrate to Glencore under an evergreen swap contract. In return, Xstrata Zinc purchased from Glencore 300,000 tonnes of various zinc concentrate qualities delivered to Xstrata Zinc smelters (2009: 300,000 tonnes). In addition, Xstrata Zinc sold 50,000 tonnes to Glencore under a time swap agreement.

In 2010, Xstrata Zinc sold to Glencore 158,000 tonnes of zinc concentrate under various spot sales contracts from Mount Isa Mine, Antamina, McArthur River and other zinc concentrate qualities.

In 2010, Xstrata Zinc had an agreement to supply Glencore 247,000 tonnes of McArthur River bulk concentrate on an evergreen basis (2009: 245,000 tonnes). Further to the aforementioned agreement, an additional 65,000 tonnes of McArthur River Mine and Brunswick Mine bulk concentrate were sold under annual contracts.

During 2010, Xstrata Zinc Canada purchased 25,000 tonnes of lead concentrates from Glencore for delivery to the Belledune lead smelter under various spot contracts.

All evergreen and annual zinc concentrate and bulk concentrate contracts are based on recognised annual industry benchmark treatment charges and related terms for price participation and silver payables. Spot contracts are negotiated at prevailing market terms.

Technology

In 2006, Xstrata Technology was contracted to install a copper ISASMELT™ furnace, a lead ISASMELT™ furnace and an IsaProcess copper refinery at Kazzinc, a Glencore subsidiary, for US$99 million. The project commenced in May 2006 and will be commissioned late 2011. This transaction with Kazzinc is on arm's-length terms and conditions.

Associates

Platinum

The Group acquired 24.9% of Lonmin PLC shares on 6 October 2008 and equity accounts this investment as an associate. During 2009, a net impairment of US$241 million was taken on this investment directly to the income statement. During 2010, the Group participated in a rights issue for US$58 million (2009 US$112 million) (refer to note 20).

Coal

Xstrata Coal has a number of investments in export coal terminals, allowing it to export coal into overseas markets.

Xstrata Coal South Africa holds a 20.2% (2009: 20.9%) interest in Richards Bay Coal Terminal Company Ltd (RBCT), a company that operates the coal terminal in Richards Bay, South Africa. Xstrata Coal South Africa reimburses RBCT for its share of operating and capital expenditure.

Xstrata Coal Australia has a 33% (2009: 33%) interest in Port Kembla Coal Terminal Limited and a 31% (2009: 31%) interest in Newcastle Coal Shippers Pty Limited. Xstrata Coal Australia reimburses these coal terminals for its share of coal loading and handling charges.

Zinc

The Group has a 25% economic and voting interest in the Noranda Income Fund (NIF), which owns a zinc refinery in Salaberry-de-Valleyfield, Quebec. The Group's interest in the NIF are held as ordinary units of the partnership, which are subordinate to the priority units in respect of cash distributions in any month until 3 May 2017. In addition, the Group has entered into a supply and processing agreement that continues until 2 May 2017, and is obligated to sell to the NIF up to 550,000 tonnes of zinc concentrate per year. The NIF pays the Group a concentrate price, based on the price of zinc metal on the London Metal Exchange, for the payable zinc metal contained in the concentrate less a processing fee of US$0.37333 per pound (2009 US$0.33311 per pound) of such payable zinc metal at 31 December 2010.

Joint venture entities

Coal

Xstrata Coal has a one-third interest in the Cerrejón thermal coal operation in Colombia. All purchase terms and conditions are set on an arm's-length basis.

Copper

Xstrata Copper has a 44% interest in the Collahuasi joint venture in Chile. The Collahuasi joint venture has fixed-term contracts for the sale of copper concentrate to Xstrata Copper for 120,000 tonnes per year expiring in 2014. The treatment and refining charges are based on benchmark terms in accordance with the prevailing market. In addition, Xstrata Copper, via its 44% equity share in Collahuasi, purchases 44% of the uncommitted copper concentrates production in each calendar year. These tonnes are purchased from Collahuasi in line with prevailing benchmark terms.

Xstrata Copper has a 33.75% interest in the Antamina joint venture in Peru. The Antamina joint venture has fixed-term contracts for the sale of copper concentrate to Xstrata Copper for 170,000 tonnes per year expiring in 2013. The treatment and refining charges are based on benchmark terms in accordance with the prevailing market. In addition, Xstrata Copper, via its 33.75% equity share in Antamina, purchases 37.5% of the uncommitted copper concentrates production in each calendar year. These tonnes are purchased from Antamina in line with prevailing benchmark terms.

Iron Ore

Xstrata Iron Ore has a 50% interest in El Aouj Mining Company in Mauritania.

All other purchases between the joint venture entities and the Group are set on an arm's-length basis based on either spot or benchmark terms in accordance with prevailing market conditions.

Remuneration of key management personnel of the Group

US$m	**2010**	2009
Wages and salaries*	**21**	31
Pension and other post-retirement benefit costs*	**7**	6
Share-based compensation plans**	**86**	249
	114	286

* Includes amounts paid to Directors disclosed in the Directors' Remuneration Report on pages 127 to 129.
** Amounts are based on the income statement expense/(credit) for the year calculated in accordance with IFRS 2.

Directors' loans

An interest-free short-term loan of US$2 million (2009 US$3 million) was provided to the Chief Executive in accordance with the Group's policy to cover periods where employees of the Group are exposed to overlapping periods of double taxation due to the requirement of working in multiple jurisdictions. The terms of the loan agreement require repayment of the loan amount on realisation of the foreign taxation credit claimed.

Notes to the financial statements *continued*

37. Financial instruments

Principles of risk management

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk, foreign currency risk and commodity price risk. These risks arise from exposures that occur in the normal course of business and are managed by the Treasury Committee, which operates as a sub-committee of the Executive Committee. The responsibilities of the Treasury Committee include the recommendation of policies to manage financial instrument risks. These recommendations are reviewed and approved by the Board of Directors and implemented by the Group's Treasury Department.

The overall objective of the Treasury Committee is to effectively manage credit risk, liquidity risk and other market risks in accordance with the Group's strategy. Other responsibilities of the Treasury Committee include management of the Group's cash resources and debt funding programmes, approval of counter-parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the Group. The Group uses both conventional financial instruments and derivative financial instruments to manage these risks.

The Group's Treasury Department prepares monthly treasury reports which monitor all significant treasury activities undertaken by Group companies. The report also benchmarks significant treasury activities and monitors key banking loan covenants to ensure continued compliance. The Treasury Committee and Executive Committee review these reports to monitor the financial instrument risks of the Group and to ensure compliance with established Group policies and procedures.

The Group's significant financial instruments, other than derivatives, comprise bank loans and overdrafts, convertible borrowings, capital market notes, finance leases, hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to finance the Group's acquisitions and ongoing operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Derivative transactions are entered into solely to mitigate risks and hedge accounting under IAS 39 is only applied when certain criteria have been met. Market fluctuations in derivative financial instruments designated as hedges are used to offset the fluctuations in the underlying exposure. The Group does not hold derivatives for trading or speculative purposes. The Group's accounting policies in relation to derivatives are set out in note 6.

Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets. Investments in cash, short-term deposits, derivative instruments and similar assets are with approved counter-party banks and other financial institutions. Counter-parties are assessed prior to, during, and after the conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level. The Group's major exposure to credit risk is in respect of trade receivables. Given the geographical industry spread of the Group's ultimate customers and the solvency of major trade debtors, credit risk is believed to be limited.

			Past the due date but not impaired				
US$m	Neither impaired nor past the due date	Less than 30 days	Between 30 and 90 days	Between 91 and 180 days	Between 181 and 365 days	More than 1 year	Total
Trade debtors:							
2010	**3,758**	**34**	**68**	**14**	**1**	**4**	**3,879**
2009	2,607	144	49	42	14	–	2,856

The credit quality of the Group's significant customers is monitored on an ongoing basis by the Credit Department. Receivables that are neither past due nor impaired are considered of high credit quality.

There were no material impairments of trade debtors as at 31 December 2010 or 2009. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets. No collateral is held in respect of impaired assets or assets that are past due but not impaired.

Details of guarantees material to the Group are outlined in note 34.

Where concentrations of credit risk exist, management closely monitors the receivable and ensures appropriate controls are in place to ensure recovery. A portion of the Group's revenues is generated from sales to Glencore, a related party. These sales are governed by various sales, marketing and distribution agreements as outlined in note 36. In general, Glencore acts as a sales and marketing agent, on-selling purchases from the Group to a wide variety of purchasers. As these agreements have been in place for a number of years and the Group has not been exposed to significant unrecoverable amounts, the Group does not believe these arrangements expose it to unacceptable credit risks. Credit risk is minimal and not concentrated for other financial assets.

The maximum exposure to credit risk is limited to the total carrying value of financial assets on the balance sheet as at the reporting date, being an amount of US$8,020 million (2009 US$9,020 million). The Group does not have netting agreements with any debtors.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price. The Group's Treasury Department is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The Group manages its liquidity risk on a consolidated basis utilising various sources of finance to maintain flexibility while ensuring access to cost-effective funds when required. The operational, tax, capital and regulatory requirements and obligations of the Group are considered in the management of liquidity risk. In addition, management utilises both short- and long-term cash flow forecasts and other consolidated financial information to manage liquidity risk.

The Group's Treasury Department monitors the Group's long-term credit ratings from major ratings agencies including Standard & Poor's and Moody's when assessing the ongoing credit-worthiness of the Group. At 31 December 2010, the Group had long-term credit ratings of BBB (positive outlook) from Standard & Poor's (2009 BBB (negative outlook)) and Baa2 (stable outlook) from Moody's (2009 Baa2 (negative outlook)) and A (low) from DBRS (2009 A (low)). The ratings agencies consider a number of qualitative measurements when assessing the credit-worthiness of a company. These include an assessment of the quality of assets and management, attitudes to risk, industry type and the performance of a company in relation to its peers. They also examine a number of financial ratios such as leverage, debt to operating cash flow, interest coverage, total liabilities to total assets and return on invested capital. The Group's Treasury Department continuously monitors the Group's performance relative to these ratios as a guide to the ongoing credit-worthiness of the Group.

The Group has various borrowing facilities available to it. This ensures flexibility to minimise liquidity risk and ensures the ongoing solvency of the Group. The undrawn committed facilities available at 31 December 2010 in respect of which all conditions precedent had been met at that date are as follows:

Available undrawn borrowing facilities and maturity:

US$m	**2010**	2009
Expiring in:		
Less than 1 year	**52**	55
Between 1 and 2 years	**4,680**	–
Between 2 and 3 years	**2,000**	6,299
Between 4 and 5 years	**2,000**	–
	8,732	6,354

The following tables show the Group's contractually agreed undiscounted forecast cash flows from financial assets and liabilities, including derivatives.

US$m	Due within 1 year	Due between 1-2 years	Due between 2-3 years	Due between 3-4 years	Due between 4-5 years	Due after 5 years	Total
At 31 December 2010:							
Non-derivative financial assets:							
Interest bearing cash and cash equivalents	**1,680**	**–**	**–**	**–**	**–**	**–**	**1,680**
Other financial assets	**4,505**	**117**	**–**	**–**	**–**	**912**	**5,534**
Derivative financial assets:							
Derivatives contracts	**236**	**73**	**–**	**–**	**143**	**354**	**806**
Non-derivative financial liabilities:							
Interest-bearing loans and borrowings	**2,318**	**1,526**	**13**	**13**	**1,576**	**4,026**	**9,472**
Interest payments on loans and borrowings	**570**	**390**	**350**	**350**	**307**	**1,611**	**3,578**
Other non-interest-bearing liabilities	**4,802**	**–**	**–**	**–**	**–**	**744**	**5,546**
Derivative financial liabilities:							
Derivatives contracts	**383**	**12**	**–**	**–**	**136**	**218**	**749**

Notes to the financial statements *continued*

37. Financial instruments *continued*

US$m	Due within 1 year	Due between 1-2 years	Due between 2-3 years	Due between 3-4 years	Due between 4-5 years	Due after 5 years	Total
At 31 December 2009:							
Non-derivative financial assets:							
Interest bearing cash and cash equivalents	1,131	–	–	–	–	–	1,131
Other financial assets	5,776	38	–	–	–	755	6,569
Derivative financial assets:							
Derivatives contracts	159	137	131	–	–	430	857
Non-derivative financial liabilities:							
Interest-bearing loans and borrowings	206	2,375	5,441	21	17	5,398	13,458
Convertible borrowings	–	–	–	–	–	335	335
Interest payments on loans and borrowings	757	707	546	351	337	1,934	4,632
Other non-interest-bearing liabilities	3,697	–	–	–	–	570	4,267
Derivative financial liabilities:							
Derivatives contracts	52	235	54	–	–	216	557

All instruments held at 31 December 2010 and 31 December 2009 and for which payments were already contractually agreed are included. Amounts in foreign currency are each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using interest rates as at the reporting date. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. Future forecast transactions or transactions subsequent to year-end are not included.

Market risk analysis

IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant market risk variables on the Group's profit and shareholders' equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date. The Group's primary market exposures are to interest rate risk, foreign currency risk and commodity price risk.

Interest rate risk

The Group is exposed to interest rate risk primarily as a result of exposures to movements in the LIBOR. It is the Group's preference to borrow and invest at floating rates of interest, notwithstanding that some borrowings are at fixed rates. In addition, a limited amount of fixed rate hedging may be undertaken during periods where the Group's exposure to movements in short-term interest rates is more significant. In keeping with the Group's preference to borrow at floating rates of interest, the following interest rate swap contracts were outstanding at 31 December 2010 and 2009:

US$m	**Principal amount 2010**	**Average rate % 2010**	**Fair value 2010**	Principal amount 2009	Average rate % 2009	Fair value 2009
At fair value:						
Interest rate swap from US$ fixed rates:						
Less than 1 year	**2,255**	**1.26**	**78**	–	–	–
Maturing between 1 and 2 years*	**925**	**1.11**	**73**	2,255	2.01	137
Maturing between 2 and 3 years*	**–**	**–**	**–**	925	1.75	90
Maturing between 4 and 5 years*	**1,439**	**1.95**	**143**	–	–	–
Maturing greater than 5 years*	**2,660**	**1.65**	**346**	4,099	2.42	380
Interest rate swap to US$ fixed rates:						
Maturing between 1 and 2 years	**100**	**4.54**	**(6)**	–	–	–
Maturing between 2 and 3 years	**–**	**–**	**–**	100	4.54	(7)
	7,379	**1.56**	**634**	7,379	2.24	600

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

The interest rate risk profile of the Group as at 31 December 2010 are as follows:

US$m	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due more than 5 years	2010
Fixed rate by balance sheet category:							
Cash and cash equivalents	794	–	–	–	–	–	794
Capital market notes*	(2,162)	(1,292)	–	–	(1,528)	(3,730)	(8,712)
Non-controlling interest loans	–	(81)	–	–	–	(162)	(243)
Finance leases/hire purchase contracts	(71)	(9)	(5)	(5)	(4)	(19)	(113)
Other loans	–	–	–	–	–	(5)	(5)
	(1,439)	(1,382)	(5)	(5)	(1,532)	(3,916)	(8,279)
Fixed rate by currency:							
AUD	(7)	(1)	(1)	(1)	–	(161)	(171)
CAD	(2)	(3)	(3)	(3)	(3)	(9)	(23)
CLP	21	–	–	–	–	–	21
EUR	(1,040)	(722)	–	–	(874)	(774)	(3,410)
GBP	10	–	–	–	–	(842)	(832)
US$	(421)	(655)	(1)	(1)	(655)	(2,119)	(3,852)
ZAR	–	(1)	–	–	–	(11)	(12)
	(1,439)	(1,382)	(5)	(5)	(1,532)	(3,916)	(8,279)
Floating rate by balance sheet category:							
Cash and cash equivalents	886	–	–	–	–	–	886
Capital market notes	(30)	–	–	–	–	–	(30)
Bank loans – other unsecured	(40)	(139)	–	–	(34)	–	(213)
Bank overdrafts	(9)	–	–	–	–	–	(9)
	807	(139)	–	–	(34)	–	634
Floating rate by currency:							
AUD	235	–	–	–	–	–	235
ARS	12	–	–	–	–	–	12
CAD	8	–	–	–	–	–	8
CLP	22	–	–	–	–	–	22
EUR	20	–	–	–	–	–	20
GBP	1	–	–	–	–	–	1
NOK	3	–	–	–	–	–	3
US$	453	(139)	–	–	(34)	–	280
ZAR	46	–	–	–	–	–	46
Other	7	–	–	–	–	–	7
	807	(139)	–	–	(34)	–	634

* These borrowings are subject to interest rate swaps.

Notes to the financial statements *continued*

37. Financial instruments *continued*

The interest rate risk profile of the Group as at 31 December 2009 are as follows:

US$m	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due more than 5 years	2009
Fixed rate by balance sheet category:							
Cash and cash equivalents	262	–	–	–	–	–	262
Capital market notes*	(14)	(2,293)	(1,360)	–	–	(5,271)	(8,938)
Non-controlling interest loans	(5)	–	(81)	–	–	(100)	(186)
Convertible borrowings	–	–	–	–	–	(335)	(335)
Finance leases/hire purchase contracts	(28)	(29)	(2)	(2)	(2)	(27)	(90)
Other loans	–	–	–	–	–	(10)	(10)
	215	(2,322)	(1,443)	(2)	(2)	(5,743)	(9,297)
Fixed rate by currency:							
AUD	(6)	(27)	–	–	–	(105)	(138)
CAD	–	(1)	(1)	(1)	(1)	(16)	(20)
CLP	12	–	–	–	–	–	12
EUR	–	(1,133)	(782)	–	–	(1,729)	(3,644)
GBP	10	–	–	–	–	(845)	(835)
US$	200	(1,161)	(660)	(1)	(1)	(3,038)	(4,661)
ZAR	(1)	–	–	–	–	(10)	(11)
	215	(2,322)	(1,443)	(2)	(2)	(5,743)	(9,297)
Floating rate by balance sheet category:							
Cash and cash equivalents	869	–	–	–	–	–	869
Capital market notes	(82)	–	–	–	–	–	(82)
Syndicated bank loans – unsecured	–	–	(3,840)	–	–	–	(3,840)
Bank loans – other unsecured	(47)	(35)	(139)	–	–	–	(221)
Bank overdrafts	(11)	–	–	–	–	–	(11)
	729	(35)	(3,979)	–	–	–	(3,285)
Floating rate by currency:							
AUD	173	–	–	–	–	–	173
ARS	16	–	–	–	–	–	16
CAD	6	–	–	–	–	–	6
CLP	17	–	–	–	–	–	17
EUR	21	–	–	–	–	–	21
GBP	1	–	–	–	–	–	1
NOK	2	–	–	–	–	–	2
US$	424	(34)	(3,979)	–	–	–	(3,589)
ZAR	65	(1)	–	–	–	–	64
Other	4	–	–	–	–	–	4
	729	(35)	(3,979)	–	–	–	(3,285)

* These borrowings are subject to interest rate swaps.

The interest charged on floating rate financial liabilities is based on the relevant national inter-bank rates and re-priced at least annually. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

IFRS 7 requires interest rate sensitivity analysis that shows the effects of changes in market interest rates on the income statement and, if appropriate, shareholders' equity. The interest rate sensitivity analysis is based on the following assumptions:

- for non-derivative financial instruments with fixed interest rate terms, a change in market interest rates only affects income if these are measured at their fair value. Consequently, all non-derivative financial instruments with fixed interest rate terms that are carried at amortised cost are excluded from this analysis (with the exception of those subject to a fixed to floating rate swap);
- items subject to an effective fixed to floating interest rate swap hedge are assumed to be floating instruments for the purpose of this analysis;
- for floating rate instruments, income statement impacts assume adjustments to interest income and expense for a 12-month period;
- the Group does not have significant cash flow hedges related to interest rate risk. As such, movements that would occur in equity as a result of a hypothetical change in interest rates at reporting date have been excluded from this analysis;
- changes in the carrying value of derivative financial instruments designated as fair value hedges are assumed to be fully effective with no impact on the income statement or equity;
- changes in the carrying value of derivative financial instruments not in hedging relationships are assumed to impact the income statement;
- the Group does not have material exposure to interest rate risk from available-for-sale financial instruments. As such, these financial instruments have been excluded from this analysis;
- the balance of interest-bearing financial instruments at reporting date is representative of the balance for the year as a whole and hypothetical interest rate movements are deemed to apply for the entire reporting period; and
- the impact of interest rate movements on the carrying value of pension obligations has been excluded.

If the market interest rates had been 100 basis points higher (lower) at 31 December 2010 income would have been US$69 million (2009 US$106 million) higher (lower). There would be no material effect on equity reserves other than those relating directly to movements in the income statement.

Foreign currency risk

Owing to the Group's significant operations in Australia, North America, South America, South Africa and Europe, the balance sheet and results can be affected significantly by movements in exchange rates. The long-term relationship between commodity prices and the currencies of most of the countries where the Group operates provides a degree of natural protection. However, in the short term it can be quite volatile. The presentation currency of the Group is the US$.

Foreign currency hedges

Group subsidiaries located in Australia and Canada have entered into AUD/US$ and CAD/US$ exchange contracts to hedge a portion of their US$ denominated revenue and third-party loans. The Group also enters into forward contracts to hedge specific one-off foreign currency transactions. The open foreign currency exchange contracts as at 31 December 2010 are as follows:

Notes to the financial statements *continued*

37. Financial instruments *continued*

Classified as cash flow hedges**:

US$m	**Contract amount 2010**	**Average forward rate 2010**	**Fair value 2010**	Contract amount 2009	Average forward rate 2009	Fair value 2009
Forward contracts – sell US$/buy AUD:						
Maturing in less than 1 year	**876**	**0.9125**	**97**	1,250	0.8250	100
	876	**0.9125**	**97**	1,250	0.8250	100
Forward contracts – sell US$/buy EUR:						
Maturing in less than 1 year	**1,174**	**1.5650**	**(170)**	–	–	–
Maturing between 1 and 2 years*	**675**	**1.3500**	**(6)**	1,174	1.5650	(100)
Maturing between 2 and 3 years*	**–**	**–**	**–**	675	1.3500	41
Maturing between 4 and 5 years*	**939**	**1.5650**	**(136)**	–	–	–
Maturing after 5 years*	**675**	**1.3500**	**(6)**	1,614	1.4673	(39)
	3,463	**1.4812**	**(318)**	3,463	1.4776	(98)
Forward contracts – sell US$/buy GBP:						
Maturing after 5 years*	**985**	**1.9700**	**(204)**	985	1.9700	(176)
	985	**1.9700**	**(204)**	985	1.9700	(176)
Forward contracts – sell US$/buy ZAR:						
Maturing in less than 1 year	**348**	**7.3373**	**29**	543	8.1681	44
Maturing between 1 and 2 years	**–**	**–**	**–**	20	8.5978	2
	348	**7.3373**	**29**	563	8.1834	46

* Relates to the Unsecured notes (refer to note 28).
** The timing of hedged cash flows is expected to coincide with the maturities of the hedging instruments to which they relate.

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

Classified as other derivatives:

US$m	**Contract amount 2010**	**Average forward rate 2010**	**Fair value 2010**	Contract amount 2009	Average forward rate 2009	Fair value 2009
Forward contracts – sell CAD/buy US$:						
Maturing in less than 1 year	**320**	**1.5013**	**(163)**	–	–	–
Maturing between 1 and 2 years	**–**	**–**	**–**	300	1.5350	(135)
	320	**1.5013**	**(163)**	300	1.5350	(135)
Forward contracts – sell US$/buy CAD:						
Maturing in less than 1 year	**1,364**	**1.0196**	**32**	1,172	1.0585	14
	1,364	**1.0196**	**32**	1,172	1.0585	14
Forward contracts – sell US$/buy AUD:						
Maturing in less than 1 year	**–**	**–**	**–**	10	0.7816	1
	–	**–**	**–**	10	0.7816	1

For the purpose of IFRS 7 sensitivity analysis, currency risks arise because financial instruments are denominated in a currency that is not the functional currency of the subsidiary or joint venture. The movements shown below largely result from trade payables and receivables that are not denominated in the local entity's functional currency. Trade payables and receivables generally arise as a result of the operations of the Group in the ordinary course of business.

The currency sensitivity analysis is based on the following assumptions:

- differences resulting from the translation of financial statements of subsidiaries or joint ventures into the Group's presentation currency, US$, are not taken into consideration;
- the major currency exposures for the Group relate to the US$ and local currencies of subsidiaries and joint ventures. Foreign currency exposures between two currencies where one is not the US$ are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis;
- derivative financial instruments designated as cash flow hedges are assumed to be fully effective hedges and therefore any movements in carrying value are captured within equity and have no impact on the income statement analysis;
- changes in the carrying value of derivative financial instruments designated as fair value hedges are assumed to be fully effective with no impact on the income statement or equity;
- changes in the carrying value of derivative financial instruments not in hedging relationships are assumed to impact the income statement; and
- the impact of foreign currency movements on the carrying value of pension obligations has been excluded.

In accordance with IFRS 7, the impact of foreign currencies has been determined based on the balances of financial assets and liabilities at 31 December 2010. This sensitivity does not represent the income statement impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

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

Local currency to the US$	**Closing exchange rate 2010**	**Effect on net earnings of a 5% change 2010**	**Effect on equity of a 5% change 2010**	Closing exchange rate 2009	Effect on net earnings of a 5% change 2009	Effect on equity of a 5% change 2009
AUD:US$	**1.0233**	**11**	**(5)**	0.8974	(16)	6
US$:CAD	**0.9983**	**7**	**–**	1.0533	3	–
EUR:US$	**1.3387**	**4**	**–**	1.4327	6	–
GBP:US$	**1.5613**	**(1)**	**–**	1.6173	1	–
US$:PEN	**2.8063**	**1**	**–**	2.8870	–	–
US$:ZAR	**6.6276**	**(20)**	**–**	7.3890	(7)	4
Total		**2**	**(5)**		(13)	10

Commodity price risk

The Group is exposed to fluctuations in commodity prices, with the commodity mix spread between those that are priced by reference to prevailing market prices on terminal markets and those that are set on a contract basis with customers, generally on an annual basis. Commodity price risks arise in all major commodities that the Group produces. Commodity price risk is managed by maintaining a diversified portfolio of commodities and typically does not involve large-scale strategic hedging or price management initiatives.

Due to the volatile nature of commodity prices and the historical relationship between prices and the currencies of most of the countries where the Group operates, hedging may be entered into only in limited circumstances and subject to strict limits laid down by the Board of Directors.

Notes to the financial statements *continued*

37. Financial instruments *continued*

Commodity hedging

The Australian and South African operations have entered into coal forwards to hedge prices of future sales of coal. The open forwards and collars commodity contracts as at 31 December 2010 are as follows:

Classified as cash flow hedges:

	Tonnes 2010	**Average price US$ 2010**	**Fair value US$m 2010**	Tonnes 2009	Average price US$ 2009	Fair value US$m 2009
Coal forwards – US$ denominated contracts:						
FOB						
Maturing in less than 1 year	**1,320,000**	**97.32**	**(32)**	5,640,000	75.92	(36)
	1,320,000	**97.32**	**(32)**	5,640,000	75.92	(36)
Coal forwards – US$ denominated contracts:						
CIF						
Maturing in less than 1 year	**935,000**	**104.70**	**(22)**	315,000	71.80	(6)
	935,000	**104.70**	**(22)**	315,000	71.80	(6)
Copper forwards – US$ denominated contracts:						
Maturing in less than 1 year	**–**	**–**	**–**	14,950	6,674	(10)
	–	**–**	**–**	14,950	6,674	(10)

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

The IFRS 7 sensitivity analysis below has been prepared using the following assumptions:

- this analysis only takes into account commodities for which the Group has significant exposure;
- fixed-price sale and purchases contracts will not fluctuate with movements in commodity prices and are therefore excluded from this analysis;
- derivative financial instruments designated as cash flow hedges are assumed to be fully effective hedges and therefore any movements in carrying value are captured within equity and have no impact on the income statement analysis;
- changes in the carrying value of derivative financial instruments designated as fair value hedges are assumed to be fully effective with no impact on the income statement or equity; and
- changes in the carrying value of derivative financial instruments not in hedging relationships are assumed to impact the income statement.

In accordance with IFRS 7, the impact of commodity prices has been determined based on the balances of financial assets and liabilities at 31 December 2010. This sensitivity does not represent the income statement impact that would be expected from a movement in commodity prices over the course of a period of time.

If prices for all commodities for which the Group has significant exposure had been 10% higher (lower) at 31 December 2010, income would have been US$173 million higher (lower) (2009 US$128 million higher (lower)) and equity reserves would have been US$3 million lower (higher) (2009 US$79 million lower (higher)) as a result of changes to reserves for commodity cash flow hedges. There would be no other material changes in reserves of the Group as at 31 December 2010 or 2009 other than those relating directly to income statement movements.

Fair values

Set out below is a comparison by category of carrying value and fair values of the Group's financial instruments that are not carried at fair value in the financial statements at 31 December:

US$m	**Carrying value 2010**	**Fair value 2010**	Carrying value 2009	Fair value 2009
Financial liabilities:				
Capital market notes	**8,712**	**8,714**	8,939	8,941
Convertible borrowings	**–**	**–**	335	332
Non-controlling interest loans	**243**	**248**	186	191
Finance leases	**251**	**252**	181	181
Other loans	**11**	**12**	11	12

Market rates at 31 December 2010 have been used to determine the fair value of fixed interest loans. The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate of a similar liability that does not have a conversion option as at the origination of the bond (refer to note 28).

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

US$m	**2010**	2009
Financial assets:		
Cash and cash equivalents	**1,722**	1,177
Financial assets designated at fair value through profit and loss	**91**	540
Loans and receivables	**5,054**	6,082
Available-for-sale financial assets	**347**	364
Derivative financial assets	**806**	857
Financial liabilities:		
Financial liabilities measured at amortised cost	**14,782**	17,905
Financial liabilities designated at fair value through profit and loss	**236**	155
Derivative financial liabilities	**749**	557

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

US$m	**2010**	2009
Financial assets:		
Available-for-sale financial assets gains recognised in equity	**118**	209
Available-for-sale financial assets gains/(losses) recognised in the income statement	**73**	(1)
Derivative financial instruments gains recognised in equity	**117**	456
Derivative financial instruments gains recognised in the income statement	**117**	269

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

The Group uses various valuation techniques in determining the fair value of financial assets and liabilities. The following fair value hierarchy is used to categorise and disclose the Group's financial assets and liabilities held at fair value for which a valuation technique is used:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Notes to the financial statements *continued*

37. Financial instruments *continued*

The table below presents financial assets measured at fair value:

US$m	**2010**	Level 1	Level 2	Level 3
Foreign currency cash flow hedges	**126**	–	126	–
Fair value interest rate hedges	**606**	–	606	–
Other interest rate derivatives	**42**	–	42	–
Other foreign currency derivatives	**32**	–	32	–
Shares – listed	**160**	160	–	–
Shares – unlisted	**5**	–	5	–
Rehabilitation trust fund	**91**	–	91	–
Loans to joint venture partners	**375**	–	375	–
Other financial assets	**48**	–	48	–

US$m	2009	Level 1	Level 2	Level 3
Foreign currency cash flow hedges	228	–	228	–
Fair value interest rate hedges	566	–	566	–
Other interest rate derivatives	48	–	48	–
Other foreign currency derivatives	15	–	15	–
Shares – listed	216	216	–	–
Shares – unlisted	4	–	4	–
Rehabilitation trust fund	77	–	77	–
Loans to joint venture partners	234	–	234	–
Other financial assets	37	–	37	–

The table below presents financial liabilities measured at fair value:

US$m	**2010**	Level 1	Level 2	Level 3
Commodity cash flow hedges	**50**	–	50	–
Foreign currency cash flow hedges	**522**	–	522	–
Other interest rate derivatives	**14**	–	14	–
Other foreign currency derivatives	**163**	–	163	–
Loans from joint venture partners	**236**	–	–	236

US$m	2009	Level 1	Level 2	Level 3
Commodity cash flow hedges	52	–	52	–
Foreign currency cash flow hedges	356	–	356	–
Other interest rate derivatives	14	–	14	–
Other foreign currency derivatives	135	–	135	–
Loans from joint venture partners	155	–	–	155

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 2010 which comprise the balance sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 132, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Xstrata plc for the year ended 31 December 2010.

Mirco Bardella (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom

16 March 2011

The maintenance and integrity of the Xstrata plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Balance sheet

As at 31 December 2010

US$m	Notes	2010	2009
Fixed assets			
Investments	2	**20,427**	19,534
		20,427	19,534
Current assets			
Debtors: amounts falling due within one year	3	**5**	3
Creditors: amounts falling due within one year	4	**(617)**	(29)
Net current assets		**(612)**	(26)
Attributable net assets		**19,815**	19,508
Capital and reserves			
Called up share capital	6, 7	**1,482**	1,469
Share premium account	6, 7	**15,478**	15,096
Other reserves	7	**949**	949
Own shares	7	**(148)**	(273)
Profit and loss account	7	**2,054**	2,267
Equity and shareholders' funds		**19,815**	19,508

The financial statements on pages 220 to 227 were approved by the Board of Directors on 16 March 2011 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 408 of the Companies Act 2006. The profit of Xstrata plc for the year ended 31 December 2010 was US$153 million (2009 US$491 million).

There were no recognised gains and losses attributable to the shareholders of the Company other than the profit of US$153 million for the year ended 31 December 2010 (2009 US$491 million).

Notes to the financial statements

1. Accounting policies

Basis of preparation
These financial statements have been prepared in accordance with applicable UK accounting standards. The accounting policies are consistent with the prior year.

Xstrata plc (the Company) has adopted the following principal accounting policies:

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements *continued*

1. Accounting policies *continued*

Share-based payments

The Company makes share-based awards, including free shares and options in the Company, to certain employees and directors of the Group. The expense recognised in the financial statements relates only to those share-based awards that are granted by the Company, to its employees and directors. Expenses relating to awards granted to employees and directors of other Group companies are allocated to those companies in accordance with UITF Abstract 44.

Equity-settled awards

For equity-settled awards, the fair value is charged to the profit and loss account and credited to retained earnings, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest (taking into account the achievement of non-market-based performance conditions). The fair value of the equity-settled awards is determined at the date of the grant by external experts using the models outlined in note 35 of the Group consolidated financial statements.

At each balance sheet date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed (after adjusting for non-market performance conditions). The movement in cumulative expense is recognised in the profit and loss account with a corresponding entry within equity.

Cash-settled awards

For cash-settled awards, the fair value is recalculated at each balance date until the awards are settled based on the estimated number of awards that are expected to vest adjusting for market and non-market-based performance conditions. During the vesting period, a liability is recognised representing the portion of the vesting period that has expired at the balance sheet date multiplied by the fair value of the awards at that date. After vesting, the full fair value of the unsettled awards at each balance date is recognised as a liability. Movements in the liability are recognised in the profit and loss account. The fair value is recalculated using an option pricing model (refer to note 35 of the Group consolidated financial statements).

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

Loans from subsidiaries

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

Foreign currency transactions

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

Revenue

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

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

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

Comparatives

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

Use of estimates

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

2. Investments

US$m	Investment in subsidiaries	Loans to subsidiaries	Total
Cost:			
At 1 January 2010	19,344	190	19,534
Additions – existing investments	1,021	–	1,021
Reductions – existing investments	–	(128)	(128)
At 31 December 2010	**20,365**	**62**	**20,427**

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

Name	Country of incorporation	Principal activities	% of ordinary shares held & voting rights
Principal subsidiaries			
Xstrata (Schweiz) AG	Switzerland	Holding company	100%
Xstrata Finance (Dubai) Limited	UAE	Finance company	90%
Xstrata Commodities Middle East DMCC	UAE	Marketing company	90%
Xstrata Capital Corporation AVV*	Aruba	Finance company	40%
Xstrata (Nederland) BV	Netherlands	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 36 of the Group consolidated financial statements for a list of significant subsidiaries, associates and joint ventures.

3. Debtors – amounts falling due within one year

US$m	**2010**	2009
Other debtors	**5**	3
	5	3

4. Creditors – amounts falling due within one year

US$m	**2010**	2009
Loans from subsidiaries	**613**	24
Other creditors	**4**	5
	617	29

5. Dividends paid and proposed

US$m	**2010**	2009
Declared and paid during the year:		
Final dividend for 2009 – 8 cents per ordinary share (2008 – nil cents per ordinary share)	**233**	–
Interim dividend for 2010 – 5 cents per ordinary share (2009 – nil cents per ordinary share)	**146**	–
	379	–
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December):		
Final dividend for 2010 – 20 cents per ordinary share (2009 – 8 cents per ordinary share)	**586**	233

Notes to the financial statements *continued*

6. Capital

US$m	
Authorised:	
1,500,000,000 ordinary shares of US$0.50 each as at 1 January 2009	750
3,000,000,000 ordinary shares of US$0.50 each increase on 2 March 2009	1,500
4,500,000,000 ordinary shares of US$0.50 each as at 31 December 2009 and 31 December 2010	2,250
50,000 deferred shares of GBP1.00 each as at 31 December 2009 and at 31 December 2010	–
1 special voting share of US$0.50 as at 31 December 2009 and as at 31 December 2010	–
Issued, called up and fully paid:	
977,670,540 ordinary shares of US$0.50 each as at 1 January 2009	488
1,955,341,080 ordinary shares issued on 18 March 2009 from a shareholder rights issue	978
6,000,000 ordinary shares issued on 17 December 2009 to the ESOP	3
2,939,011,620 ordinary shares of US$0.50 each as at 31 December 2009	1,469
25,680,456 ordinary shares issued on the exercise of convertible borrowings	13
2,964,692,076 ordinary shares of US$0.50 each as at 31 December 2010	1,482
Share premium:	
As at 1 January 2009	10,308
1,955,341,080 ordinary shares issued on 18 March 2009 from a shareholder rights issue	4,689
6,000,000 ordinary shares issued on 17 December 2009 to the ESOP	99
As at 31 December 2009	15,096
25,680,456 ordinary shares issued on the exercise of convertible borrowings	382
As at 31 December 2010	15,478

Issue of ordinary shares

On 18 March 2009, 1,955,341,080 ordinary shares were issued under a rights issue which was structured as an issue of 2 new ordinary shares at a price of GBP2.10 per share for every 1 existing ordinary share held. The net proceeds from the rights issue were US$5,667 million (after US$126 million of capital raising costs) and the number of shares in issue of Xstrata plc following the completion of the rights issue was 2,933,011,620.

On 17 December 2009, 6,000,000 shares were issued to the ESOP at a market price of GBP10.47 per share.

During 2010, the US$375 million convertible borrowings were converted at the option of the holders into 25,680,456 ordinary shares in Xstrata plc.

Details in respect of the various classes of shares are outlined in the Directors' Report on page 108.

7. Capital and reserves

US$m	Share capital	Share premium account	Other reserves	Own shares	Retained earnings	2010
Capital and reserves						
At 1 January 2010	**1,469**	**15,096**	**949**	**(273)**	**2,267**	**19,508**
Attributable profit for the year	**–**	**–**	**–**	**–**	**153**	**153**
Issue of share capital	**13**	**382**	**–**	**–**	**–**	**395**
Own shares purchased	**–**	**–**	**–**	**(11)**	**–**	**(11)**
Own shares sold	**–**	**–**	**–**	**136**	**(122)**	**14**
Equity-settled share-based payments	**–**	**–**	**–**	**–**	**135**	**135**
Dividends	**–**	**–**	**–**	**–**	**(379)**	**(379)**
At 31 December 2010	**1,482**	**15,478**	**949**	**(148)**	**2,054**	**19,815**

US$m	Share capital	Share premium account	Other reserves	Own shares	Retained earnings	2009
Capital and reserves						
At 1 January 2009	488	10,308	949	(299)	1,783	13,229
Attributable profit for the year	–	–	–	–	491	491
Issue of share capital	981	4,788	–	(102)	–	5,667
Own shares purchased	–	–	–	(6)	–	(6)
Own shares sold	–	–	–	134	(119)	15
Equity-settled share-based payments	–	–	–	–	112	112
At 31 December 2009	1,469	15,096	949	(273)	2,267	19,508

Own shares

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

The shares acquired by the ESOP are either stock market purchases or share issues from the Company. The ESOP is used to co-ordinate the funding and manages the delivery of ordinary shares for options and free share awards under the Group's employee award schemes. The trustee of the ESOP is permitted to place the shares back into the market and may hold up to 5% of the issued share capital of the Company at any one time. At 31 December 2010, 6,886,349 (2009: 12,198,092) shares, equivalent to 0.2% (2009: 0.4%) of the total issued share capital, were held by the trust with a cost of US$148 million (2009 US$273 million) and market value of US$162 million (2009 US$221 million). The trust has waived the right to receive dividends from the shares that it holds. Costs relating to the administration of the trust are expensed in the period in which they are incurred.

9. Other income and expenses

The audit fee is US$47,000 (2009 US$45,000) in respect of the Company. Refer to note 10 of the Group consolidated financial statements for further information on Auditors' remuneration.

Refer to the Directors' Remuneration Report on pages 127 to 129 for the remuneration of directors.

10. Guarantees

The Company has provided guarantees for the financial obligations of a number of Group companies.

Specifically, the Company has provided:

In respect of the convertible bonds issued by Xstrata Capital Corporation AVV:

- 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; and
- guarantees to provide to the holders of the convertible bond ordinary share capital in the Company in exchange for the preference shares in Xstrata Capital Corporation AVV bondholders receive on conversion of the bonds.

Following the rights issue in March 2009, the total number of ordinary shares that could have been converted was increased to 25,680,492 and the conversion price was adjusted to GBP8.07 (US$14.60 converted into GBP at a fixed exchange rate). As at 31 December 2009, US$374.9 million of the convertible bond remained to be converted. During 2010, the balance US$374.9 million of convertible bond was converted by the holders of the convertible bond resulting in the issue by the Company of 25,680,456 ordinary shares. Refer to note 29 of the Group consolidated financial statements for further details.

In November 2006, the Group issued US$2,250 million of capital market notes in three tranches to refinance existing debt facilities. The notes comprise a US$1,000 million 10-year facility at a fixed interest rate of 5.8%, a US$750 million five-year facility at a fixed interest rate of 5.5%, and a US$500 million three-year facility with interest payable at a rate based on LIBOR plus 35 basis points. The fixed interest facilities were issued by Xstrata Finance (Canada) Limited and the floating rate facility was issued by Xstrata Finance (Dubai) Limited. The Xstrata Finance (Dubai) Limited issue was guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Canada) Limited. The Xstrata Finance (Canada) Limited issues were guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited. In addition, the Xstrata Finance (Canada) Limited issues were swapped into a floating rate with the swaps guaranteed by the Company and Xstrata (Schweiz) AG. The Xstrata Finance (Dubai) Limited issue matured in November 2009 and has been repaid.

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

In June 2007, the Group issued EUR1,000 million of notes in two tranches under its Euro Medium-Term Note Programme. These comprised EUR500 million guaranteed 4.875% notes due 14 June 2012 and EUR500 million guaranteed 5.250% notes due 13 June 2017. The notes were issued by Xstrata Finance (Canada) Limited, and are fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited. In addition, the notes were swapped into US$ currency and a floating rate with the swaps guaranteed by the Company and Xstrata (Schweiz) AG.

In July 2007, the Group entered into a US$4,680 million revolving syndicated loan with interest payable at a rate that is based on LIBOR plus 27.5 basis points per annum. US$2,160 million of the loan was entered into by Xstrata Finance (Canada) Limited and is guaranteed by the Company, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited. US$2,520 million of the loan was entered into by Xstrata (Schweiz) AG and is guaranteed by the Company, Xstrata Finance (Canada) Limited and Xstrata Finance (Dubai) Limited.

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

In October 2008, the Group entered into a US$5,000 million multi-currency revolving syndicated loan facility (Club Facility) with interest payable on drawn down amounts at a rate that is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR, plus 150 basis points per annum. The loan was entered into by Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corporation and is guaranteed by the Company, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited, Xstrata Finance (Canada) Limited and Xstrata Canada Financial Corporation. The Club Facility was amended on 30 December 2008 to increase the facility amount to US$5,459 million and on 9 April 2010 to decrease the facility amount to US$3,000 million. The facility was cancelled in September 2010 and replaced with the US$4,000 million multi-currency revolving syndicated loan facility referred to below.

In May 2008, the Group issued EUR1,350 million of notes in two tranches under its Euro Medium-Term Note Programme. These comprised EUR750 million 5.875% fixed guaranteed notes due 2011 and EUR600 million 6.25% fixed guaranteed notes due 2015. In May 2008, the Group issued GBP500 million 7.375% fixed guaranteed notes due 2020. The notes were issued by Xstrata Canada Financial Corporation and are guaranteed by the Company, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited. In addition, the notes were swapped into US$ currency and a floating rate with the swaps guaranteed by the Company and Xstrata (Schweiz) AG.

In September 2010, the Group entered into a US$4,000 million multi-currency revolving syndicated loan facility split into two US$2 billion tranches, with one tranche maturing three years after the date of the facility and the other maturing five years after the date of the facility. Interest is payable on drawn down amounts at a rate that is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR, plus 90 basis points per annum under the three-year tranche and 100 basis points per annum under the five-year tranche respectively. The loan was entered into by Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corporation and is guaranteed by the Company, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited, Xstrata Finance (Canada) Limited and Xstrata Canada Financial Corporation.

Cautionary note regarding forward-looking statements

The Business review section of this report, comprising the Business, Strategy, Financial and Operating reviews, has been prepared in accordance with the Accounting Standards Board Reporting Statement on Operating and Financial Reviews (January 2006), as applicable best practice guidance for UK companies required to prepare a business review. The Chairman's statement, Chief Executive's report and the business units' operating reviews, in particular the Strategy section, include an analysis of the main trends and factors likely to affect the future development, performance and position of the business. This includes statements that are, or may be deemed to be, 'forward-looking statements'. We may also make written and oral forward-looking statements in:

- our interim reports, our summary financial statements to shareholders, our offering circulars and our prospectuses;
- our press releases and other written materials; and
- oral statements made by our officers, directors or employees to third parties, including to financial analysts.

These forward-looking statements can be identified by the use of forward-looking terminology, including the words: 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'plans', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy and the industries in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond our ability to control or predict. Forward-looking statements are not guarantees of future performance. Our actual results of operations, financial condition, liquidity, dividend policy and the development of the industries in which we operate may differ materially from the impression created by the forward-looking statements contained in this Annual Report. Important factors that could cause these differences include, but are not limited to, general economic and business conditions, commodity price volatility, industry trends, competition, changes in government and other regulation, including in relation to the environment, health and safety, taxation, labour relations and work stoppages, changes in political and economic stability, currency fluctuations, our ability to integrate new businesses and recover our reserves or develop new reserves, and changes in business strategy or development plans and other risks, including those described in the Business review section of this Annual Report. Even if the results of operations, financial condition, liquidity and dividend policy and the development of the industries in which we operate are consistent with the forward-looking statements contained in this Annual Report, those results or developments may not be indicative of our results or developments in subsequent periods.

Forward-looking statements speak only as of the date they are made. Other than in accordance with our legal or regulatory obligations (including under the Listing Rules and the Disclosure and Transparency Rules), we do not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

The Directors' report in this Annual Report has been prepared for the members of the Company and its purpose is to assist shareholders to assess the Company's strategies and the potential for those strategies to succeed and for no other purpose. The Company, its directors, employees, agents and advisers do not accept or assume responsibility for any other purpose or to any other person to whom this Annual Report is shown or into whose access it may come, and any such responsibility or liability is expressly disclaimed.

Shareholder information

Head office
Bahnhofstrasse 2
PO Box 102
6301 Zug
Switzerland
Tel: +41 41 726 6070
Fax: +41 41 726 6089

Registered office
4th floor Panton House
25/27 Haymarket
London SW1Y 4EN
United Kingdom

Registered number
4345939

Registrars and transfer office
Computershare Investor
Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Tel: +44 (0) 870 707 1417
Fax: +44 (0) 870 703 6101
Telephone helpline:
+44 (0) 870 707 1417

Enquiries
Claire Divver
Tel: +44 20 7968 2871
cdivver@xstrata.com

Pamela Bell
Tel: +44 20 7968 2822
pbell@xstrata.com

Brigitte Mattenberger
Tel: +41 41 726 6071
bmattenberger@xstrata.com

www.xstrata.com

Shareholder calendar 2011
Annual General Meeting
4 May 2011
Half-yearly results
2 August 2011

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Xstrata plc

Bahnhofstrasse 2
PO Box 102
6301 Zug
Switzerland
Tel: +41 41 726 6070
Fax: +41 41 726 6089

www.xstrata.com